

Key Feature

Budget Announces Relief for Capital Market

The Federal Budget 2002-03 has offered many incentives for the capital market and non-bank financial sector, which have been appreciated by industry stakeholders. Apart from rationalizing the corporate tax rate by reducing it by two percent every year for the next five years so as to bring it to a level similar in the region, a reduction of withholding tax on commission and brokerage from 10 percent to five percent has also been announced. Similarly, withholding tax on interest on securities has been reduced from 30% to 20%.

Realizing the growing economic justification for mergers and consolidation in the financial sector, several tax incentives have been offered to the banking and non-banking financial sector. These include transfer/carry forward of losses of merged institutions, tax admissibility of expense on merger, continued availability of unabsorbed depreciation, and admissibility of different tax rates for banking and non-banking operations.

Presently, income received from mutual funds by way of dividend, commission or interest is subjected to withholding tax. This withheld amount is refunded if said mutual funds distribute 90% of their income to the unit holders. In an effort to support the development of the mutual fund industry, it has been decided in the budget that those mutual funds which are approved by the SEC shall be exempt from this deduction. In addition, this concession would also be available to those investment companies which are registered under Investment Companies and Investment Advisors Rules 1971, or a Unit Trust Scheme constituted by an Asset Management Company registered under Asset Management Companies Rules, 1995, or a Modaraba Management Company established under the Modaraba Ordinance, 1980.

Inauguration of CRO Islamabad



Mr. Khalid A. Mirza, Chairman, SEC inaugurating the Company Registration Office (CRO) Islamabad in June 2002. Also present at the occasion is Mr. Zafar ul Haq Hijazi (extreme right), Commissioner, SEC.

SEC Briefs

- The Securities and Exchange Commission of Pakistan (SEC) has made it obligatory for rating agencies to disseminate all ratings through newspapers within two working days of the notification of ratings assigned by them. The agencies have also been directed to transmit copies of the rating reports to SEC and the stock exchanges within 10 days of the notification of the ratings.
- SEC has, in principle, agreed to the concept of the Over-the-Counter (OTC) market submitted by the Committee comprising of Chairman, Karachi Stock Exchange (KSE), Managing Director KSE, Managing Director, Lahore Stock Exchange (LSE) and Vice-Chairman, Islamabad Stock Exchange (ISE). After a careful review of the report, SEC has forwarded certain comments on the report and has asked the Committee to prepare Draft Regulations for the OTC market.

- SEC has also granted approval for the registration of the National Commodity Exchange Limited (NCEL) as an Exchange for commodity futures contracts. The Exchange will not become operational till it fulfills all terms and conditions of the approval letter. In addition, trading each type of commodity futures contract on the Exchange would require a specific approval of the SEC.
- To provide convenience to the corporate sector while filing various statutory forms, SEC has simplified the format of statutory returns prescribed under the Companies (General Provisions and Forms) Rules, 1985. Comments from the public have been received on the proposed amendments and are being reviewed before the amendments can be finalized.
- Under the proposed amendments, documents to be furnished with applications for alteration in memorandum have been rationalized and policy guidelines for registration of companies limited by guarantee have been provided to eliminate the ambiguity regarding registration of these companies.
- In order to safeguard the interests of public depositors who deposit money with companies for future delivery of goods, SEC has proposed amendments in the Companies (Invitation and Acceptance of Deposits) Rules, 1987. This would bring real estate developers, automobile suppliers and other similar concerns under a regulatory framework.

In Focus

Companies Easy Exit Scheme

On April 1, 2002, SEC launched the Companies Easy Exit Scheme (CEES) to facilitate dormant companies desirous to get their names struck off the register of companies. The scheme, which remained operative for two months, was applicable to companies which had no assets and liabilities and were not carrying on any business.

Notices regarding the companies who have opted for exit under this scheme are being published in the Official Gazette so that parties opposing the striking off of the company name may object within a specified time. If no objection is received and the Registrar of Companies is satisfied that the company is not operational and has no assets or liabilities, the name of the company shall be struck off the register of companies.

Under the scheme, 2,860 companies have furnished applications—1,221 from Karachi, 911 from Lahore and 265 from Islamabad. Of these 1,713 have, so far, been sent for publication in the official gazette.

Insight

Lodging a Complaint

The interest of small investors and minority shareholders is of prime importance to the SEC. In order to keep a vigilant eye and to provide a platform to the general public for voicing their concerns, a Vigilance Cell was set up at the SEC in 2000. This Cell is responsible for ensuring that grievances/ complaints of the general public are heard and redressed in a quick and efficient manner.

Grievances can be lodged with the SEC in the form of a formal complaint against:

- a member/agent of the stock exchange, or

- a listed or unlisted company, or
- any other matter in the purview of the SEC.

The SEC will endeavour to redress your complaint in a timely and judicious manner. You can send us your complaint at complaints@secp.gov.pk.

To assist investors in filing complaints, SEC has prepared an "Investors' Guide for Lodging Complaints". The guide is available at the SEC website and the three stock exchanges.

News and Events

Workshop on Art of Judgment Writing



Mr. Khalid A. Mirza, Chairman, SEC (front row, centre), with participants of the workshop on "Art of Judgment Writing" at the Lahore University of Management Sciences (LUMS) in April 2002.

Meeting with Institute of Chartered Secretaries and Managers



Mr. Khalid A. Mirza, Chairman, SEC receiving the plaque from Prof. Dr. Khawaja Amjad Saeed, President, Institute of Chartered Secretaries and Managers.

Competition for Best Annual Reports

To facilitate economic decisions of a variety of users of financial statements by improving the corporate reporting process, the Joint Committee of the Institute of Chartered Accountants of Pakistan (ICAP) and the Institute of Cost and Management Accountants of Pakistan (ICMAP) has decided to continue the competition for the best annual reports, which it had initiated last year. The parameters for assessing annual reports for the period which ended in 2001 are:

1. Corporate objectives: Giving information in relation to the strategic thinking of a company / group to stakeholders.
2. Report of Chairman/CEO.
3. Disclosure: Availability of information regarding different segments and units of the entity.
4. Stakeholder information: Information relevant for shareholders and other users of financial statements.
5. Report presentation: Production quality of the report.
6. Timeliness in issuing accounts and holding Annual General Meetings (AGM).
7. Financial aspects of Corporate Governance.

Regulation of NBFIs

It was decided earlier this year that regulation of Non-Banking Financial Institution (NBFIs) would be transferred from State Bank of Pakistan (SBP) to SEC from July 1, 2002. Due to a delay in the promulgation of the relevant legal amendments, this deadline could not be met, thus NBFIs will continue to be regulated by SBP. As soon as the amendments in the Banking Companies Ordinance, 1962, Companies Ordinance, 1984 and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2002 are promulgated, NBFIs will be regulated and supervised by SEC.

SEC Delegation Visits Pak-Oman Investment Company Limited



From left: Mr. M. Hayat Jasra, Secretary to the Commission, SEC, Ms. Sadia Khan, Executive Director, SEC, Mr. Shahid Ghaffar, Commissioner, SEC, Mr. Khalid A. Mirza, Chairman, SEC, Mr. Zafar Iqbal, Managing Director, Pak-Oman Investment Company Limited (POIC) with officers of POIC at their head office in Karachi in June 2002.

Meetings of the Consultative Group on Capital Market

Two meetings of the Consultative Group on Capital Market were held during this quarter. The Group, which aims to operate as a think tank to provide advice and feedback to SEC regarding its reform programme for the development of the capital market, includes leading professionals from the stock market and financial sector.

Participants of the group made a number of recommendations to review margin requirements of brokers and to improve risk management of COT financing. Formation of a Code of Ethics for Analysts to regulate analyst reporting in the country was also discussed.

In view of the recent stock market happenings, the governance of the stock exchanges also came under debate. It was generally felt that while the stock exchanges had taken a number of important steps to introduce independent professional management, there was a significant need to further strengthen management and to reduce the perceived interference of members in the day to day running of the stock exchanges. It was felt that there was perhaps a need to dissipate the informal lobbying efforts of brokers applied through the stock exchanges.

Meeting of the Co-ordination Committee of SEC and Stock Exchanges

A meeting of the Co-ordination Committee of the SEC and the three stock exchanges was held in Karachi in June 2002. The Committee decided on the following matters:

- Carry Over Transactions (COT) should be for a minimum period of ten days and the financee will have the option to release the transaction after one day.
- COT shall only be allowed in liquid shares.
- The margins for COT financing shall be 25% higher than for normal market trades.
- COT shares shall be kept with the CDC or the Clearing House of the stock exchange and shall be pledged in the name of the financier in case it is a bank or a financial institution.
- Fifty percent of the minimum mandatory capital balance shall be kept with the management of the Exchange and shall be treated as part of the exposure deposit.
- A system of pre-trade verification will be introduced at the Karachi Stock Exchange latest by June 30, 2002.
- It would be mandatory for brokers to obtain margin from their clients.
- Over-the-Counter (OTC) market regulations will be finalized shortly.

Workshop on Corporate Governance

A workshop on the Code of Corporate Governance was jointly organized in Karachi by the Modaraba Association of Pakistan (MAP), Leasing Association of Pakistan (LAP), Mutual Funds Association of Pakistan (MUFAP) and Investment Banks Association of Pakistan (IAP).

Chairman SEC, Mr. Khalid A. Mirza presided over the workshop. Other speakers included Mr. Etrat Rizvi, Managing Director, National Development Leasing Corporation, Mr. Ebrahim Sidaat, a partner at Sidaat Hyder Qamar & Co. and Mr. Masoud Naqvi, President Management Association of Pakistan.



Mr. Khalid A. Mirza, Chairman, SEC, addressing the participants of the workshop on corporate governance jointly organized by MAP, LAP, MUFAP and IAP in Karachi in June 2002.

Institutional Capacity Building Programme for SEC



Front row from left: Mr. Haroon Sharif, Principal Staff Officer to Chairman, SEC, Mr. Rashid Sadiq, Executive Director, SEC, Mr. Shahid Ghaffar, Commissioner, SEC, Mr. Khalid A. Mirza, Chairman, SEC, Mrs. Khalid Mirza, Ms. Rahat Konain, Executive Director, SEC, and Mr. Bashir Chaudhry, Programme Director, LUMS with participants of the 'Institutional Capacity Building Programme for SEC' arranged at LUMS in June 2002.

Leasing Association hosts dinner in honour of SEC Chairman



From left: Mr. Shahid Ghaffar, Commissioner, SEC, Mr. Shamim Ahmed Khan, former Chairman, SEC, Ms. Sadia Khan, Executive Director, SEC, Mr. Khalid A. Mirza, Chairman, SEC, Ms. Iram W. Butt, Director, SEC, Mr. Abdul Jabbar Kasim, CEO, Saudi Pak Leasing Company Limited and Mr. Humayun Murad, Chairman, LAP, at the dinner hosted by LAP in honour of SEC Chairman in April 2002.

The 27th Annual Conference of the International Organization of Securities Commissions

The 27th Annual Conference of the International Organization of Securities Commissions (IOSCO) was held in Istanbul, Turkey from 18th-24th May, 2002. The conference, hosted by the Capital Markets Board of Turkey, attracted capital market regulators, academic professionals and other distinguished members of the international financial community.

The main theme of the conference was 'Globalization: Opportunities and Challenges', which provided a forum for securities regulators and industry participants to consider fundamental issues relating to the increasing provision of financial services on a cross-border basis and the associated international capital flows. In addition, the conference provided a forum for regulators and industry participants to consider issues of paramount concern subsequent to the events of 11 September 2001 and recent corporate failures of international significance.

Addressing the participants of the Asia Pacific Regional Committee (APRC) at the IOSCO conference, Mr. Khalid A. Mirza, Chairman, SEC, said that Pakistan would continue efforts to deepen the market and improve risk management at the stock exchanges and further strengthen audit practices and enforce International Accounting Standards. "We will facilitate a vibrant primary market with strong underwriting and distributive capacity, address residual governance issues at the

stock exchanges as well as facilitate their demutualization, and further strengthen the institutional capacity of the SEC", he said.

Chairman SEC gave a detailed presentation on the developments in Pakistan's financial sector (non-bank) and informed the audience of the measures taken to address the governance and risk management issues at the stock exchanges and to enhance the transparency and disclosure requirements for corporate entities. "We have issued a plethora of rules and regulations to protect the small investor, to ensure transparency in dealings, to curb insider trading and other manipulative practices, and to bring our market up to international standards", he added.



Mr. Khalid A. Mirza, Chairman, SEC, and his wife (right) with Mr. Y. Canevi, former Governor of the Central Bank of Turkey, and his wife at the IOSCO Conference in Turkey in May 2002.

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