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# SECP to 'Say No to Corruption'

Zafar Hijazi has said that corruption in the society is a disease and sincere and vigorous efforts are needed to eradicate it as otherwise Pakistan would grievously suffer.



The Professional Development Department of the Commission in collaboration with the National Accountability Bureau organized a National level Seminar on November 19, 2015 at NICL Auditorium, SECP Head office Islamabad on "Say NO To Corruption" in the corporate and capital market sector to emphasize on the need of elimination of corruption and corruptive elements therein and to motivate them to operate with full integrity and transparency"

Representatives of regulatory bodies, chambers of commerce from all over Pakistan, corporate sector, renowned professionals from the professions of audit and law were present in the seminar. The aim was to create the much needed awareness against corruption,

mobilise public opinion and pledge to start a campaign for resistance against corruption and corrupt practices.

Speaking at the seminar, the Chairman SECP Zafar Hijazi has said that corruption in the society is a disease and sincere and vigorous efforts are needed to eradicate it as otherwise Pakistan would grievously suffer.

Hijazi reaffirmed that the SECP and the NAB will jointly make concerted efforts to reduce corruption in the corporate sector. He said as opposed to common belief the mission to end corruption is a doable job and if all the concerned institutions work in a concerted fashion the menace of corruption can be controlled.

He said SECP and NAB can cooperate

with different chamber of commerce in order to find out where the bureaucracy is putting hurdles in their honest dealings. Hijazi said the problem is that there is no body to put a check on certain rogue elements in the bureaucracy, and if there is proper procedure of accountability the incident of corruption can be substantially reduced.

He said the close collaboration among regulators and law enforcement agencies could serve as deterrence against corrupt elements and such collaboration will also provide needed assistance to NAB's primary objectives.

Delivering his key note address, Deputy Chairman NAB, Muhammad Imtiaz Tajwar said that eliminating corruption is a great challenge to every



member of a good society. He said that the exchange of expertise between NAB and the SECP can be very beneficial in this regard.

He said that NAB duly acknowledges the efforts of SECP in promoting corruption free corporate culture and this relationship with SECP will go a long way in attaining the goal of a corruption free Pakistan.

Imtiaz Tajwar said that corruption is a corrosive drain on public trust and on the legitimacy of public and private sector institutions. One key way of addressing corruption problem through internal measures is the establishment of strong corporate governance within companies which will raise organisational effectiveness, improve access to capital and ensure sustainability.

He said that NAB is charged with responsibility of eliminating corruption through holistic approach of awareness, prevention and enforcement.

Suggesting various measures to check corruption, Imtiaz Tajwar said that the education system needs to be revised and people should be made aware of their rights. State Institutions should be made stronger and a vigor-

A close collaboration among regulators and law enforcement agencies could serve as deterrence against corrupt elements

ous system of accountability and check and balance out in place. Tajwar said that red tapism is the major cause of corruption and e-governance is the best solution for solving this problem. The unemployed class should be provided jobs and recruited purely on merit.

He was of view that we can start by

setting our own personal and official conduct above any kind of influence and prejudice. If today we all promise to ourselves that we shall resist corruption at all levels by saying 'No to Corruption' we can make a difference and leave a better Pakistan for our generations.

The National Investment Trust (NIT) Managing Director Shahid Ghafar said that it's good that people have been talking so much about corruption and show their hate against it. It's the correct time to act boldly against it and take stringent measures to eliminate it. Shahid said that the regulators can play effective role in resisting corruption.

Member Competition Commission of Pakistan (CCP) Ikram Ul Haque Qureshi said that resist implementation of laws is required to deal with growing menace of corruption. To resist corruption, he said, our criminal justice system, methods of investigation and means of prosecution needs to be modernized. There should be incentives and protection for whistle blowers.







## Zafar Hijazi inaugurates Abbottabad Sarmayakari Markaz

The Chairman, Securities and Exchange Commission of Pakistan (SECP) Mr Zafar Hijazi has said that Pakistan's capital markets are capable enough to be developed as regional hubs for investments.

He stated this while inaugurating the Abbottabad Sarmayakari Markaz in the city on Thursday, November 2, 2015.

In his key note address, he said that the merger of three stock exchanges to form Pakistan Stock Exchange will strengthen country's stock market. The consolidation of stock exchanges will provide a platform for gathering investments to fund long term infrastructure projects to assist the development of national economy.

He said that increased capital market outreach will support sustainable growth and improvement of existing level of financial inclusion. He said that with the establishment of Sarmayakari Markaz, equal opportunities of savings and investment will be available to the people of Abbottabad as available to citizens of metropolitans.

Twelve entities, including six asset management companies (AMCs), two brokerage firms and a bank along with CDC and Karachi Stock Exchanges will open their branches in Abbottabad's hub. This will enable investors to benefit from the

services of the aforementioned entities in a single place. The SECP has also established its service desk in the Abbottabad Sarmayakari Markaz that will provide assistance in company registration and E-services.

He said that the overall performance of the capital market must trickle down to the common man and for this purpose they need to be engaged. The CMBH in Abbottabad will be ef-

other cities of the region such as Balakot, Haripur, Mansehra etc. he said that the SECP intends to establish such Sarmayakari Markaz in other areas such as Sialkot, Mirpur, Dadyal and such other cities.

Addressing the ceremony, the Chief Executive Officer CDC said that the idea behind the Capital Market Business Hub was conceived by the SECP chairman, Zafar Haq Hijazi on his visit to the CDC.

He formed a committee for increasing collaboration between capital market entities for the sole purpose of enhancing investor awareness and outreach to investors and he was appointed as the convener of the said committee. He said that the committee developed and presented a report on various recommendations one of which was Capital Market Business Hub being established in those cities which are primarily second tier and third tier with emerging small enterprises and growing savings.

The Abbottabad Sarmayakari Markaz, inaugurated by the SECP Chairman Zafar Hijazi is the first in series of CMBHs. The SECP is continuously focusing to promote fair, transparent and efficient capital markets in line with international best practices.

The overall performance of the capital market must trickle down to the common man and for this purpose they need to be engaged.

fective for this purpose. Since Abbottabad is the most prominent of second tier cities and is at the centre point of the Hazara belt enabling access to







# New companies Law being finalized

Securities and Exchange Commission of Pakistan (SECP) has prepared a draft of Companies Act 2015. After public consultation, the final draft of new act shall be submitted to the government by April 2016.

It is said that new act and regulation shall help provide conducive corporate environment to investors in the country to ensure transparency and accountability in system.

The Companies Act 1913 was adopted as company law of the country, which was replaced by the Companies Ordinance in October 1984. In order to encourage the growth of industrialization and promote the prioritization, the ordinance was later amended in 1991, 1999 and 2002.

SECP in April 2015 decided to constitute an in-house committee headed by a former commissioner for the purpose of reviewing the existing Companies Ordinance 1984 in light of the developments, which had taken place in various de-

veloped jurisdictions. The committee completed its assignment within a period of six months and submitted the draft Companies Bill 2015 to the commission. It was submitted to the Honorable Finance Minister on November 28, 2015. The draft Companies Bill has been placed on the SECP's

The SECP has conducted a series of consultative sessions on the draft Companies Bill in order to have feedback of the professionals

website [www.secp.gov.pk](http://www.secp.gov.pk) to obtain comments and further suggestions of the general public, professionals and stakeholders.

The SECP has conducted a series of consultative sessions on the draft Companies Bill in order to have feedback of the professionals involved in corporate practice and representatives of the professional bodies, chambers of commerce and industries, financial institutions and other interests. The sessions in Islamabad, Karachi, Lahore, Peshawar, Quetta, Faisalabad and Multan were successfully held. Eminent chartered accountants, lawyers, corporate consultants, professionals, businessmen and company secretaries of leading companies attended these sessions.

After the conclusion of the sessions and necessary deliberations on the feedback received, the committee is planning to organize seminars in Lahore and Karachi in a few weeks. The draft Bill once revised after the stakeholders' input shall be placed before the Commission for approval and for onward presentation to the relevant quarters for legislation.





# Takaful sector overview

By Tariq Hussian

Takaful is the Islamic alternative to conventional insurance. It is based on mutuality. The Shariah scholars believe that conventional insurance is unlawful due to involvement of *riba* (interest), *maisir* (gambling), *gharar* (uncertainty).

The important feature of takaful is that it only engages in investments that are free from vice and usury. This is an excellent side benefit of takaful for those who want the moral high ground. The overall benefits to society from investing only in activities that actually promote growth as opposed to dubious activities that profit at others' expense cannot be overstated. A person who is more concerned with personal returns may see this as a limiting factor, but there are several arguments against this.

Note that the kind of people attracted to Takaful's high morality may very well incur less risks overall and in that way increase the overall profits of the system. Another important argument is that the investments that are associated with vice are often inherently unstable and risky. The same can be said of interest or usury, which indirectly contributes to the kind of manic-depressive cycles of extreme bulls (rise) and bears (fall) of economies throughout financial history. It is worth noting that many prominent economists have remarked on the relative stability of Islamic finances due to their emphasis on stability and avoidance of extreme risks.

At present, many Muslims do not have an avenue of investment that they are comfortable

with. One out of every five persons in the world is a Muslim and that number seems to be growing. There are also many non-Muslim investors who have a desire for more stable source of investment and insurance. These factors taken together make Islamic finance and especially takaful, a potentially lucrative investment as the sheer size of funds from the Muslims alone will give Takaful operators a great deal of capital to manage.

One last general benefit of takaful involves the takaful operators themselves. Due to the emphasis on morality in their investments and dealings, takaful operators may have greater pressure to live up to the ideals of virtue themselves. This can be beneficial in many different ways and can contribute to a greater amount of profits overall.

## Takaful and conventional insurance concepts

### Conventional Insurance

Conventional insurance is an equitable transfer of the risk of a loss, from one entity to another in exchange for payment. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss.

An insurer is a company selling insurance; the insured, or policyholder, is the person or entity buying the insurance policy. The amount charged for a certain amount of insurance coverage is called the premium. It is a risk transfer mechanism where risk is transferred from policy holder (insured) to the insurance company (insurer) in

consideration of the premium.

### Takaful mechanism

The takaful partners (policyholders) pay subscription and indemnify each other and share the profit earned from business conducted by the company with the subscribed funds, hence the risk is not transferred but shared by the participants who form a common pool. The company acts only as the manager of the pool (takaful operator).

The element of 'uncertainty', i.e. *gharar* is brought down to acceptable levels under Shariah by making contributions as "conditional donations" (*tabarru*) for a good cause, i.e. to mitigate the loss suffered by any one of the participants.

So we can say that takaful is a participatory form of insurance based on risk sharing by customers on co-operative principle instead of risk transfer to the third party. The risk pool is managed by the company is running on commercial basis with corporate responsibilities towards its stakeholders.

Takaful is that it only engages in investments that are free from vice and usury. (Repetition)

### Dedicated takaful companies:

1. Takaful Pakistan Limited
2. Pak Qatar General Takaful Limited
3. Pak Qatar Family Takaful Limited
4. Pak Kuwait Takaful Limited
5. Dawood Family Takaful Limited





Gross premium in million rupees	2014	2013	2012	2011	2010	2009
Family takaful sector	5,914	5,127	3,847	2,191	1,247	517
General takaful sector	2,335	2,030	1,482	1,138	985	947
Total	8,249	7,157	5,329	3,329	2,232	1,464

Growth in takaful sector	2014	2013	2012	2011	2010	2009
Family takaful sector	15%	33%	76%	76%	141%	286%
General takaful sector	15%	37%	30%	16%	4%	36%
Total	15%	34%	60%	49%	52%	76%

Average compound growth for last 5 years

54%

Share of takaful sector as a % of total insurance GWP 4%

## Reason for low growth of takaful companies:

■ Islamic finance and takaful is a growing phenomenon, contributing positively and substantially to the world economy and have bright future in the country as well. Currently, the insurance penetration is very low, measured as total premiums to gross domestic product stands at 0.9pc of GDP,

■ Takaful has contributed marginally; the sector represents about five percent of the total insurance market and the reason for the low penetration is

- Low awareness especially in rural areas
- Non-availability of disposable income
- Negative growth of middle class population
- Lack of any incentive by the government

■ Pakistan's conventional insurers have been barred from offering Islamic products since the first takaful rules were introduced in 2005.

■ Conventional insurers are bigger in size and have operated for longer, whereas takaful companies are on average six to seven years old.

## Expected future growth in takaful sector

■ The SECP introduced new takaful rules in 2012, allowing the use of window takaful operations to the conventional Insurance companies, which enables insurers to offer Sharia-compliant and conventional products side by side, provided the client's money is segregated.

■ The SECP expects at least half of Pakistan's conventional insurers will eventually offer takaful products through their window operations

and expected that by the end of the year 2015.

■ The SECP has granted three window takaful licenses. In another one year we are expecting at least 10 new takaful window operators in the market. Competition will increase, but also the size of the market.

■ The awareness of the participants to take better care of them and indirectly raise the overall profit levels of the system. Also due to the company's status as manager, takaful systems can potentially be more transparent than their conventional counterparts.

The SECP hopes that if the proper marketing strategy will be developed by considering the need of the consumer and consumer protection and gain people's confidence on conventional as well as on takaful insurance by satisfying the insured about their protection by creating efficient mechanism of policy holder grievance will rapidly increase the insurance penetration in Pakistan.

## Takaful Rules 2012

The SECP introduced new takaful rules on July 16, 2012, replacing the 2005 rules. Stakeholders had pointed out a number of practical issues with regard to the 2005 rules. To address these concerns, the SECP constituted a committee in year 2007 with to review the takaful rules and recommend improvements. The committee placed a special focus on compatibility with accounting provisions of the SEC (Insurance) Rules 2002, guidelines for allowing conventional insurance companies to do takaful business through specialized "window" operations, prescribing of percentages in respect of various modes of the Shariah-compliant investments for the purpose of determining solvency, among others. The committee after detailed deliberations submit-

ted its recommendations. In light of these recommendations new takaful rules were drafted. After obtaining expert opinion of Shariah scholars and legal experts, the SEC Policy Board approved the draft new takaful rules.

## Salient features of the new takaful rules

The important objectives of the 2012 Takaful Rules and how they have been achieved are given below:

### Shariah compliance

- Shariah advisor, Shariah compliance officer and external Shariah compliance audit at company level
- Segregation of funds and requirement of Rs50 million

### Market development

- Allowing window takaful separation

### Authorization

- Defined process of authorization for takaful/window takaful operators
- Revocation of authorization
- Transformation of general insurer into general takaful operator

### Financial soundness

- Maintenance of solvency at PTF level
- Compulsory segregation of funds
- Qarz-e-hasna required in case of accounting deficit in PTF

In conclusion, takaful is in many ways similar to conventional insurance system, which focuses on stability rather than quick growth at the expense of extreme risk. The emphasis on morality and mutual help provides stability and attracts participants who may have a lower risk profile. The number of these future participants is huge considering the interest in takaful from Muslims and non-Muslims alike. Each potential investor is, of course, liable to check the background of a particular takaful operator just as he or she would do in case of a conventional insurance company.

Nevertheless, takaful is certainly a rising financial system that can offer a surprising number of benefits to those who value stability and morality.

*The writer is director in the Corporate Supervision Department. The views expressed in the article are purely his own.*



# Developing Pakistan's capital market through financial inclusion

By Shaukat Malik

According to a World Bank estimate, at least 2 billion people around the world do not use financial services, and 50% of those adults in poor households do not even have a bank account. Pakistan is no exception. In Pakistan it is estimated that only 14 percent of the population have access to financial services. Most people do not have bank accounts, and those that do, end up leaving their savings in accounts that earn them very low profits. Out of Pakistan's large middle class estimated at between 35-40 million people only 325,000 individuals have investment accounts. This is indeed very low when compared to regional players such as India, Turkey and Malaysia. The average annual return for the KSE-100 index has outperformed all other revenues of investing. Yet, participation by retail investors either directly or indirectly remains very low. Why is this so? The answer lies in lack of financial inclusion

Financial inclusion has been defined as the delivery of financial services at affordable cost to the low-income sections of a population. Researchers agree that for any financial inclusion strategy to succeed it must be undertaken in collaboration with the private sector, whose commitment and investment in infrastructure and services is essential for its success. Every successful financial inclusion strategy has three features:

- 1) It must give equal access to financial services and products to all users;
- 2) It must be possible for the investors to use the financial services and products being offered; and
- 3) It must offer investment products in a responsible manner, keeping in view the risk profile and interest of the investor.

Financial services providers owe a duty of care to the potential investor in the context of a financial inclusion strategy. Financial services and investment products provided under a financial inclusion strategy should not rely on aggressive sales practices that may result in potential harm such as over-indebtedness of the less-informed investor. It is important that potential investment clients receive clear and understandable information about the risks involved in the products being sold. Sellers' of investment products should clearly identify mechanisms in place for resolving disputes and filing complaints. The investors' interest must take precedence in all dealings of sellers of fi-

nancial products. Creation of financial access requires investment in infrastructure and human resources. In Pakistan the providers of financial services are concentrated in the big cities leaving investors residing in smaller cities and villages at a considerable disadvantage both in terms of financial access and awareness about investment products and services needed for improving their financial condition.

Innovative ideas are needed to bring success to the execution of any financial inclusion strategy, and here the efforts of the SECP deserve to be appreciated. To improve financial access in Pakistan, Chairman Securities and Exchange Commission of Pakistan (SECP), Zafar Hijazi conceived the concept of creating capital market business hubs across Pakistan. To convert his idea into reality, capital market business hubs (CMBH) are planned to be established throughout Pakistan by targeting cities that have small industries and residents receiving foreign remittances from relatives working abroad, such as Mirpur, Abbottabad, Sialkot, and Dadyal. Abbottabad was chosen as the site for the first CMBH and is now operational. Eleven entities, including five asset management companies (AMCs), two brokerage firms and a bank along with CDC and the Karachi stock exchange have initially opened their branches in the Abbottabad Sarmayakari Markaz (Markaz). In addition, SECP has also established an office within the Markaz and hired full-time staff to answer visitors' questions about investment products, company incorporation and regulatory matters. The Markaz offers all capital market related activities under one roof. For example, at the Markaz:

- Investors can obtain answers to their investment related questions from representatives of Brokers, Central Depository Company, a banking company and asset management companies
- Investors can open their accounts with brokers and the CDC
- Investors interested in mutual funds can open a mutual fund account
- Investor can open a bank account for handling investment funds

These Sarmayakari Markaz will address the investment needs of two types of investors:

- 1) Knowledgeable investors who intend to invest directly through brokers; and
- 2) Less informed investor for whom MUFAP has

extended facilitation by having presence of 5 asset management companies.

Mutual funds are an ideal investment product for increasing financial inclusion by offering the low-income and less informed investor professional management, diversification, liquidity and safe custody of assets. They can play an important role in the economic development of our country by pooling funds and making them available through the capital market in the form of equity and debt capital. The setting up of CMBHs across Pakistan offers the mutual fund industry, which represents 70% of the non-banking financial sector, an opportunity to offer their investment products to low income investors in remote and underserved areas.

It is hoped that through this Markaz existing and potential investors in Abbottabad and neighboring areas will take advantage of financial services now available to them under one roof and make the Markaz a success.

By replicating the CMBH in other underserved areas new markets for investment products will be created which in turn will help increase our investor base and help with capital formation urgently needed for the development of Pakistan's economy.

Another important element in improving financial inclusion is to increase awareness about financial products among the general public. A large section of Pakistan's population has no knowledge about how to go about improving their financial condition by using financial services and investment products available in the financial market. To address this gap the SECP has launched an aggressive investor education program under the brand name Jamapunji designed to help investors understand and evaluate available investment choices, avoid fraud and address any misalignment of investor and industry interests. The SECP investor education initiative encompasses the financial products and services ranging from non-banking and insurance products to money management, financial and retirement planning.

Through effective regulation and enforcement, the SECP is dedicated to the development of markets that are transparent, protect investors' interests and are accessible to all. It is envisioned that the development of CMBHs throughout Pakistan will go a long way towards increasing our retail investor base, which in turn will help with capital formation that can be directed towards worthwhile projects essential for job creation and the development of our economy.

*The writer is advisor in the Investor Education and International Relations Department. He is a certified public accountant from the United States.*



## 25 % growth in company registration during first half of FY-2015-16

The SECP, during the first half of current fiscal year (2015-16) registered 2,747 new companies, indicating a growth of 25 percent as compared to the corresponding period last year. The growing trend in company registration is a sign of enhanced investors' confidence on SECP's policies and procedures.

During July –Dec 2015, around 90 per cent companies were registered as private limited companies, 7 percent were

registered as single member companies. Three per cent of the companies secured registration as public unlisted, associations' not-for-profit, trade organizations and foreign companies.

The trading sector has registered 357 incorporation companies, followed by services with 349, information technology with 244, construction with 225, tourism with 204, power generation with 97, communications with 87, education with 83, cor-

porate agricultural farming with 78, broadcasting and telecasting and food and beverages with 75 each, pharmaceutical with 72, engineering with 70 and 731 companies registered in other sectors.

During this period, 25 foreign companies were also registered by CROs in Karachi, Islamabad and Lahore. Moreover, foreign investment has also been observed in 154 new companies.

## SECP joins Islamic Financial Services Board, Malaysia

The SECP has become member of the IFSB, Malaysia, aimed at furthering the Islamic financial services industry in Pakistan. IFSB serves as an international standard-setting body of regulatory and supervisory agencies that have vested interest in ensuring the soundness and stability of the Islamic financial services industry which is defined broadly to include banking, capital market and insurance.

The Council of the IFSB in its 27th meeting held on December 8, 2015 at the Islamic Development Bank Headquarters in Jeddah, Saudi Arabia, approves the membership of the SECP for IFSB, Malaysia. The SECP's membership means that the SECP benefits from cooperation amongst IFSB members in developing the Islamic financial services industry in Pakistan.

Also, SECP will gain from personnel development training facilitated by IFSB related to regulation of the Islamic financial services industry and specific market in Pakistan. The SECP will also take advantage of research and surveys undertaken by IFSB on the Islamic financial services industry which will inform product development and enhance the product offering.

## SECP modifies conditions of licence to NGOs to plug loopholes

The SECP has further modified the conditions for grant of licence to NGOs registered under Section 42 of the 1984 Companies Ordinance and has issued Circular 45 of 2015 in this regard to plug in possible loopholes in the existing regime.

It has been felt that existing conditions were prone to misuse in certain circumstances. Similarly, the requirement could be circumvented by remunerating a member of his/her fam-

ily like son, daughter, brother, spouse, etc.

Likewise, the restriction on remuneration to members was still open to misuse by indirectly receiving remuneration in a subsidiary entity of the association. Similarly, when the promoters quit, sometimes the incumbent directors in lieu of the quitting member director do not possess sufficient skills and expertise.

It was also noted that certain associations with promoters having political agenda or affiliation might be used as a forum for political activities. In such a case, funds of the association can be applied for political purposes in violation of Section 197 of the 1984 Ordinance which prohibits making of political contributions to any political party or for any political purpose to any individual or body.

## SECP launches official Twitter account

The apex regulator of capital markets, non-banking companies and corporate sector, the SECP has opened its first official Twitter account on Friday. The SECP official twitter account @SECP Pakistan is primarily for information dissemination. Its followers will receive updates on regulatory actions, notifications/SRO announcements, press statements, events etc.

## SECP revamps regulatory framework for NBFCs

The SECP notified amendments in Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 with the approval of Federal Government. The SECP has also introduced amendments in Non-Banking Finance Companies and Notified Entities Regulations, 2008 and notified Private Fund Management Regulations, 2015.

The notifications regarding these amendments are available at the SECP website [www.secp.gov.pk](http://www.secp.gov.pk). Through the said amendments, the regulatory framework for Non-Banking Finance Companies (NBFCs) has been revamped to make it more conducive and practicable. NBFCs have been categorized into two categories i.e. Lending NBFCs and Fund Management NBFCs.

The concept of small and mid-sized non-deposit taking NBFCs has been introduced with significantly reduced equity requirements of Rs. 50 million only. Contrary to the former regime, the companies other than NBFCs have been allowed to carry out lending activities subject to fulfillment of prescribed eligibility criteria. A new class of NBFCs along with comprehensive framework for providing finance to poor persons and micro enterprises has been introduced. The existing Non-Bank Micro Finance Institutions would also be regulated under NBFC regime.

# Hijazi chairs first meeting of consultative group on insurance

The Chairman, SECP, Zafar Hijazi has solicited a comprehensive road map for development of a financially sound and a robust insurance industry to play its legitimate role in the economic uplift of the country. SECP was ready to offer its whole-hearted support for this purpose, he added. He was addressing the

First Meeting of the Consultative Group on Insurance (CGI) at SECP regional office Karachi.

"I have so far been largely concentrating my efforts on the development of the capital market of Pakistan but shall hence forth focus my attention on the development of Insurance Sector" he remarked. Zafar

Hijazi said that SECP had developed a way forward for the development of MICROINSURANCE in Pakistan requiring minimum quota for micro insurance business applicable to all insurers and allowing a tie-up between life and non-life insurers to offer comprehensive micro insurance product.

## SECP issues directive to protect insurance policyholders

To raise awareness among the public about availability of the insurance policyholders' grievance resolution forums, the SECP issued a circular requiring all insurers to incorporate awareness message in Urdu and English on their websites, and to attach it with all forms issued to the policyholders.

The SECP has further di-

rected that notice boards containing the said awareness message in both languages should also be placed at prominent places frequented by the public or policyholders, including bank branches authorized to offer bancassurance products.

In line with its fundamental objective to protect the interests and secure fair treat-

ment to the policyholders, the SECP has issued Circular No. 5 of January 26, 2016, whereby all insurers have been directed to incorporate awareness message regarding the insurance policyholders' grievance resolution forums in Urdu and English on their websites, and to attach it with all forms issued to the policyholders.

## SECP appellate bench achieves zero pendency of appeals

The Appellate Bench of the SECP has disposed of 126 appeals during July 2015 to December 2015 and has achieved zero pendency. The Appellate Bench was reconstituted after the appointment of new Commissioners, aimed by the Mr. Zafar Hijazi, the Chairman SECP to expedite the disposal of appeals filed before the Appellate Bench under section 33 of SECP Act.

There were 129 pending appeals before the Appellate

Bench for the period July 1 to December 2015, which include a carryover of 113 appeals and 16 new appeals were registered during this period. A total 126 appeals were fixed for hearing and adjudication during July 2015 to December 2015.

All appeals were disposed of after giving opportunity of hearing to the parties concerned; however 13 appeals were dismissed due to non-appearance and non-prosecution of the appellants, who failed

to appeal before the Appellate Bench despite several notices. Whereas, only three appeals remain unfixed as there were restraining orders from courts.

The Chairman SECP Mr. Zafar Hijazi has appreciated the Appellate Bench's accomplishment of disposing of all the pending appeals and said that the prompt disposal of investor's complaints/appeals is important for investor confidence.

## SECP translates laws into Urdu

In order to adopt Urdu as the official language, the SECP has translated most laws, administered by it, into Urdu.

The translated laws are the Securities Act 2015, Insurance Ordinance 2000, SECP

Act 1997, Stock Exchanges (Corporatization, Demutualization and Integration) Act 2012, Anti Money Laundering Act 2010, Central Depositories Act 1997, Modaraba Companies and Modaraba (Floatation and Control) Ordinance 1980.

In addition, the SECP has translated rules, regulations and SROs from English to Urdu. The SECP has also published an English-Urdu glossary of most commonly words used in business, finance, insurance and law.

## SECP issues guidelines for quality companies

The SECP has issued guidelines for companies and their directors for quality reporting of financial statements regarding matters affecting going concern ability of a company. Going concern assumption is applied in cases where a company faces difficult financial, economic or operating conditions which may endanger its existence.

The directors are required to perform a comprehensive circumstantial analysis of the company and make appropriate disclosures in financial statements to enable shareholders to make informed decisions about their investment.

It is a fundamental accounting principle used in preparation of financial statements which implies that a company shall continue in business for a foreseeable future. It has been noted over the years that going concern reporting is not given due attention by the companies and at times even by their auditor. In this context, it was considered necessary to issue these guidelines. These guidelines may be downloaded from SECP website.

## SECP launches incorporation brochure

The SECP introduced the "incorporation brochure" for the information and facilitation of the stakeholders. Incorporation brochure is a comprehensive tri-fold document which provides information regarding the benefits of incorporating a company, as well as the procedure and documentation requirements for company incorporation.

It provides guidelines for both online as well as manual filers. The brochure also provides information regarding post incorporation requirements, and other facilities provided by the SECP to facilitate the stakeholders, including facility for payment of fee through Credit Cards, Fast Track Registration Services (FTRS) etc



# SECP directs listed companies to appoint independent share registrars

The SECP directed all listed companies to ensure appointment of independent share registrar possessing such qualifications and performing such functions as specified by the Commission. The SECP has observed that most of the listed companies have not appointed share registrar which is a violation of the Balloters and Transfer Agents Rules, 2015 (BTA Rules) and Section 204-A (2)

of the Companies Ordinance, 1984.

The position of a Share Registrar in a listed company is important to protect the interest of shareholders and provide them facilitation. The registrars of shares keep an up-to-date record of all stocks bought, which include names of individual shareholders, their shareholdings, their addresses, and signatures amongst other

salient information.

Among their numerous functions also include ensuring payment of dividend to qualified shareholders when it falls due. The SECP would issue show-cause notices to those existing Balloters and Transfer Agents who are found in violation of the Sub-rule (2) of Rule 3 of the BTA Rules. The circular No 44 has been made available on SECP's website.

## SECP measures aimed development in fund management industry

Over the years, regulatory framework for mutual funds industry has been adapted by the SECP with an aim to meet the changing industry dynamics, implementing international best practices and safeguarding investors' interest to strengthen mutual funds.

In this regard, amendments have been introduced in the Non-Banking Finance Companies and Notified Entities Regulations, 2008. These

amendments are primarily aimed at encouraging sustainable growth of the mutual funds by improving access by retail investors, strengthening of requirements relating to fiduciary responsibilities, corporate governance, proxy voting, employee's trading, internal control and risk management to protect investors.

Overall expenses of mutual fund are capped through the introduction of expense ratio

concept as being followed in multiple international jurisdictions. This will enable investor to compare the charges of different funds and would help in making more informed decision.

Moreover, maximum level of management fees charged by asset management companies has been decreased on various categories of funds with an objective of reducing cost for the retail investors.

## SECP-ICAP deliberate on independent audit oversight in Pakistan

The SECP-ICAP joint committee has reached on consensus about the way forward towards formation of a robust and effective independent audit oversight board in Pakistan. The Committee was formed to deliberate and prepare recommendations on adopting a mechanism of independent audit oversight set up for public interest company auditors in

Pakistan.

The seven member committee includes three nominees each of the SECP and ICAP. The meeting was chaired by its chairman Dr. Tariq Hassan. The Chairman emphasized the need for the development of a comprehensive futuristic plan for consideration of the committee which entails all aspects, including composition, func-

tions and powers of the board.

Ms. Khalida Habib, Director SECP informed the committee about parallel practices in Australia, Malaysia and United States. Members also discussed a concept paper with reference to functions performed by independent audit oversight bodies internationally and their powers related to inspection and inquiry.

## SECP's issues its 2015 Annual Report

The SECP has released its annual report which covers detail performance and audited financial statements of the SECP for the period from July 1, 2014 to June 30, 2015. In his message written for the Annual Report, the SECP Chairman Zafar Hijazi sums up many of the actions that the commission attributes as its achievements.

He stated that he firmly believe that only a strong SECP operating in an independent environment can guarantee a stable capital market and thus

contribute to the development of national economy.

He said that the agreement among the three stock exchanges integrate to form one national level stock exchange is a very significant achievement having the potential to turnaround Pakistan's capital market. He also noted the government's decision to gradually reduce the corporate tax rate from 35% to 30% is bold and will have far reaching economic impacts. The report details steps taken to enhance the regulatory en-

forcement capacity of the commission which had resulted in better monitoring of the capital market, non-banking financial companies, insurance and the overall corporate sector.

In pursuance of section 25 of the SECP Act 1997, the annual report has also been submitted to the federal government, which will subsequently present it in the National Assembly of Pakistan. The SECP's Annual Report is made available on the SECP's website [www.secp.gov.pk](http://www.secp.gov.pk).

## SECP directs companies to publish the proxy form in Urdu

The SECP directed all Companies limited by shares and every company limited by guarantee and having share capital to publish the instrument appointing the proxy, as given in Para 39 of Table A of the First Schedule of the Companies Ordinance, 1984, in English as well as in Urdu language.

The provisions of the Companies Ordinance, 1984 requires the companies to accompany the proxy form with every notice of meeting of the company circulated to the members which provides right to the members of the Companies to appoint proxy to attend, speak and vote in place of the member at the meeting.

SECP is taking measures to facilitate investors so that they can easily understand the regulatory procedures and requirements with regard to the right of members for the appointment of proxies.

## SECP Chairman for promptly responding to investors' complaints

The chairman SECP Zafar Hijazi emphasized on need to resolve shareholders/investors complaints in a timely manner to maintain investor's confidence. The SECP Chairman issued strict instructions to the concerned departments to promptly respond to all sorts of investors' grievances and complaints of investors and stakeholders and try to get them resolved in the shortest possible time.

While addressing a specially convened meeting of the Complaints and Monitoring Cell of the SECP, Zafar Hijazi said it is the primary duty and function of the SECP to help the aggrieved investors in seeking legal redress for their grievances—a task for which the SECP was primarily established.

He said that the SECP, with the help of the complaint information, can identify the weak areas or lack of compliance with existing regulations and can take the necessary action to correct any wrong-doing against investors.

## SECP approves new regulations for central depositories

In line with its efforts to strengthen the capital market and as part of subsidiary legislation under the Securities Act, 2015 (the "Act"), the SECP has issued draft Central Depositories (Licensing and Operations) Regulations, 2015. For eliciting public comments the SECP has published the said regulations in the official Gazette.

The regulations have also been disseminated to various prominent stakeholders for consultation purposes. Comments received on the regulations within fifteen days of issuance of these regulations, will be considered and evaluated. In compliance with the requirements of the Act, the draft regulations provide for

matters relating to licensing, minimum financial resources, duties and obligations, audit and accounts, appointment and conduct of directors and management, fit and proper criteria for directors and management and manner of outsourcing of important functions, for the central depository.

## Jamapunji launches 8181 SMS services for investors

The SECP has launched SMS short code service to disseminate timely information and authenticate the licensed/registered entities. The timely and easy delivery of information to general public and stakeholders will help to mitigate the possible scams and frauds in the capital markets and provide utmost conveni-

ence to all stakeholders.

The SECP advises general public to never invest in an unregistered company and avoid investment through an unlicensed entity. Before taking any decision for their investments, the potential investors can now get confirmed status of any entity by sending just

an SMS to 8181. The following digital services are now available to public through a dedicated short code 8181: 1. SMS Verification Services 2. SMS Value added services SMS Verification Services: To subscribe VAS: [SMS sub to 8181] (one time regular SMS rate will be charged to subscriber):

## SECP asks non listed company to maintain websites

The SECP has issued directions to 496 public non-listed companies to ensure maintenance of the company's functional website in accordance with the notification by the end of December 2015.

The SECP in November directed all Public non-listed Companies to comply with the mandatory requirement of maintaining a functional web-

site, within 30 days. The commission had earlier notified all companies (listed or non-listed) to maintain a functional website having detailed information about the company, its objectives, governance structure, election of directors and financial position to benefit its members, potential investors, and the general public.

The companies were fur-

ther required to place the web link of JamaPunji on their websites. The notification for maintenance of mandatory website and placement of JamaPunji link therein are placed on the Commission's website. This mandatory updated website will serve as a valuable tool for current and potential investors for making informed decisions.

## SECP directs to appoint only QCR rated firms as external auditors

The SECP has directed all non-listed companies to appoint only Chartered Accountants firms as their statutory external auditors which hold satisfactory rating from the ICAP. The purpose is to strengthen vigilance on the auditors reporting on the financial statements and bring

all non-listed public interest and large size companies under review mechanism.

This direction is for all non-listed companies, which are public interest companies and large size companies as designated in terms of the Fifth Schedule to the Compa-

nies Ordinance, 1984. Such as Chartered Accountants firm, within the meaning of Chartered Accountants Ordinance, 1961 and Chartered Accountants By-Laws, 1983, should hold satisfactory rating under the Quality Control Review Program of the ICAP.

## SECP considering consolidation of insurance rules

The SECP has decided to issue a consolidated set of insurance rules for the effective regulation of the insurance sector in Pakistan. In this context, the SECP has formulated draft Insurance Rules, 2015 which will replace the previously issued two different set of insurance rules after the due approval process and accommodating the stakeholders' consultations.

Earlier the Insurance Industry Reforms Committee Report 2014 also recommended consolidating the existing two set of rules which were creating ambiguity. Currently, the first set of rules called the Insurance Rules, 2002 were notified by the Federal Government – Ministry of Commerce whereas the second set of rules called the Securities and Exchange Commission (Insurance) Rules 2002 were issued by SECP.

The consolidation of existing two set of rules has improved the insurance regulatory framework. Such refinements include amendment in Rule 35 of the SEC (Insurance) Rules, 2002 to improve the liquidity position of the insurers and examination of insurance surveying officer as a condition for registration as an ASO.

## Amendments in the SMC Rules

The SECP, to facilitate the corporate sector, amended the Single Member Companies (SMC) Rules, 2003. SMC Rules were earlier introduced in Pakistan in 2002. The detailed-framework for registration of SMCs was provided Single Member Companies Rules, 2003.

The SMC Rules were aimed to allow single persons/businessmen to convert their non-corporate entities into companies with limited liability of the members and enabling them to deal with public entities as companies rather than individuals.

After the elapse of significant period, need was felt to upgrade the SMCs rules and make the reincorporation procedures simple and easy for compliance. The amendments have been made in light of feedback received from the business community.



# SPOTLIGHT ON SECP ACTIVITIES



## SECP organizes orientation session for NAB's trainee officers

The SECP received a request from the NAB to facilitate 36 of its trainee officers by organizing an orientation session to familiarize the trainees with the overall working and organizational structure of the Commission.

SECP gladly accepted the request and the event arranged by the PDD contributed immensely to the vision of the Commission to promote knowledge sharing and mutual assistance in the functioning of SECP and other regulatory/investigative bodies. The event was held on December 08, 2015 at the training room on the third floor.



## Discussion on 'Takeovers' Chapter IX of Securities Act 2015

Professional Development Department (PDD) organized the discussion session on "Takeovers" Chapter IX of the Securities Act, 2015 on November 06, 2015 by Executive Director - PDD at the 3rd floor training room.





# Learning Urdu software and correspondence

In line with the direction of the Commission, the Translation Department, in collaboration with Professional Development Department (PDD), has organized 17 training sessions on “Urdu Software and Correspondence” for the SECP employees. Mr. Shakil Chaudhary, Joint Director, Translation Department, has been conducting these sessions and so far 300 employees have been trained through these training sessions.



## Understanding new Securities Act

Securities Act, 2015 has been promulgated on May 13, 2015. Being a recent law there is need to read and understand the Act completely. Cognizant of this fact, the PDD organized a series of sessions on “Securities Act 2015” of one hour on weekly basis. The first session was held on November 11, 2015. The facilitator of the these session was Mr. Zafar Abdullah (Commissioner).

## Session on legal drafting by Mr. Justice (r) Shahid Anwar Bajwa

As we all know, drafting of notices and orders is a very essential skill for the SECP officers. Accordingly, the Professional Development Department organized the training session on “Legal Drafting” on November 18, 2015 whereby Mr. Justice (R) Sha-

hid Anwar Bajwa (a retired judge of Sindh High Court and currently practicing as an advocate Supreme Court and a lecturer of Sind Judicial Academy) deliberated the subject for developing an improved legal acumen of the officers of the Commission.





## Consolidating experiences: An interactive session on case studies



As we know, a number of officers from the Securities Market Division, Specialized Companies Division, Insurance Division, Corporate Supervision Department and Corporatization and Compliance Department are actively involved in offsite/onsite supervision and inspections/investigation. Hundreds of cases are concluded every year by the adjudicating authorities based on the findings/reports of these officers which are placed on the website of the Commission. However owing to their busy schedule such officers hardly find time to study the orders of other departments placed on the website.

In view of the above, PDD had organized an interactive session on Case Study held on October 28, 2015. It was great opportunity to learn from the experience of each other from within the organization as officers of one department shared the details of the cases concluded by them with other departments of the SECP. The initiative was very much appreciated by officers and requested to have such sessions on regular intervals.

A guideline was given below for the participants for preparing a brief presentation on one case they felt proud of:

1. What information triggered suspicion to call for information?
2. What information was called for from company/individual or other institutions/entities?
3. Whether information was received, if not what course of action was adopted to obtain the information?
4. How the information was examined? Comparative study made with industry bench mark, how correlation was made between the various pieces of information etc.
5. Whether SCN issued based on the available information, hearing held and order passed? Please elaborate details of the stages besides explaining the provision of law which has been violated.
6. If enquiry/inspection/investigation was ordered, what conclusions led to such enforcement action? Please also explain the ingredients of relevant provision of the law.
7. Please explain the complete process and steps taken to conduct enquiry/ inspection/ investigation. Detail must include the procedure adopted for collection of evidence and its preservation and whether any seizure memo for record copied from the books of entity was prepared?
8. How statement of the suspected person were recorded?
9. What course was adopted if the persons whose statement was recorded wanted to change his earlier statement?
10. If new findings were observed during the course of investigation, which were not covered in the enquiry/ investigation order what course of action was taken/adopted?
11. How report was drafted? Please discuss in brief format and contents of the report.
12. Whether report was shared and comments were obtained from the individuals/company/entity?
13. Whether adjudicating authority agrees with the enforcement action proposed? What additional information was called?
14. Whether any accused changed his statement before the adjudicating authority during the hearing?
15. Briefly explain the details of the order passed.
16. Whether penalty deposited?
17. Whether prosecution filed?
18. Any other important details.

# In-house session on 'Basics in Islamic Finance'

Professional Development Department(PDD) in collaboration with the Islamic Finance Department (IFD) organized the in house session on "Basics in Islamic Finance", by Mr. Imran Hussain Minhas (Ex Joint Director – IFD) on December 02, 2015, to enhance the knowledge of the officers of SECP about the basic rules and functions of Islamic Finance. Following were the detail of the session:

Contents of the session

- What is Islamic Finance
- Philosophical basics of Islamic Economics and Islamic Modes
- Important Shariah Maxim
- Al Kharaj –Bi Al Daman
- Al Ghunm Bil Ghurm
- Objectives of Islamic Financial System
- Shariah Parameters for financial Transactions
- Riba and its types
- Gharar
- Maysir/Qimar
- Halal Business Activities



## Session on insurance core principals

Professional Development Department(PDD) organized an interactive session in collaboration with the Insurance Department on "Insurance Industry" by Mr. Syed Nayyar Hussain, Director – Insurance on December 18, 2015 to enhance the knowledge of the officers of SECP about the basic rules

and functions of the Insurance Department. Following are the details of the session:

- Basics of Life Insurance and Non-Life Insurance
- Predominant Features of the Insurance Regulatory Framework in Paki-

stan

- Introduction to Insurance Core Principals (ICPs) of the International Association of Insurance Supervisors (IAIS)
- Roles of emerging alternative distribution channels to enhance insurance penetration.







## SECP's 3rd TABLE TENNIS TOURNAMENT

The Professional Development Department (PDD) organized the third "SECP Table Tennis Tournament" on November 2015 at the SECP's head office to encourage healthy activities among our employees and to provide them with the opportunity to interact with each other in a casual and friendly environment.

Healthy participation was observed within the players in a competitive yet jovial atmosphere. Chairman SECP graced the prize distribution ceremony at the 12th floor conference room and appreciated all the participants for their enthusiasm. He also emphasized the importance of conducting such events periodically to encourage health and fitness and interdepartmental networking at the SECP. The following players participated in the tournament.

### Men's Single Category:

Akif Saeed, Muhammad Younas, Adil Shafiq, Hammad Ahmed, Rizwan Haroon, Khurram Shahzad, Arslan Ali, Ali Hashim Khan, Asif Khan, Khurram Hassan, Kamal Ali, Bilal Irshad, Haroon Rashid, Umar Yahya, Adnan Farooq, Naeem Ilyas, Mirza Muhammad Arif Baig, Muhammad Afzal

### Men's Double Category:

Akif Saeed and Sajjad Ali, Muhammad Younas and Haroon Rashid, Furqan-ud-din Faisal and Hammad Ahmed, Rizwan Haroon and Faisal Shabbir, Omer Gulzar and Adil Shafiq, Ali Hashim Khan and Sabeel Ahmad, Khurram Hasan and Kamal Ali, Naeem Ilyas and M Shafiq Rana, Bilal Irshad and Asif Khan, Mirza Muhammad Arif Baig and Imran Saeed, Muhammad Afzal and Khawaja Ahammad Masud.

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## Public Service Message for Protection and Education of Capital Markets Investors

# Do's & Don'ts for Investment in Stock Markets

### Do's

- Always deal with a broker registered with SECP. You can verify the registration from the websites of SECP or stock exchange.
- Carefully and completely fill in all Account Opening Forms and make sure to obtain their copies for your record.
- Make all payments through crossed cheque in the name of broker.
- Give orders either in writing or on recorded telephone line of the broker.
- Make sure to receive a trade confirmation within 24 hours.
- Obtain copy of schedule of applicable fee and charges from the broker for your record.
- Always obtain periodical statement of accounts from broker and CDC, and compare then with your record.

### Don'ts

- Do not leave anything blank in your Account Opening Form.
- Do not execute any document without fully understanding its terms and conditions.
- Never forgo obtaining all documents of transactions, in good faith.
- Do not transact, based on media reports, rumors, 'tips' or promises of guaranteed or high returns.
- Do not authorize someone else to operate your account on your behalf. Such authorization can be misused.

## Complaints/Claims

If you have any complaint/claim, lodge it immediately through the relevant stock exchange website:

Karachi Stock Exchange  
www.kse.com.pk

Lahore Stock Exchange  
www.lse.com.pk

Islamabad Stock Exchange  
www.ise.com.pk

Visit SECP's educational webportal  
jamapunji.pk  
for more information

You may also lodge your complaint with SECP through the following web link:  
<http://servicedesk.secp.gov.pk/customersarea/mycomplaint.aspx>;



**Securities and Exchange  
Commission of Pakistan**



**KSE** The Karachi  
Stock Exchange



**Lahore Stock  
Exchange**



**Islamabad  
Stock  
Exchange**

www.secp.gov.pk | UAN: 051 111 11 7327



**Securities and Exchange Commission of Pakistan**

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