



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

NEWSLETTER

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SEC Chairman Elected as Vice Chairman of IOPS Technical Committee

The Chairman, Securities and Exchange Commission of Pakistan (SEC), Dr. Tariq Hassan was elected as Vice Chairman of the Technical Committee of the International Organisation of Pension Supervisors (IOPS) in December. Mr. Aerdts Houben from the Netherlands was elected Chairman of the Committee.

Dr. Hassan attended the IOPS Technical Committee meeting held in Paris. Among other things, the Technical Committee discussed and agreed upon a programme of work for 2004-05.

The agreed programme includes work on standards and good practices in pension supervision, information gathering and analytical projects, and international cooperation.

Pakistan, along with Australia, Germany, Holland, United Kingdom and the World Bank, has been selected to work on components of a risk-based approach to supervision.

Mr. Salman A. Shaikh Joins SEC as Commissioner



Mr. Salman Ali Shaikh joined the SEC as Commissioner in November. Mr. Shaikh did his BSc (Honors) from London School of Economics and worked at various positions with American Express Bank, Citibank N.A., Al Towfeek

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Task Force Constituted to Formulate Corporate Tax Policy

In December, the SEC and the Central Board of Revenue (CBR) constituted a joint Task Force to formulate a corporate tax policy. The Task Force is headed by Justice (Retd) Saleem Akhtar and comprises of Mr. M. S. Lal, Member (P&TR), CBR, Mr. Abdul Rehman Qureshi, Commissioner, SEC, Mr. Ahmad Khan, former Member, Monopoly Control Authority, Mr. Mukhtar Ahmad Gondal, Chief (Direct Taxes Policy), CBR, Mr. Abdul Hameed Chaudhri, FCA, Syed Mohammad Shabbar Zaidi, FCA, and Syed Fayyaz Mahmud, Director, SEC as secretary.

The Terms of Reference of the Task Force include:

- To review the existing legal and policy regime for corporate tax with a view to developing an effective corporate tax policy aimed at enhancing corporatization and progressive development of the corporate sector.
- To review the applicable tax rates, multi-tiered taxation, sales tax, turnover tax, withholding tax, professional tax and capital value tax as well as the procedure for filing of tax returns by companies.

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SECURITIES MARKET

Demutualization: SEC Starts Consultative Process with Stock Exchanges

The SEC has initiated an extensive consultative process with the three stock exchanges on the issue of demutualization and integration of stock exchanges. The stock exchanges agreed to devise a joint action plan for demutualization and integration and to identify relevant issues, analyse international experiences and conduct valuation of the respective exchanges. These efforts would be finalized by 31 March 2005. The exchanges would take concrete steps to put the institutional/legal framework in place to facilitate the process of demutualization. Moreover, the three exchanges agreed to initiate discussions on integration among themselves during this period before taking up the matter with the SEC.

Earlier, an Expert Committee on demutualization and integration of stock exchanges in Pakistan had submitted its final report to the SEC on 2 September 2004, wherein it had recommended two models. The Committee recommended that the preferable structure would be a fully integrated, demutualized stock exchange and the process of integration and demutualization should take place

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Quarterly Stock Market Indicators

	July-September 2004	October-December 2004
KSE-100 Index	5,217.65 as on 30 September	6,218.40 as on 31 December
Market Capitalization	Rs. 1,489.26 billion as on 30 September	Rs. 1,723.45 billion as on 31 December
Average Daily Traded Value	Rs. 11.58 billion	Rs. 18.55 billion
Average Daily Turnover	217.56 million shares	307.18 million shares
Term Finance Certificates (TFCs)	3 issues	2 issues
Total Amount Offered through TFCs	Rs. 3.725 billion	Rs. 1.750 billion
Equity Issues	3 issues	4 issues
Initial Public Offerings (Equity)	Rs. 8.158 billion	Rs. 0.900 billion
Total Public Offerings	Rs. 11.883 billion	Rs. 2.650 billion

Draft Clearing Companies Rules, 2004 Issued

The SEC issued draft Clearing Companies (Registration and Regulation) Rules, 2004, in consultation with the National Clearing Company of Pakistan Limited, in December. The draft Rules were placed on the SEC's website for soliciting public opinion.

Under the draft Rules, a person intending to start business as a clearing company will be eligible for registration subject to fulfilment of specified criteria. The SEC will be authorized to give, refuse and even cancel registration if a clearing company is not discharging its functions in accordance with the law, or neglects to so act, or otherwise fails to carry on its business in the interest of the capital market.

A clearing company will be empowered to call for information, undertake inspections and conduct inquiries and audits of its clearing members in relation to the performance of its functions. A clearing fund, to be set up with an initial contribution of Rs. 100 million by the clearing company, will be utilized towards settling a clearing member's obligation to the clearing company in case of default of such member.

Draft Commodity Exchange and Futures Contract Rules, 2004 Prepared

The SEC prepared draft Commodity Exchange and Futures Contract Rules, 2004, in consultation with the National Commodity Exchange Limited, in December. Under the draft Rules, a commodity exchange will be registered with the SEC before dealing in any commodity futures contract. The SEC will be authorized to suspend or cancel registration if an exchange violates law, or neglects to so act, or otherwise fails to carry on its business in the interest of the capital market. The commodity exchange will need prior approval of the SEC before making regulations.

Any person, not registered with the SEC, shall not act as a broker to deal in the business of effecting transactions in commodity futures.

IOSCO Approves WG3's Report on Cross-border Activities

The Emerging Markets Committee (EMC) Advisory Board of the International Organisation of Securities Commissions (IOSCO) approved the final report of the Working Group 3 (WG3) on "Cross-border Activities of Securities Firms in Emerging Markets".

The Chairman SEC, Dr. Tariq Hassan, who is also Chairman of WG3, presented the report before the EMC Advisory Board in its meeting held in Montreal, Canada in November.

The report tackles cross-border issues at three levels, namely, (i) experience of developed jurisdictions; (ii) regulatory practices in EMC member countries; and (iii) conclusions and recommendations for emerging markets. The draft report was updated on the basis of suggestions and responses received from EMC members on additional questions relating to legal framework for prevention of money laundering.

The WG3 comprises of Pakistan (Chair), India, Jordan, Malaysia, South Africa, Turkey, Albania, China, Czechoslovakia, Colombia, Egypt and Sri Lanka as active members and Nigeria, Kingdom of Bahrain, Chinese Taipei, Malta, Oman and Vietnam as observers.

Nominee Directors Appointed on Boards of Three Stock Exchanges

The SEC appointed professionals as its nominee directors on the Boards of the three stock exchanges for the year 2005.

These professionals include Mr. Maudood Ahmed Lodhi, Mr. Mohammed J. Jaffer, Mr. Khaleeq Kayani and Mr. Zafar Iqbal on the Board of directors of Karachi Stock Exchange; Justice (Retd.) Aamer Raza Ali Khan, Ms. Roohi R. Khan, Mr. Shahid H. Kardar and Mr. Saad Ahsanuddin on the Board of Lahore Stock Exchange and Mr. Shaharyar Ahmed, Syed Kaukab Mohyuddin, Mr. Aly Rattansey and Mr. Mohsin Khalid on the Board of Islamabad Stock Exchange.

PKIC Fined for Insider Trading

In October, the SEC imposed penalty on Pak-Kuwait Investment Company (PKIC) for its involvement in insider trading in the shares of Fauji Fertilizer Company Limited (FFCL). The SEC had observed volatility in the share price of FFCL on 28 April 2004. Details revealed that PKIC actively traded in the shares of FFCL on 28 April. In particular, PKIC was the major buyer in the shares of FFCL when its price fell down on the announcement of interim cash dividend, as opposed to the market expectations of bonus shares. The market at that time was unaware that another announcement regarding increase in the authorized share capital of the company would be disseminated to the stock exchanges. In view of the fact that PKIC has a directorship on the Board of FFCL, massive trading by PKIC in the shares of FFCL during 21-28 April 2004 appeared to be in violation of Section 15-A of the Securities and Exchange Ordinance, 1969. After investigations, the SEC found PKIC to have indulged in insider trading and imposed penalty on the company.

PICIC Penalized for Price Manipulation

In December, the SEC penalized Pakistan Industrial Credit & Investment Corporation Limited (PICIC) for price manipulation in the trading of PICIC Investment Fund (PIF) and PICIC Growth Fund (PGF).

The SEC had observed an abnormally high turnover and an abnormal price fluctuation during the last three minutes of trading in PIF and PGF on 25 June 2004. Details of trading revealed that PICIC was the major buyer in the last three minutes of the trading session. PICIC had avoided trading for most part of the trading time when certificates were available at favourable prices. The decision of PICIC to buy aggressively in the last minutes, thereby pushing the prices up, clearly showed that the purpose was not to buy certificates in normal course. After successfully pushing the prices upward in PIF and PGF in a manipulative manner, PICIC sold 49,155,672 certificates of PIF and 12,600,000 certificates of PGF on 28 June 2004 at closing market price of 25 June 2004 to PICIC-Asset Management Company and in the process made substantial profit.

SPECIALISED COMPANIES

Launching Ceremony of Mutual Funds



Commissioner SEC, Mr. Abdul Rehman Qureshi addressing the launching ceremony of two mutual funds by Atlas Asset Management Limited at Karachi in November.

Draft Voluntary Pension System Rules Notified

In December, the SEC notified draft Voluntary Pension System Rules, 2004 for soliciting views and comments from stakeholders.

Under the proposed rules, a new Voluntary Pension System (VPS) is being introduced in the country. Asset management companies and life insurance companies, duly licensed by the SEC under these rules, would be authorized to offer and manage pension fund schemes. Such entities would be referred to as licensed Pension Fund Managers. Life insurance companies would also be authorized to offer annuity plans under the VPS.

All Pakistani nationals over eighteen years of age, having valid National Tax Numbers and not being entitled to benefits under any approved occupational pension scheme, shall be eligible to participate in the VPS. Pension Fund Managers will maintain separate pension accounts for each participant who will be allowed to transfer the balance in his individual pension account from one Fund Manager to another. Balance in the pension fund will be invested in accordance with the criteria laid down by the SEC. At the age of retirement, i.e. sixty years or earlier (in

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CORPORATE AFFAIRS

Pakistan Institute of Corporate Governance Established

The Pakistan Institute of Corporate Governance (PICG) was established in December as a company limited by guarantee, licensed under section 42 of the Companies Ordinance, 1984. It is aimed at promoting awareness and encouraging good corporate governance practices in Pakistan.

The main objective of PICG is to engender sound corporate governance practices and provide an enabling environment for implementation of the Code of Corporate Governance. This would be achieved through training and awareness creation about corporate governance. The PICG will also encourage compliance with socially responsible corporate practices. In addition, it will provide a platform for research and development work and, in this regard, will make available key knowledge tools such as a well equipped library and networking with other institutions involved in this area. It will act as a forum for participation of all concerned to contribute towards developing a balanced corporate governance framework and will issue guidelines on matters of corporate governance to directors, management, auditors, secretaries and investors.

The founding members of the Institute include the SEC, the State Bank of Pakistan (SBP), Pakistan Banks Association, Overseas Investors Chambers of Commerce and Industry, Federation of Pakistan Chambers of Commerce and Industry, Investment Banks Association

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Lahore CRO Penalizes 113 Companies

The Company Registration Office (CRO) at Lahore imposed penalties on 113 companies for violating the statutory provisions regarding filing of returns for further issue of capital; election of directors; filing of annual list of members/annual return; increase in authorized capital and reporting of information about beneficial ownership. Strict vigilance would ensure better compliance by private and public companies.

RCCI Delegation Visits SEC



A group photograph of a delegation of the Rawalpindi Chamber of Commerce and Industry (RCCI) with the Chairman SEC during a visit to the SEC head office at Islamabad in October.

Facilitation Desk to be set up at RCCI

The SEC would establish a facilitation desk at RCCI to increase interaction between the SEC and the business community. The matter was discussed during the Chairman SEC, Dr. Tariq Hassan's visit to the RCCI office in Rawalpindi. The proposed desk would facilitate registration of companies with the SEC and provide necessary guidance to the business community in this regard.

Single Member Company Guide Published in Urdu



The SEC published a Single Member Company (SMC) Guide in Urdu to help sole proprietors embracing corporate status better understand certain legal obligations while conducting their business. Publishing of the Guide in Urdu would ensure its understanding across various segments.

The Guide illustrates the concept of a SMC, which is a private limited company with one member. It also outlines the procedure to incorporate such an entity and to convert an existing multi-member private company into a SMC. The Guide can be obtained from the SEC's head office and CROs and its English version is available on the SEC's website www.secp.gov.pk.

Registration of New Companies

The companies' registration with the SEC witnessed an accelerated growth during the quarter as a total of 617 companies were registered during the period compared to 454 companies registered during the corresponding quarter of the previous year.

The incorporation of companies during the quarter boosted the cumulative figure of companies registered during the year 2004 to a new record of 2,591 companies, showing an increase of 47 percent over 1,766 companies incorporated during 2003. This brought the total number of registered companies to 45,028 as on 31 December 2004, reflecting a steady increase of 6 percent from 42,437 companies registered up to 31 December 2003.

Of the total 617 companies registered during the quarter, there were 600 companies limited by shares, comprising of twenty-one public unlisted, 557 private and twenty-two SMCs. The CRO, Karachi registered 235 companies while CROs at Lahore and Islamabad incorporated 213 and 116 companies, respectively. CROs at Faisalabad, Quetta, Multan and Peshawar registered thirteen, six, fourteen and twenty companies each.

Companies Easy Exit Scheme Concludes

The Companies Easy Exit Scheme (CEES), re-launched by the SEC in March 2004, concluded on 31 December 2004. The scheme offered easy exit facility to dormant private limited, public unlisted and limited by guarantee companies having no assets or liabilities and not carrying on any business.

A total of 1,519 companies approached the registrars concerned for seeking exit in the prescribed manner. Of these, the highest number of 583 companies applied at the CRO Karachi, followed by 542 companies at Lahore, 109 at Faisalabad and 106 at Islamabad. CROs at Multan, Quetta and Peshawar received ninety-six, twenty-one and fifty-eight applications, respectively. The CEES was first introduced by the SEC in the year 2002 as an endeavor to extend facilitation to the corporate sector.

229 Complaints of Small Investors Resolved

Small investors continued approaching the SEC for resolution of their complaints. During the quarter, 229 complaints were received from investors, of which, 168 were received only in the month of December. All of them were appropriately resolved. These complaints pertained mainly to non-receipt of dividend warrants; non-encashment of dividend warrants; delay/non-transfer of shares and issue of duplicate shares; non-receipt of annual and interim accounts; and wrongful deduction of Zakat.

Amendments in Sixth Schedule to Companies Ordinance, 1984 Proposed

The SEC proposed necessary amendments in Sixth Schedule to the Companies Ordinance, 1984 to allow the public access to the companies' data in the Corporate Registration and Compliance System (CRCS) - an electronic database system developed and implemented by the SEC. The system contains comprehensive electronic information about registered corporate entities and serves as a premier search tool for accessing information on various aspects of companies.

Investor Education Programme Being Planned

The SEC has decided to undertake an investor education programme with a view to enhancing compliance with corporate and securities laws in addition to strengthening its monitoring and enforcement activities. The programme is geared to educate investors with the aim of promoting awareness of their rights and duties vis-à-vis companies and market intermediaries. In this regard, the SEC has decided to spend a part of the funds, collected through imposition of penalties, on investor education and protection. A series of steps such as printing information material, holding capacity-building workshops and training sessions and organising education programmes using print and electronic media are being planned for the purpose.

STAFF NEWS

SEC Employee Wins Prize



Mr. Atif Latif, Junior Executive at the SEC head office receives a cheque from the Chairman SEC, Dr. Tariq Hassan for designing the best title cover of the SEC Annual Report 2004.

Officer Profile: Arshad Javed Minhas, a Dynamic Team Leader

Mr. Arshad Javed Minhas, Director, Information Services & Technology Wing is a seasoned IT professional who has transformed IT wing from a small support function to a mainstream and dynamic section in the SEC. Mr. Minhas has been instrumental in effectively implementing many complex IT-related action plans. The IT wing now participates actively in strategic planning, business process management and reengineering and information processing in most innovative ways to enable the SEC to fulfill its responsibilities as a modern, efficient and vigilant regulator. Previously, Mr. Minhas was the Dean Computer Sciences at SZABIST, Islamabad Campus. Before joining SZABIST he had been working in government, non-government and international agencies in various senior positions related to the IT field.

Oldest Employee of the SEC



Mr. Muhammad Asghar Bajwa is the oldest employee of the SEC. He joined the defunct Securities and Exchange Authority of Pakistan on 15 December 1970 as Photo Machine Operator.

Task Force Constituted to Formulate Corporate Tax Policy

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- To suggest tax reforms in various areas such as rationalization of tax rates, streamlining of sales tax refunds, extension of sales tax coverage to more sectors, documentation of entire value chains across most areas and reduction in interface between taxpayer and tax officials.
- To examine the prospects of broadening of the tax net to unregistered enterprises so as to sustain revenue in a reduced tax rate scenario and induce the conversion of unregistered entities into corporate enterprises.
- To suggest reforms that provide effective mechanisms and a level playing field between registered and unregistered enterprises.
- To suggest viable tax administration measures for implementation of the recommended reforms.

Mr. Salman A. Shaikh Joins SEC as Commissioner

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Investment Bank Limited and Habib Bank Limited for over twenty-seven years. He is a senior emerging markets banker with expertise in large-scale debt recovery/remedial banking, financial sector restructuring and regulatory/legal reform. The background and experience of Mr. Shaikh includes corporate banking, complex credit/lending, corporate rehabilitation/restructuring, investment banking, financial sector training, bank audit and capacity building/target market cluster selection in the Small and Medium Enterprises sector.

Demutualization: SEC Starts Consultative Process with Stock Exchanges

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simultaneously and enforced through the enactment of a special law/legislation for this purpose. However, if substantial progress towards integration of the existing stock exchanges is not achieved within one year, then a new stock exchange may be established along the lines of the National Stock Exchange of India.

Cricket Match Between SEC, Stock Exchanges



Muhammad Shakeel of Integrated Stock Exchanges Team receives man of the match award from the Chairman SEC, Dr. Tariq Hassan during a friendly cricket match between the SEC and the three stock exchanges at Race Course ground, Lahore in December.

Draft Voluntary Pension System Rules Notified

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case a participant develops disabilities), the participant will be allowed to withdraw 25 percent of the amount in his individual pension account while the remaining amount will be used to buy an annuity contract from a life insurance company of his choice. All other withdrawals will be subject to deduction of withholding tax and other conditions laid down in the Income Tax Ordinance. The proposed VPS is based on certain tax incentives/exemptions for which necessary amendments in the Income Tax Ordinance are being made.

Pakistan Institute of Corporate Governance Established

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of Pakistan, Leasing Association of Pakistan, Modaraba Association of Pakistan, Mutual Funds Association of Pakistan, Institute of Business Administration, Lahore University of Management Sciences, Institute of Chartered Accountants of Pakistan, Management Association of Pakistan, Institute of Corporate Secretaries, Institute of Chartered Secretaries and Managers, Institute of Cost and Management Accountants of Pakistan, Karachi Stock Exchange, Lahore Stock Exchange and Islamabad Stock Exchange.

SEC, SBP to Form Task Force for Consolidated Supervision of Financial Sector

The SEC-SBP Coordination Committee meeting was held at the SEC head office in Islamabad in December. The Governor SBP, Dr. Ishrat Husain and Chairman SEC, Dr. Tariq Hassan presided over the meeting, which was attended by senior officials from both regulators. The meeting took stock of several important matters pertaining to regulation of the financial sector.

The meeting decided to form a task force for consolidated supervision of the financial sector. Consolidated supervision has been an area of concern with the two regulators and various modalities and steps to be taken in this regard were discussed. The task force would help pave the way for developing a framework for holistic regulation of the financial sector.

At the outset of the meeting, a representative of the National Accountability Bureau (NAB) briefed the participants on the status of actions taken in respect of illegal forex companies/unlawful brokerage business. He also apprised them of the functioning and expansion of the Financial Crimes Wing at NAB.

The meeting also reviewed introduction of margin financing and phasing out of Carry-over Transactions (COT)/badla financing. It was observed that all stakeholders were on board on the phase-out. The SEC informed the participants of the progress already made as per the roadmap according to which five scrips have been phased-out and COT has been restricted to twenty-four scrips.

Policy Board Meeting held



Policy Board meeting in progress at the SEC head office in Islamabad.

The twenty-second meeting of the Securities and Exchange Policy Board (Policy Board) was held in October at the SEC head office in Islamabad under the chairmanship of Dr. Tariq Hassan.

The meeting accorded approval to levy of fee on National Clearing Company of Pakistan Limited and Central Depository Company of Pakistan Limited and to reduce the rate of transaction fee charged on the stock exchanges. However, it was urged that the burden of fee should not be passed on to investors.

The meeting discussed certain issues including report on Demutualization and Integration/Transformation of the Stock Exchanges; COT/badla financing and its replacement by margin financing/futures market; rotation of auditors; policy guidelines for the appointment of advisers and consultants in the SEC; and revision of salary structure of the SEC.

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

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