



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

International Affairs, Communication & Coordination (IACC) Department

PRESS RELEASE

FOR IMMEDIATE RELEASE

SECP DISAPPROVES MOVE BY MEMBERS FOR RESTRUCTURING OF THE KSE BOARD

ISLAMABAD – September 1: The Securities and Exchange Commission of Pakistan (SECP) has noted with concern recent news in the print and electronic media regarding campaign by members of the Karachi Stock Exchange (KSE) against a non-member director as chairman of the KSE Board. The SECP explicitly dispels the likelihood of any restructuring in the board of directors of the stock exchanges for reversing the mandatory requirement of the chairman of the board being elected from amongst the non-member directors.

The SECP while continuing with its well-thought out broad based capital market reform agenda aimed at promoting good governance, transparency and efficiency in the capital markets, had earlier in August 2002, successfully reconstituted composition of the board of directors of the stock exchanges, which now consists of five member directors elected by the members, four non-member directors to be appointed by the SECP and the Managing Director of the stock exchange. In December 2005 for ensuring that conflict of interest is avoided in the office of the chairman, the SECP in line with various recommendations made by both local and international experts and based on similar measures adopted by numerous stock exchanges internationally, under Section 34(5) of the Securities and Exchange Ordinance, 1969 framed the “Regulations of the Constitution of the Governing Board of the Karachi Stock Exchange” for ensuring that the chairman of the board of the stock exchanges is necessarily appointed from amongst the non-member directors.

The SECP's present stance reinforces the structure of the board of the stock exchanges as also envisaged in the post demutualization environment, as the draft Demutualization Law presently awaiting promulgation by the Parliament, also stipulates that after the date of demutualization the Chairman of the board shall always be from amongst those directors who do not represent trading right entitlement certificate holders or their connected persons. The present mutualized structure of the stock exchanges where the members/brokers have the ownership as well as trading rights inherently creates conflict of interest resulting in lack of transparency in the operations of the stock exchanges, which has direct impact on the market and the investors. Therefore, such constitution of the board of directors as presently applicable not only ensures better protection of investors' rights/ interests but also serves the best interest of the market.

The SECP while strongly opposing the recent move by KSE members reaffirms its commitment towards ensuring that till the time the stock exchanges are demutualized their board of directors should represent a balanced constitution for efficient and impartial decision making which is in the interests of all stakeholders including the investing public at large.

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