Newsletter

Volume# II, Issue# I Jan-March 2002

Key Feature

Restructuring NBFIs

Over the past few decades, Non-bank Financial Institutions (NBFIs) have performed well and provided quality services to their customers. However, the traditional model of NBFIs, consisting of a variety of separate, compartmentalized, specialized institutions such as leasing companies, investment banks, DFIs, etc., had led to fragmentation of the financial sector and a proliferation of institutions with inadequate capital, weak human resource base, low access to technology and high cost of operations. As new risks emerged and uncertainties of adverse operating environment accentuated in recent years, Mr. Shamim Ahmed Khan, former Chairman of the Securities and Exchange Commission of Pakistan (SEC) presented a proposal before the Coordination Committee of SEC and State Bank of Pakistan (SBP) for the restructuring of NBFIs.

The Committee approved Mr. Khan's proposal to establish, in place of NBFIs, Non-bank Finance Companies (NBFCs), that would perform all functions relating to financial services, except commercial banking functions, the objective being to offer a whole variety and range of financial products tailored to the needs of customers through a one-window operation. Thus a joint task force of SEC and SBP was formed to work out and recommend legal and procedural modalities for implementation of the plan.

After intensive discussions, it has been decided that effective July 1, 2002, all NBFIs, with the exception of DFIs, shall be reclassified as NBFCs and regulated by SEC. This will eliminate the existing overlapping of regulatory jurisdiction over NBFIs by SEC and SBP. At present, SEC is in the process of formulating policies, in consultation with SBP, regarding remodeling of NBFIs. The key areas include the activities to be undertaken by an NBFC, the paid-up capital requirement for each activity and treatment of existing NBFIs (fiscal incentives for encouraging mergers/consolidation of NBFIs).

In Focus

Companies Regularization Scheme

To provide an opportunity to non-listed public and private limited companies to regularize their defaults in filing statutory returns under the Companies Ordinance, 1984, SEC has launched a "Companies Regularization Scheme". According to the scheme, defaulting companies can avail the following incentives till April 30, 2002.

- The overdue returns can be filed on payment of normal fee plus one additional fee equivalent to normal fee (i.e. Rs. 200.00 + Rs.200.00 = Rs.400.00 per return instead of Rs.800.00 per return).
- There would be no show cause notice/penal proceedings under Section 476 of the Companies Ordinance, 1984 on the returns filed late under this scheme.
- The scheme is applicable to the defaults in filing of returns committed upto 31-12-2000.

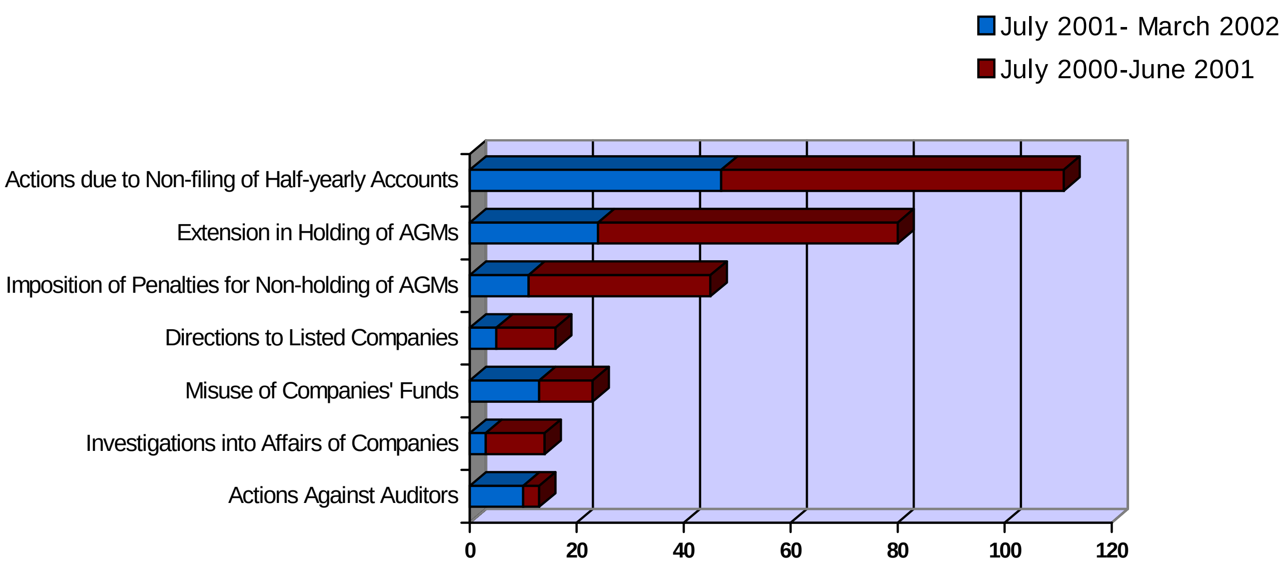
To extend this opportunity for companies to pay lesser fees and save themselves from penal and civil consequences, SEC has decided to extend the period of the scheme up to June 30, 2002, but with an additional fee two times of the original fee.

Out of the total 26,112 defaulting companies, only 18,763 could be traced. Till March 31, 2002, almost 3,500 companies filed their returns under the scheme.

Enforcement of Companies Laws

The Enforcement and Monitoring Division (EMD) of the SEC is vigilantly monitoring the workings of listed companies. Over the past two years, the analytical and enforcement capacity of the Division has substantially increased, which has resulted in a visible increase in shareholder confidence, transparency, proper and timely disclosure of information and over-all discipline in the corporate sector.

A comparison of major actions taken by EMD is given in the chart below. Apart from these, a special exercise is being conducted by EMD to ensure provision of adequate information to shareholders where special business i.e. sale of assets, sale of investments, investments in associated undertakings, determination of remuneration of Director/CEO, change in Memorandum and Articles of Association etc. is transacted by listed companies. The Division also initiated actions against 14 audit firms for failure to submit cost audit reports and filed prosecution proceedings against the directors of seven companies failing to hold Annual General Meetings (AGMs) and for failure to pay declared dividends to their shareholders. Winding up petitions against two non-performing companies have also been filed.



Insight

Things to Know About Equities

- If you can afford to take some risk and have the ability to endure the market's ups and downs, equity investments may yield you good returns.
- Do not invest any money with the stockbroker as a deposit at fixed rate of return. Such a deposit has no legal standing and the investor is exposed to the risk of losing his money.
- You must know the rates of fees and commissions charged by the broker/stock exchange as these affect your costs and, hence, your returns.
- The aim of investing in stocks and shares is to buy at low and sell at high. Knowing when, however, is the challenge. Many investors attempt to time the market: they try to

figure out when the market is going up and buy before it does and then anticipate when it is going to decline and sell before that. Usually you try to buy when the upswing has begun and sell as the downswing starts. However, such accuracy is extremely difficult to achieve.

- The stock market is driven by two emotions: greed and fear. People are caught up in the boom fever and pay beyond the worth of shares—this is the greed that drives bull markets. In bear markets, people get carried away with the ruling pessimism and are eager to sell their investments believing in the worst rumors—this is the fear that dominates bear markets.
- Be careful in selecting your broker. Ensure that the broker is licensed by the SEC to trade and the stock broking firm has a good track record. Give clear instructions to avoid ambiguity, check trade confirmations received and keep a proper record of all your transactions. All the registered brokers are listed at the SEC web site.

At the Commission

Amendments in Leasing Rules

To make Leasing Companies (Establishment and Regulation) Rules, 2000 more comprehensive, practicable and in line with other NBFI Rules of business, certain amendments have been made by SEC. The said amendments were published to solicit public opinion and relevant suggestions of the concerned quarters have been incorporated after due consideration.

Salient features of these amendments are mentioned below:

1. Certain definitions such as “facility”, “finance lease” and “operating lease” have been introduced and existing definitions have been modified.
2. Leasing companies have been allowed to invest in projects of warehouses, hospitals and educational institutions, subject to a maximum limit of 20% of their overall lease portfolio.
3. SEC has been empowered to appoint an administrator and initiate winding up proceedings through Court of Law subsequent to cancellation of license of a company to operate as a leasing company.
4. Leasing companies have been allowed to consider statutory reserves and other free reserves available for distribution as bonus shares as part of capital to meet the minimum capital requirement of Rs.200 million.
5. A new rule has been introduced that enables SEC to grant relaxation in compliance with these rules in certain instances where non-compliance is due to genuine reasons.

ADB Mission Visits SEC

A three-member delegation of the Asian Development Bank (ADB) comprising Mr. Werner Liepach, Principal Financial Sector Specialist, Ms. Shigeko Hattori, Financial/Capital Market Specialist, and Mr. V.V. Subramanian, Financial Economist, visited SEC to discuss the various issues in designing and developing an implementation methodology for the second phase of capital market reforms in Pakistan.

The ADB officials appreciated the implementation of the first phase of capital market reforms in Pakistan and the bank has committed financial assistance of US$200 million to the government for the second phase. The delegation observed that the reforms had left a healthy impact on the capital market which has become more efficient, reliable and transparent.

Chairman SEC, Mr. Khalid A. Mirza, hosted a lunch in honour of the ADB delegation.

EXIM Bank Delegation Visits SEC

A two-member delegation of the Export Import (EXIM) Bank of the United States comprising Mr. Eduardo Aguirre, Vice Chairman and Mr. Michael J. Petrucelli, Vice President and Executive Assistant to the Chairman, met with senior officials of the SEC. The delegation evinced keen interest in the working of SEC and the areas that came under discussion were mainly focused on capital market, Non-bank Financial Institutions (NBFIs), insurance and money laundering. EXIM Bank provides financial assistance as well as professional advice to its large number of clients; SEC has offered its full cooperation in facilitating US companies who wish to invest in Pakistan.

Chairman's Engagements

Capital Market Delegation

On January 13, 2002, Mr. Khalid A. Mirza, Chairman SEC, led a seven-member capital market delegation on a tour of UAE, Saudi Arabia and United Kingdom. The delegation received a warm response at each destination and all presentations made were well-attended. Pakistan Executive Forum in Saudi Arabia and Pakistan Society in London facilitated the delegation in informing non-resident Pakistanis, fund managers and other potential investors about the investment opportunities and numerous measures taken by the government to enforce a strong regulatory framework that ensures protection of foreign portfolio investment. The delegation comprised:

- Mr. Tariq Iqbal Khan, Chairman, National Investment Trust (NIT)
- Mr. Jahangir Siddiqui, Karachi Stock Exchange
- Mr. Arif Habib, Karachi Stock Exchange
- Mr. Ali Ansari, CEO, AKD Securities
- Mr. M. R. Makrey, Executive Director, SBP
- Mr. Maruf Ibrahim, CEO, Janahgir Siddiqui and Company
- Mr. Ajaz Rahim, Faysal Bank Limited

Meeting of Consultative Group on Capital Market

The recently formed consultative group for capital market aims to act as a sounding board and brain storming forum for the Chairman SEC through its regular free ranging discussion on capital market policies and issues. The first meeting of the group was held in Karachi on February 19, 2002. Participants of the group undertook detailed review of the capital market, especially the working of the three stock exchanges, discussed a future course of action and gave suggestions for future guidance of SEC.

The group includes, besides senior officials of the SEC, capital market experts and professional bankers.

CDC Introduces Investor Account Services at Islamabad

Left—Right: Mr. Najam Ali, CEO, Central Depository Company (CDC), Mr. Abdul Wahab Kodvavi, Chairman CDC and Mr. Khalid A. Mirza, Chairman SEC, at the inauguration ceremony of Investor Account Services Islamabad in February 2002.

Left—Right: Mr. Khalid A. Mirza, Chairman SEC, Mr. Shaukat Aziz, Federal Minister for Finance, and Mr. Arif Habib, CEO, Arif Habib Investment Management (AHIM), at the launching ceremony of Pakistan Stock Market Fund and Pakistan Income Fund launched by AHIM in March 2002.

Mr. Khalid A. Mirza (extreme left), Chairman SEC and Mr. Ranjit Ajit Singh of the Malaysian Securities Commission at the International Organization of Securities Commissions (IOSCO) Emerging Markets Committee (EMC) Advisory Board meeting in Hong Kong in January 2002.

Left—Right: Mr. Badruddin Fakhri, President ICMAP, Mr. Khalid A. Mirza, Chairman SEC, Mr. A. Husain A. Basrai, President ICAP and Prof. Dr. Khawaja Amjad Saeed, Member National Council, ICMAP, at the Best Corporate Accounts Awards arranged by ICAP and the Institute of Cost and Management Accountants of Pakistan (ICMAP) in Karachi in January ,

Left—Right: Mr. S. Tariq Jamil, Chairman, Committee of Continuing Professional Education of ICAP, Mr. Khalid A. Mirza, Chairman SEC, Mr. Shahid Ahmed Khan, Partner, Anjum Asim Shahid and Company at the seminar titled “The Enron Case—Revisiting the Auditor’s Independence” arranged by ICAP in Islamabad in