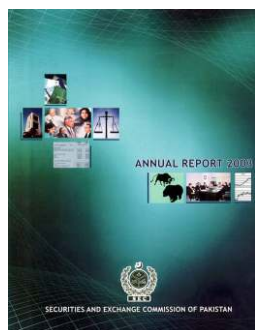




# Securities and Exchange Commission of Pakistan

NEWSLETTER

Volume III, Issue IV October-December, 2003



*Dr. Tariq Hassan, Chairman, SEC chairing the eighteenth meeting of the Policy Board in December.*

## SEC Annual Report 2003 Published

The Securities and Exchange Commission of Pakistan (SEC) has published its Annual Report covering the period 1 July 2002 - 30 June 2003. The report highlights the major achievements made during the year and gives an overview of the structural changes that took place at the SEC.

The period under review was characterized by the SEC continuing its efforts to improve risk management at the stock exchanges, strengthen audit practices, enforce International Accounting Standards (IAS), expand the retail investor base, increase market depth, and strengthen its own institutional capacity.

The report is available at the SEC website [www.secp.gov.pk](http://www.secp.gov.pk).

## Securities and Exchange Policy Board Notified

The Federal Government has notified the names of three members representing the private sector on the Securities and Exchange Policy Board (Policy Board) for a period of four years. They are, Mr. Zubyr I. Soomro, Managing Director and CitiGroup Country Officer; Dr. Mohammad Zubair Khan, Managing Director, Financial Techniques Internationale; and Dr. Shahida Jaffery, Chief Executive, Balochistan Rural Support Programme.

The functions of the Policy Board include providing advice to the Federal Government relating to the securities industry and regulation of corporate sector and stock

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## SEC Re-elected to Chair IOSCO Working Group 3

The SEC, through its Chairman Dr. Tariq Hassan, has been re-elected to chair the International Organization of Securities Commission's (IOSCO) Working Group on Regulation of Market Intermediaries. Dr. Hassan and Mr. Shahid Ghaffar, Commissioner, SEC participated in the IOSCO Annual Conference in Seoul, South Korea in October.

The election took place in the first meeting of the Working Group where the SEC was elected to chair the Working Group for the second consecutive term. Earlier, it had been elected as chair for the first term in the meeting of the Emerging Markets Committee (EMC) held in October 2002 in Malaysia. Over this period, the SEC developed a proposal to set out the mandate of the Working Group, which was duly approved by the Group as well as the EMC. Accordingly, the Working Group on Regulation of Market Intermediaries, under the chairmanship of Dr. Tariq Hassan will now deal with "Cross-border activities of multinational securities firms".

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## SEC Pakistan and Sri Lanka Sign MoU

In December, the SEC and the Securities and Exchange Commission of Sri Lanka signed a Memorandum of Understanding (MoU) which sets forth a statement of intent of the two regulators to establish a framework for mutual assistance and to facilitate the exchange of information between them in order to enforce/ensure compliance with their respective securities and futures laws and regulatory requirements. The MoU was signed in Lahore, Pakistan on the sidelines of the Sixth Theme Conference of the South Asian Federation of Exchanges (SAFE) held there.

The Authorities agreed to promote mutual assistance and exchange of information to enable them to effectively perform their respective duties according to law. Under the foregoing general theme, the scope of this

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## **Directive Facilitating Companies to Obtain Up-to-date Registration Details of Persons Holding Book Entry Securities from the CDC on Timely Basis**

The Companies Ordinance, 1984 (Companies Ordinance) as well as the Code of Corporate Governance provides for the preparation and transmission of accounts by listed companies.

In order to facilitate listed companies' compliance with this requirement and to accommodate various requests of the issuers for provision of up-to-date registration details of the persons holding book entry securities, the SEC in terms of Rule 7 of the Central Depository Companies (Establishment and Regulation) Rules, 1996, on 8 October 2003 directed the Central Depository Company to provide issuer of securities registration detail and the record of the holding of book-entry securities representing securities of an issuer correct as of three business days prior to the date of request by the issuer.

## **Rationalization of COT**

The Carry Over Transaction (COT) or Badla is the combination of two or more transactions taking place simultaneously, which are settled in two clearing sequences. However, the COT System has often been blamed by market participants as being the cause of systemic risk in the market. The SEC has rationalized the COT system with the introduction of ten-days COT, which allows the financee to extend the length of the contract to ten days at this option.

Further, SEC in consultation with the stock exchanges has finalized a Road Map for the phasing out of the COT. In accordance with the Road Map and to ensure effective risk management, protection of investors from market abuse, and development of the capital market as per international best practices, the SEC vide its directive dated 24 October 2003 to the three stock exchanges has restricted the COT facility only in the shares of the thirty eligible companies effective 15 December 2003.

## **Fund Management to Stay Independent of Stock Brokerage Activities**

The SEC has decided not to grant license to brokers to undertake investment advisory and asset management services from the platform of a single entity. The decision has been taken to bring transparency in the operation of mutual funds and to avoid incidences of conflict of interest.

## **First National Bank Modaraba Cleared for Public Offer**

After a lapse of about two years, the SEC received an application from National Bank Modaraba Management Limited, a subsidiary of National Bank of Pakistan, to float a multi-purpose perpetual modaraba "First National Bank Modaraba". Major businesses of First National Modaraba include trading, project financing and leasing. The paid up fund of the Modaraba is Rs. 250 million.

## **Rotation of Auditors**

The SEC has concurred with the recommendation of the Institute of Chartered Accountants of Pakistan (ICAP) to set up a task force to examine international developments on rotation of auditors of companies. In the meantime, the requirement for rotation of audit firms of listed companies after every five years remains applicable from 1 January 2004.

The task force will review and study the impact and effectiveness of the existing requirements on this subject in Pakistan. The recommendations of the task force would be considered in refining existing practices for enhancing independence and objectivity of auditors.

The requirement for rotation of audit firms of listed companies after every five years was introduced through the Code of Corporate Governance in March 2002.

## **Research Study on "Simplification and Promotion of Laws and Procedures for Corporatization of SMEs"**

In order to promote corporatization and extend the benefits of corporate status to Small and Medium Enterprises (SMEs) in the country, the SEC, in collaboration with the Ministry of Industries and Production, has initiated a research study on "Simplification and Promotion of Laws and Procedures for Corporatization of SMEs". This is the premier study of its kind in the country where active participation of the major SMEs and other stakeholders is involved. The findings of this report would be disseminated at seminars.

The study is designed to strengthen the existing legal and policy framework for SMEs through studying the impact of the prevailing laws and regulations and suggesting measures for facilitating the corporatization of SMEs. The major components of this four-month study are: designing a comprehensive strategy in collaboration with major stakeholders; reviewing legal and regulatory framework; developing a policy framework; and designing and initiating a promotional strategy for corporatization of SMEs.

## **Restructuring of Lot 'A' ICP Funds**

The SEC has facilitated restructuring of lot 'A' ICP Mutual Funds. Three of the ICP funds namely, 21st, 23rd and 25th ICP Funds have since been merged and reorganized as ABAMCO Stock Market Fund. Proposal for restructuring of rest of the lot 'A', 'B' and 'C' ICP Mutual Funds were at different stages of processing.

## **Public Offer of Four Mutual Funds Approved**

The SEC has approved, after due examination, the public offer of Meezan Islamic Fund, Atlas Income Fund, Crosby Dragon Fund and Pakistan Capital Market Fund. Of these, Meezan Islamic Fund and Crosby Dragon Fund have been offered for public subscription.

## Board of Directors' Meetings through Video Conferencing

The SEC has permitted listed companies to hold their Board of Directors' meetings through video conferencing. The listed companies have, however, been advised to avail this facility only in emergency situations and the requirements of the requisite quorum and other legal formalities relating to holding of such meetings must be observed strictly. It would be the responsibility of the company's secretary to secure the video recording of the proceedings of the meetings and keep it in his custody along with the other relevant record.

A few listed companies, particularly multinationals, had approached the SEC to allow holding of Board of Directors' meetings through video conferencing when some members of their Board were not available in the country. The SEC, in view of the practical problems, feels that holding of the Board's meeting through video conferencing would facilitate the companies and has therefore decided to allow listed companies to hold their Board meetings and Audit Committee meetings through video conferencing.

## Reduction in the Rates of Late Filing Fee of Documents

The SEC has reduced the rates of late filing fee of documents. The reduction has been allowed in cases where managements of companies have failed to file their annual returns with the Registrar of Companies, inadvertently, within the prescribed period i.e. up to 30 November 2003 for private and unlisted companies and 15 December 2003 for listed companies whose financial year closed on 30 June 2003. Previously, companies were required to deposit three additional fees for late filing.

In order to provide incentive to companies to regularize their defaults, the respective schedule of fee has been amended and the companies filing annual returns on Form A or B, with the delay not exceeding fifteen days, would be charged only one additional fee equal to the usual filing fee. Furthermore, the returns filed with a delay exceeding fifteen days but less than forty-five days would be charged two additional fees whereas those filed with delay exceeding forty-five days would be charged three additional fees.

## Capital Issues

During the period, there were three offerings of share capital to the general public. Details of these three public offers are as follows:

S. No.	Name of Company	Sector	Subscription Date	Formal Listing Date	Total Paid-up Capital (Rs. in million)	Already Paid-up Capital (Rs. in million)	*Offered Capital (Rs. in million)	Premium per share	*Subscription Received (Rs. in million)
1	National Bank of Pakistan (Third offer for sale)	Commercial Banks	13-15 October 2003	Already listed			131.310	36	1,222.302
2	First National Bank Modaraba	Modaraba	23-24 October 2003	22 December 2003	250.000	150.000	100.000	-	121.135
3	Oil and Gas Development Company Limited (Offer for sale)	Fuel and Energy	10-14 November 2003	19 January 2004	43,009.284	43,009.284	*1,075.232	22	28,120.780
					43,259.284	43,159.284	1,306.542		29,464.217

\*The company exercised the green shoe option (GSO) and retained further 2.5 percent (i.e. 100 percent of the public offer) of the paid up capital under GSO

Offer of shares of Oil and Gas Development Company Limited (OGDCL) by the Government of Pakistan to the general public was a major step by the Government in order to provide an opportunity to small investors to reap the benefits of privatization of state-owned enterprises. The said public offer received a very good response from the general public as it was over-subscribed (by over eight times). With the listing of OGDCL, market capitalization of the Karachi Stock Exchange (KSE) increased by almost 25 percent.

During the quarter, three companies offered Term Finance Certificates (TFC) to the general public. Details of these are given in the table below:

S. No.	Name of Company	Subscription Date	Amount of Capital Allowed	Total Amount Offered			Balance to be Offered Subsequently	Subscription Received			Green Shoe Option	Amount Retained
				Pre-IPO	IPO	Total		Pre-IPO	IPO	Total		
1	Pharmagen Limited	16-17 October 2003	300	225	75	300	-	225	21.850	246.850	N.A.	300
2	Pakistan Services Limited	11-12 November 2003	700	500	200	700	-	500	1,356.065	1,856.065	N.A.	700
3	Al-Zamin Leasing Modaraba	23-24 December 2003	1,000	200	50	250	750	200	193.740	393.740	up to Rs. 50 million	300
			2,000	925	325	1,250	750	925	1,571.655	2,496.655		1,300

## **Introduction of Standardized Account Opening Form**

In recent years, it had been observed that the account opening forms used by brokers varied greatly in their terms and conditions and were not adequate to safeguard the interests of investors. Furthermore, there was a discernible lack of familiarity of the investors with regard to the relevant securities laws as well as their own rights and obligations.

In November, the SEC directed the three stock exchanges to adopt/implement appropriate regulations for the maintenance of "Standardized Account Opening Form" (SAOF) effective 15 January 2004. The existing operating accounts are to be brought in conformity with the SAOF by 15 February 2004. The SAOF has been developed keeping in view international best practices. In addition, the views/comments of the three exchanges were obtained and incorporated while preparing the SAOF.

The SAOF contains the standard terms and conditions which shall govern the broker-investor relationship at all the three stock exchanges. The Form strikes a balance between the rights and obligations of both investors as well as brokers. Moreover, the SAOF is to be considered as a minimum information disclosure requirement that all brokers are required to conform with.

## **Reduction in Initial Fees to be Paid by Promoters**

The SEC has rationalized and reduced the initial fees to be paid by promoters at the time of incorporation of companies. An appropriate amendment for the purpose has been made in the Sixth Schedule to the Companies Ordinance with the approval of the Federal Government.

In order to encourage corporatization in the country, the SEC has decided to reduce the basic fee slab for registration of companies from Rs. 5,000 to Rs. 2,500. Likewise the authorized capital on which minimum fee is payable has also been reduced from Rs. 500,000 to Rs. 100,000. As a result of these amendments, a company with authorized capital of Rs. 100,000 can be incorporated on the payment of Rs. 2,500 only as registration fee.

Previously, the fee structure comprised three basic slabs: a fee of Rs. 5,000 to be charged from companies having nominal share capital of up to Rs. 500,000; a fee of Rs. 500 to be charged for every Rs. 100,000 up to nominal share capital of Rs. 5,000,000; and a fee of Rs. 250 for every Rs. 100,000 of the nominal share capital, after the first Rs. 5,000,000, subject to a maximum fee of Rs. 10 million.

A notification incorporating these changes has been published in official Gazette dated 9 December 2003. The amending notification is available on the SEC website.

## **Revision of Fourth Schedule to the Companies Ordinance**

The Fourth Schedule to the Companies Ordinance that lays down the disclosure requirements for balance sheet and profit and loss accounts of listed companies, was developed as far back as 1984 at the recommendation of ICAP when a few IASs were in place. With the development and implementation of IASs covering almost all the spheres of financial accounting, some of the provisions have been inconsistent with the IAS. In order to create harmony between the local and international disclosure requirements, an exercise was undertaken by the SEC in consultation with ICAP to update and revise the Fourth Schedule and bring it in line with the IASs. In this process, the matters covered by IASs have been left out of this Schedule and only those which the IAS do not prescribe, have been included therein with a stipulation that disclosures shall be required to be made in accordance with the IASs as supplemented by the Fourth Schedule.

The revised draft of Fourth Schedule, which has been agreed by ICAP and approved by the SEC has now been sent to the Ministry of Law for necessary vetting.

## **Single Member Companies Rules, 2003**

The SEC has framed Single Member Companies Rules, 2003 to set forth a comprehensive regulatory framework for effective facilitation, development and regulation of single member companies.

A notification, laying down the Rules, was published in the official Gazette on 2 December 2003. Draft Rules were notified in the official Gazette in March 2003 for eliciting public opinion and were finalized after taking into consideration the comments received from various quarters.

The concept of single member companies was introduced in the Companies Ordinance through Companies (Amendment) Ordinance, 2002. The core objective behind introduction of single member corporate status was to facilitate sole proprietors to adopt corporate status having limited liability with the rights, duties and privileges of a distinct legal entity as well as to stimulate documentation of the economy. The Company Registration Offices (CRO) of the SEC have so far incorporated eighty-six single member companies.

The Single Member Companies Rules, 2003 have been framed to address the practical issues in regulating entities with a single member corporate status. These Rules shall apply to a company incorporated as a single member company as well as a private company limited by shares and having more than one member, which becomes a single member company after complying with the requirements of these Rules.

The Rules along with the prescribed forms have also been placed on the SEC website with download facility.

## Amendments in the Companies (Invitation and Acceptance of Deposits) Rules, 1985

The SEC has amended the Companies (Invitation and Acceptance of Deposit) Rules, 1987 (Deposit Rules) with the aim to safeguard the interest of general public against the risk of depositing money with companies.

Deposit-taking, being the normal and exclusive business of banking companies, is not to be undertaken by other companies unless the Deposit Rules framed under Section 88 of the Companies Ordinance are duly observed. According to the amendments, any amount collected through a “scheme” advertised in the media or otherwise by companies, particularly the real estate companies and automobile companies as an advance against the promise to supply the property or commodity at some future date, shall be treated as “deposit”.

The term “scheme” has also been explained in the amendments, which elaborates that any marketing campaign launched by a company, directly or indirectly, for inviting the general public to apply for the purchase of property or commodity or any other product against payment in advance shall be treated as a “scheme”. Any amount collected as aforesaid shall fall within the ambit of regulatory control of SEC if: the property or commodity is not in possession of the company at the time when the notice, circular, advertisement or communication is issued; or it offers for sale a product for which the company does not have adequate production facility; or it contains a promise for a gift or reward of some unusual incentive so as to prompt an early booking.

Some exemption has, however, been allowed for launching a “scheme” as above to such a company as is notified by SEC to be exempt, in consultation with the concerned Trade Organization duly licensed and registered under the relevant law.

Deposit taking in violation of the Companies Ordinance and the Deposit Rules is punishable, and every officer of the company which is in default is liable to be punished with imprisonment for a term which may extend to two years and also liable to fine. Furthermore, Section 88 of the Companies Ordinance and the Deposit Rules made thereunder make it clear that the jurisdiction of SEC encompasses the companies registered under the Companies Ordinance and does not extend to individuals, cooperative societies or enterprises other than the companies.

## Amendments in the Companies (General Provisions and Forms) Rules, 1965

The SEC has notified further amendments in the Companies (General Provision and Forms) Rules, 1985 to facilitate the companies as well as enable SEC to effectively regulate the corporate sector. A notification, incorporating the amendments has been published in the official Gazette dated 29 October 2003 and are available on the SEC website.

## International Symposium on Derivative Products, Markets, and Financial Intermediaries

In October, Dr. Tariq Hassan, Chairman, SEC visited Chicago, the US commodities market capital, to attend the International Symposium on Derivative Products, Markets, and Financial Intermediaries. The event was sponsored by the US Commodity Futures Trading Commission (CFTC) in conjunction with the Federal Reserve Bank of Chicago.

During his visit, Dr. Hassan met Mr. Daniel J. Roth, President, and Ms. Karen K. Weurtz, Senior Vice President, of the National Futures Association (NFA). He also met Ms. Andrea M. Cocoran, Director International Affairs, and Mr. Richard Fung, Branch Chief of Division of Market Oversight, CFTC. While discussing organizational issues, he informed them about the establishment of the National Commodity Exchange Limited in Pakistan and reviewed the institutional structure of CFTC and NFA. Dr. Hassan also discussed other matters of mutual interest, including foreign futures and options trading by illegal, unauthorized and fraudulent brokerage and forex companies in Pakistan.

The CFTC and NFA representatives offered to provide assistance, especially for training commodities regulators, and assured Dr. Hassan of their full cooperation in regulating cross border activities. They also indicated that they would be pleased to investigate any matter relating to illegal, unauthorized or fraudulent commodity trading activity in the US brought to their attention by SEC and explore the possibility of entering into a formal MoU for the purpose.

### Quarterly Stock Market Indicators

	July—September 2003	October—December 2003
<b>KSE-100 Index</b>	4027.34 as on September 30	4471.61 as on December 31
<b>Market Capitalization</b>	Rs. 887.60 billion as on September 30	Rs. 951.45 billion as on December 31
<b>Average Daily Traded Value</b>	Rs. 26.69 billion	Rs. 12.93 billion
<b>Average Daily Turnover</b>	493,995 million shares	214,215 million shares
<b>Term Finance Certificates</b>	2 issues	3 issues
<b>Total Amount Offered in TFCs</b>	Rs. 1.320 billion	Rs. 1.250 billion
<b>Equity Issues</b>	1 issue	3 issue
<b>Initial Public Offerings (Equity)</b>	Rs. 0.638 billion	Rs. 43.259 billion
<b>Total Public Offering</b>	<b>Rs. 1.958 billion</b>	<b>Rs. 44.509 billion</b>



## Asian Pension Fund Roundtable

Mr. Hasnaat Ahmad, Deputy Director, Insurance Department and Mr. Assad Hameed Khan, Deputy Director, NBFC Department represented the SEC at the First Asian Pension Fund Round Table Meeting of the leaders of public pension funds in Asia on 11-12 December in Bangkok, Thailand. The meeting was arranged by the Pacific Pension Institute, the Government Pension Fund of Thailand and the Asia Foundation, with the aim to bring together representatives of Asian public pension funds as well as international financial experts for two days of interactive discussion on the challenges facing pension funds throughout the Asian region.

The meeting was successful in achieving its objective of creating and promoting an Asian Institutional Investor's Best Practice Forum to share experiences of the participants and in return learn from each other. The interaction with the representatives of different Asian countries and the case studies presented by different speakers suggested that most of the countries are going through major reforms in their pension systems with emphasis on better fund management and corporate governance.

## Contractual Savings Conference

Mr. Etrat H. Rizvi, Commissioner (SCD), represented SEC at the second Contractual Savings Conference held at the World Bank in Washington from 3-7 November 2003. The key objective of the conference was to provide a platform for senior government officials, staff in multilateral agencies, academics and market practitioners to discuss the role of contractual savings in developed and developing countries, to study cutting edge regulatory and supervisory issues of contractual savings institutions and resolution issues of distressed companies. The conference deliberated on different key factors of pension plans namely: adequacy of contributions; managing investment; providing record keeping and reporting; and paying benefits to plan beneficiaries.

## Regional Polo Exhibition Match



*In December, the CRO Lahore hosted a Regional Polo Exhibition Match in honour of delegates of South Asian Federation of Exchanges at the Polo Club, Lahore.*

**The next editions of the SEC newsletter shall feature a regular section on the CROs.**

## Sixth Theme Conference of the SAFE

The Sixth Theme Conference of the SAFE was hosted by the Lahore Stock Exchange in Lahore in December. The conference titled "Strengthening Stock Exchange Listing Regimes and Regional Harmonization" was based on SAFE's study project to assess the listing regulations of the member exchanges in comparison with international and regional best practices to identify strengths, weaknesses and developmental needs. The findings of the study were revealed at the conference.

The Federal Minister for Finance and Economic Affairs Mr. Shaukat Aziz, who was chief guest at the conference, was represented at the event by Dr. Tariq Hassan, Chairman, SEC. In his address to the participants the Minister said, "The increasing importance of cross-border operations and the consequent need for greater cross-border regulatory co-operation cannot be under-estimated. Indeed the growing emergence of financial conglomerates and the blurring of distinctions between the activities of firms in each financial sector have heightened the need for co-operative efforts to improve the effectiveness of supervisory methods and approaches of regulators."

Elaborating on the need for regional cooperation, Mr. Aziz said, "Advances in technology have enabled instantaneous and seamless access into diverse capital markets. At the same time, the consolidation of specialist financial institutions into financial conglomerates with cross border presence has redefined traditional notions of market boundaries".

Dr. Tariq Hassan, in his address, encouraged SAFE members to sign Memoranda of Understanding that would allow flexibility in networking, coordination, cooperation and exchange of information. "The SEC has initiated a process to enter into Memorandum of Understanding with our counterpart authorities in other jurisdictions for information sharing and cooperation. I thank all the representatives from regulatory authorities who have consented to be signatories to these MoU. It is felt that such agreements/understandings would undoubtedly enhance co-operation and facilitate the achievement of the SAFE objectives for the mutual benefit of all member states", he added.



*Mr. Shahid Ghaffar, Commissioner (seated, left) signing the MoU on behalf of the SEC on the sidelines of the SAFE conference in Lahore in December.*

## Inauguration of Display Only Terminals at the Karachi Stock Exchange

In October, the KSE introduced Display Only Terminals (DOT) in collaboration with Cyber Internet Services (Pvt.) Limited (Cyber.Net) to offer customers access to the Karachi Automated Trading System screens. Through an agreement between Cyber.Net and KSE, the former will be hosting DOT at their data centres in Karachi, Lahore, Islamabad and Faisalabad in the first phase, which will be extended to other cities later. Thus, investors, traders and fund managers will be able to access DOT through a fast and reliable medium.

Dr. Hassan, who was chief guest at the launching ceremony, commended KSE and Cyber.Net on this initiative and said that introduction of such information dissemination services would provide individual investors, traders and fund managers with significantly greater access to trading information thereby enabling them to make well-informed investment decisions.

## Benefits of Corporatization

In November, Dr. Tariq Hassan, Chairman, SEC met the members of the Expert Advisory Cell in Islamabad and informed them of the benefits of and need for corporatization and said that the SEC was trying to encourage corporatization and was providing various new instruments and facilities for the purpose, which were expected to have a profound impact on the economic outlook of the country.

He said that in addition to introducing an element of transparency, corporatization, which entails separation of management from owners, allows a number of significant benefits to the entity as well as the economy as a whole. The separation of ownership and management allows professionals to administer and manage the affairs of an entity. While discharging their duties, they are bound to act honestly and with skill, care and diligence. Presence of professional management promotes credibility and effectiveness in the operations of the entity.

Dr. Hassan informed the participants that the SEC has been proactive in encouraging corporatization of the SME sector. In this regard, the SEC has taken several initiatives to develop and promote SMEs. This includes legislative changes in the Companies Ordinance to introduce the concept of single member companies so that any one individual could incorporate a company with limited liability. In addition, the SEC has taken several steps to facilitate the corporatization of SMEs, which includes availability of names, through the internet, placing requirements for incorporation of companies on the SEC website and rapid incorporation of companies i.e. within three days. The SEC is also focusing on creating an efficient automated environment at the CROs so as to further expedite the company incorporation process, maintain easy-to-access records and facilitate online registration of companies.

## Securities and Exchange Policy Board .....cont. from page 1

exchanges, overseeing performance of the SEC and allied matters.

According to Section 12 of the Securities and Exchange Commission of Pakistan Act, 1997, the Federal Government is required to appoint the Policy Board consisting of nine members out of which five are from public sector and four from the private sector.

Against the said four, only one member from the private sector, Mian Mohammad Anwar, Chairman, Crescent Textile Mills was on the Board while the remaining three positions were lying vacant. The five members representing the public sector on the Policy Board are: Dr. Tariq Hassan, Chairman, SEC (Chairman of the Policy Board); Mr. Nawid Ahsan, Secretary, Finance Division; Mr. Justice Muhammad Nawaz Abbasi, Principal Secretary, Law, Justice, Human Rights and Parliamentary Affairs; Mr. Kamal Afsar, Secretary, Commerce Division; and Mr. Tawfiq A. Hussain, Deputy Governor, State Bank of Pakistan. In December, the eighteenth meeting of the Policy Board was held at the SEC head office in Islamabad where the Policy Board decided to meet once every quarter in a financial year.

## SEC Re-elected to Chair IOSCO Working Group 3 .....cont. from page 1

Besides chairing the Working Group on Regulation of Market Intermediaries, the SEC is also an active member of the Asia Pacific Regional Committee, the EMC, the Advisory Board and the Working Group on Regulation of Secondary Markets of IOSCO.

## SEC Pakistan and Sri Lanka Sign MoU .....cont. from page 1

Memorandum includes: assisting in discovery of and taking action against insider dealings, market manipulation and other fraudulent practices in securities dealings in relation to companies, securities, futures contracts, options and collective investment schemes; enforcement of laws, rules and regulations relating to dealing in, arranging deals in, managing and advising on securities, futures contracts, options and collective investments; supervising and monitoring securities and futures markets and clearing and settlement activities and their compliance with the relevant laws and regulations; promoting and securing the fitness and properness of licensed or registered persons and promoting high standards of fair dealing and integrity in their conduct of business.

The Karachi, Lahore and Islamabad stock exchanges also jointly signed similar MoUs with the Colombo and Chittagong stock exchanges to establish a system for mutual assistance and information sharing.

# AML Initiative at the SEC

## Seminar on “Countering Money Laundering”

The SEC-AML Cell arranged a seminar on “Countering Money Laundering” in Lahore in December. Dr. Tariq Hassan, Chairman, SEC, who chaired the seminar, emphasized the need for a consultative process in finalizing the anti-money laundering legislation in Pakistan and pointed out that the concerns of the various quarters must be addressed in finalizing the law.

Other speakers at the seminar included Dr. Khawar Qureshi, Barrister and Special Advisor to the UNODC on Financial Crime who presented international and United Kingdom (UK) perspective on anti-money laundering; Mr. Abdur Rehman, Barrister and Co-author of the AML legislation for Pakistan who gave an insight into the local issues; and Mr. Salman Ali Shaikh, Senior Emerging Markets Banker who provided banking and financial sector perspective of anti-money laundering measures in Pakistan.

The seminar is part of a series of seminars to be conducted for creating awareness on the subject matter and opening dialogue with the stakeholders.

## Anti-Money Laundering Conference

In October, Ms. Maryam Tanwir attended a conference organized by the Commercial Crime Bureau in the UK, on financial fraud and crime. There were various presentations regarding financial fraud, international trade and money laundering, cyber crime, fraudster perspective to fraud, bankers perspective to money laundering, methods on conducting investigation, etc.

## Visit of World Bank Assessment Team

Mr. Samuel Maimbo, Financial Sector Specialist at the World Bank visited the SEC in October on an assessment mission to gauge the progress of the AML Cell. He met with Ms. Jaweria Ather, Project Director, AML Cell and Mr. Bilal Rasul, Project Manager, AML Cell. The Project Manager made an elaborate presentation on the recent AML initiatives at the SEC.

In Mr. Samuel Maimbo's assessment report he mentioned that the World Bank is satisfied with the SEC-AML Cell's initiatives and emphasized the importance of coordination between the regulators and the agencies.



Officers of the AML Cell along with the AML Coordinators from the various Divisions.

## First Meeting of the Consultative Group on Money Laundering

The SEC-AML Cell brought together a Consultative Group on Money Laundering, which consisted of officials of the SEC and SBP, as well as, representatives of the private sector, i.e., securities intermediaries, NBFCs, commercial banks, and businessmen, to formulate a policy on proposed AML initiatives. The Cell arranged the first meeting in Karachi, which was chaired by Dr. Tariq Hassan, Chairman, SEC.

The meeting discussed the recent achievements of the SEC and SBP in combating money-laundering, it highlighted the various international obligations imposed by the United Nations resolutions, Asia/Pacific Group on Money Laundering and International Organization of Securities Commissions. It also agreed to expedite the draft legislation and solicit views of professionals and general public and create public awareness of the AML Programme.

## Visit of the Charity Commission, UK

The Charity Commission, UK, responsible for overseeing the operation of non-profit organizations in the UK visited the SEC-AML Cell and met with Ms. Jaweria Ather and Mr. Bilal Rasul, and discussed various issues regarding the regulation of non-government organizations.

**The SEC-AML Cell has issued the third monthly Brief Series, which discusses at length the issue of Hawala/Hundi. The brief series is available at the SEC website.**

*Following is an excerpt from the third issue of the brief series:*

Money laundering is a global problem, and yet the risks and approaches are varied in every region of the World. In Asia and the Pacific Rim there exists a high level of use, both for legitimate and illegitimate transactions, of alternative remittance systems, or the Hawala/Hundi system.

Pakistan is cognizant of the importance of minimizing the use of Hawala as a primary conduit for laundering funds. Various policies have been formulated in an attempt to curb the unregulated transactions. Key measures taken include the establishment of exchange companies and cancellation of licenses of moneychangers with effect from 1 July 2004. An integrated system has also been placed at all the major banks for the delivery of home remittances with the shortest possible time and in case of delay in delivery, such bank has to compensate the beneficiary for delays.

Comments, queries and suggestions about this newsletter may please be addressed to:

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