From left: Mr. Khalid A. Mirza, Chairman, Securities and Exchange Commission of Pakistan (SEC), Mr. Adbul Razzak Dawood, Federal Minister for Commerce, and Mr. Shaukat Aziz, Federal Minister for Finance in a meeting in Islamabad in August, 2002.

Stock Exchanges Considering Demutualization

The need for stock exchanges to be cost-efficient, transparent and more widely accountable is greater than ever. In response to technological change, globalization, growing competition and more significantly, concern for investors' interests, stock exchanges are embarking upon a process of demutualization.

Demutualization is undoubtedly an international trend, as out of the 52 stock exchanges represented at the 2001 meeting of the International Federation of Stock Exchanges, 32 had demutualized, while 20 had approved plans to go for demutualization.

Demutualization transforms an exchange from an entity owned by its member into a commercial, shareholder-owned company. A demutualized stock exchange has a clear commitment to generating competitive returns for its shareholders as well as having regard for the interests of all of its customers and those of the broader economic community.

All three stock exchanges in Pakistan are companies limited by guarantee, having no share capital. These exchanges are owned by members and are functioning as non-profit organizations.

The three stock exchanges are currently analyzing different models/structures of demutualized exchanges.

Investor Guides

As part of its developmental efforts, the Securities and Exchange Commission of Pakistan (SEC) has published a series of "Investor Guides". Two volumes of the Guide pertain to investing in the stock market, while a third guide has been dedicated to the procedure of lodging complaints with the SEC. The guides are a useful tool to enhance understanding of capital market related investments and will reduce complaints emerging due to lack of proper information. The Guides are available at the SEC website, the Company Registration Offices (CRO) and the stock exchanges.

Capital Market Watch

The SEC has issued a number of directives during the last quarter for better governance of the stock exchanges and the corporate sector.

In August 2002, the SEC issued a directive to the three stock exchanges regarding restructuring of the Board of Directors. According to this directive, the Board of Directors of the stock exchange shall comprise eight directors, four elected from amongst the members by the general body of the stock exchange and four independent directors to be nominated and appointed by the Commission from amongst the professionals including securities market experts, lawyers, chartered accountants, investment bankers, IT experts in consultation with the professional bodies as the SEC may consider appropriate.

Furthermore, the Managing Director of the Exchange shall be a director by virtue of his office, Chairman of the Board of Directors shall be elected by the Board from amongst the non-member directors while the post of Vice-Chairman of the Exchange has been abolished.

On September 2, 2002, this directive was revised on the basis of certain suggestions made by the KSE management. According to the revised directive, the Board will comprise 10 directors – five from members of the exchange and five outsiders including the managing director. The Board shall elect the chairman from amongst the elected member directors, while the managing director shall not participate in the election of the Chairman.

- The SEC directed the Lahore Stock Exchange (LSE) to withdraw the decision to abolish service charges levied on transactions and discontinuation of contribution to the Members Contribution Fund (MCF). The Commission has also directed the stock exchange to ensure that collection of service charges is resumed at the rate of Rs. 3.75 per Rs. 100,000 and that members are making contribution towards the Members Contribution Fund (MCF) at the rate of Rs. 5 per Rs. 100,000. For future, the Board has been directed not to change the rate of service charges and other charges on all trades without prior written approval of the SEC.

- With a view to improve disclosure standards in the corporate sector in Pakistan, in July 2002, the SEC notified guidelines, prepared in consultation with stakeholders, for the preparation of prospectus for public issues. To further facilitate the investor and broaden the circulation and readability of the prospectus, SEC, through the prescribed guidelines, has encouraged that in addition to publishing the prospectus in English, an abridged form may also be published in Urdu. The Commission has also directed that the language of the prospectus be simple, clear and brief with emphasis on sequencing of information in the prospectus from the perspective of a common investor, and that the prospectus shall not be used as a marketing tool.

- The SEC also issued a directive on July 18, 2002 to brokers, brokerage firms and incorporated brokerage houses registered under the Broker and Agents Registration Rules, 2001. The directive is effective for elections of directors held after August 31, 2002. Under this directive, the following persons, registered with the SEC, have been declared ineligible to become a director or nominee director of a listed company:

- o Broker;
- o Brokerage firm;
- o Director of an incorporated brokerage house;
- o Chief Executive Officer, Chief Financial Officer, Head of Internal Audit, research analyst, trader, agent or nominee of a brokerage firm or an incorporated brokerage house; and
- o Anyone holding controlling interest in an incorporated brokerage house.

This restriction has been relaxed in case of a listed company in which any of the above stated have a minimum shareholding of 10% or more, provided that a broker/ brokerage firm or an incorporated brokerage house whose directors or nominee directors are so represented on the Board of Directors of a listed company shall not trade in the securities of such company.

Quarterly Stock Market Indicators

	April—June 2002	July—September 2002
KSE 100	1770 on June 31	2019 on September 30
Market Capitalization	Rs. 411.58 billion	Rs. 463.65 billion
Average Daily Traded Volume	Rs. 3.59 billion	Rs. 4.84 billion
Average Daily Turnover	109.5 million shares	107.8 million
Term Finance Certificates (TFC)	5 issues	8 issues
Total amount offered in TFCs	Rs. 2,460 million	Rs. 4,585 million
Initial Public Offerings	2	Nil
Total amount offered	Rs. 372.5 million	Nil

Performance of Mutual Funds

The reforms introduced by the SEC, especially the initiatives to deepen the capital market and enhance institutional investments, have received a favourable response from potential investors. This is evident from the increased number of applications being received by SEC from various corporate houses for registration of Asset Management Companies (AMC) and floatation of open-end mutual funds.

The aggregate net asset value (NAV) of the mutual funds was approximately Rs. 21 billion on June 30, 2001, which moved up to Rs. 26 billion on June 30, 2002.

At present, SEC is engaged in processing a number of applications seeking registration of AMCs and floatation of open-end funds.

During the past year, the Specialized Companies Division of the SEC processed four new applications for floatation of mutual funds while another two are in the pipeline. Arif Habib Investments was given permission to float two new funds, namely Pakistan Income Fund (PIF) and Pakistan Stock Fund (PSF) with nine administrative schemes. ABAMCO has been given approval, in principle, to float a second open-end fund after demonstrating a good track record with their first fund— Unit Trust of Pakistan (UTP). A new asset management company, United Asset Management Company (UAMC) has been registered and given the approval, in principle, to float a money market fund.

The trend is encouraging in light of the recent reform measures introduced by the SEC both with regard to stock market operations and regulation of the mutual fund industry. The SEC has been actively involved in promoting the mutual fund sector and creating an environment conducive to investments through collective investment schemes. Some of these developmental efforts include allowing provident funds to invest up to fifty percent of their funds in the mutual fund sector; seeking various tax exemptions for mutual funds and their investors; and amending the relevant rules and regulations to keep up with the needs of the industry.

In an effort to maintain some minimum standards for the industry, the SEC has adhered to strict eligibility criteria for entry into the sector. The credentials of the sponsors of the schemes are scrutinized in detail and the background, qualifications and expertise of personnel assessed to ensure that qualified professionals are entrusted with the task of managing the pooled savings of individual investors. Foreign technical partnership with an international asset management company is emphasized for those wishing to float an equity market open-end fund. On-going technical collaboration with foreign fund managers is considered important for transfer of technical knowledge and know-how from experienced professionals from around the world as well as to ensure that local funds adopt international best practices in the management and governance of mutual funds. All the open-end mutual funds operating in the private sector namely UTP, PIF and PSM have been set up with international technical collaboration. It is expected that with greater expertise at their disposal these funds will be able to perform better and have a demonstrational effect on the rest of the industry.

Mr. Etrat Rizvi Appointed Commissioner Insurance

In August 2002, the Federal Government appointed Mr. Etrat H. Rizvi as Commissioner, SEC for a period of three years. Mr. Rizvi replaced Mr. N.K. Shahani who retired as Commissioner (Insurance), SEC.

During his two year stay at the SEC, Mr. Shahani served the Commission with distinction and made significant contribution towards effective regulation of the financial (non-bank) sector in Pakistan. He was particularly instrumental in the development of insurance and pension reforms in the country.

Mr. Rizvi's most recent assignment was as the Managing Director of National Development Leasing Corporation Limited for over two years and was also Chairman of the Board of Directors of the Bank of Khyber.

Addressing a seminar on "Motor Claims and its Practical Handling", Jointly organized by the Karachi Institute of Insurance and the Institute of Surveyors and Loss Adjustors of Pakistan in Karachi on September 26, 2002, Mr. Rizvi said, "The need to have auto insurance must be made attractive, with special attention to the element of legal liability towards third party bodily injury, death and property damage. If insurers are able to attract even 40—50 percent of the actual road users across the country, the rate of premium would also become affordable, let alone the capacity to underwrite."

Regional Seminar on NBFIs Co-hosted by SEC Thailand and the World Bank Group

On the occasion of its 10th anniversary, the Securities and Exchange Commission of Thailand, in collaboration with the World Bank Group, arranged a three-day seminar titled "How Can NBFIs Play a Greater Role in a Bank-based Economy?" The main focus of the seminar remained on the pension and provident funds, insurance companies and mutual funds in providing depth to the capital market and bringing stability in the financial system. Participants and speakers at the seminar underscored significance of the Non-Banking Financial Institutions (NBFI) as an alternative source providing capital for industrial concerns. They also act as an important stabilizing mechanism in the financial system. Furthermore, the participants agreed that concerted efforts must be made to draw the attention of the policy makers to set out a coherent and effective framework for supervision of NBFIs that enables efficient business undertakings by NBFIs, and at the same time promotes fairness and protection to the investing public.

Ms. Iram W. Butt, Director, and Mr. Muhammad Afzal, Deputy Director, represented SEC at the seminar which was held between September 4—6, 2002, in Bangkok, Thailand.

Guidelines for Modarabas

To facilitate the timely financial reporting of annual audited accounts and after considering the suggestions from the Modaraba Association of Pakistan, SEC has decided to streamline the submission/circulation of quarterly accounts. In this regard, the following directions have been issued by the Registrar of Modarabas:

- Modarabas that are able to circulate their audited annual accounts within three months of the close of their financial year may not be required to circulate quarterly accounts for the fourth quarter. However, the Modarabas opting for circulation of audited annual accounts within three months were advised to inform the Registrar's Office latest by July 31st 2002.

- Modarabas, finding it difficult to circulate quarterly accounts to their certificate holders may, in lieu thereof, publish their quarterly accounts in two leading daily newspapers, one in English and the other in Urdu language, having wide circulation in the Province where the Stock Exchange on which the Modaraba is listed, is situated.

- Notwithstanding the option given in (2) above, quarterly accounts must be submitted to the Registrar Modarabas and the concerned Stock Exchanges as required by the Circular No. 7/2001 dated December 13, 2001.

CAPA – ADB "Train the Trainers" Workshop

A workshop on training the accounting trainers, jointly sponsored by the Confederation of Asian and Pacific Accountants (CAPA) and the Asian Development Bank (ADB), was held in Dhaka, Bangladesh from September 4—7, 2002. The issues pertinent to improving the standard of accounting education at University level were deliberated during the workshop, which was attended by participants from Pakistan, Nepal and Bangladesh. Ms. Jawera Ather, Joint Director, SEC, who represented the SEC at the workshop, presented a paper on "Accounting Education—Bridging the Supply and Demand Gap".

SPV Limited Granted Registration

SEC has granted registration to SPV Limited, a wholly owned subsidiary of United Executors and Trustees Limited, to operate as a special purpose vehicle under the Companies (Asset Backed Securitization) Rules, 1999. Earlier in June 2002, SEC processed the registration of First Securitization Trust as the first special purpose vehicle under the Companies (Asset Backed Securitization) Rules, 1999.

In Pakistan, Securitization is in a nascent stage. Although the Asset Backed Securitization Rules, 1999 were notified by the SEC in December 1999, the necessary guidelines for banks/NBFIs desirous of undertaking various activities in asset securitization transactions through special purpose vehicles are awaiting finalization by the State Bank of Pakistan. After the finalization of such guidelines, it is expected that securitization would grow as an important instrument for financial intermediation, especially for those companies looking to increase their balance sheet liquidity and to obtain additional working capital at a lower cost.

From left: Mr. Dayanath C. Jayasriya, Director General. Insurance Board of Sri Lanka, Mr. Khalid A. Mirza, Chairman, SEC and Mr. Michael Mack, Chairman, Securities and Exchange Commission of Sri Lanka at the Consultation on Concepts, Principles and Operations relating to Islamic Insurance and Banking” held in Sri Lanka in September 2002.

SEC Hosts Seminar to Review the Effect of the Capital Market Reforms

In August, the SEC arranged a seminar titled “Overview of Capital Market Issues and Future Trends”. The seminar, which was attended by a distinguished gathering of capital market experts, members of academia and representatives of the donor community from Karachi, Lahore and Islamabad, was chaired by Mr. Khalid A. Mirza, Chairman, SEC. Dr. Asim Ijaz Khawaja, Assistant Professor, Harvard University, USA was the keynote speaker at the seminar, while Mr. Ali Ansari, CEO, AKD Securities and Mr. Sameer Ahmed, Managing Director, Lahore Stock Exchange also gave presentations.

The seminar included interactive discussion sessions with the participants which contributed to the objectives of the seminar which was to broadly assess the impact of capital market reforms and evolve a focused strategy for future reforms. The participants and speakers were very appreciative of the measures taken by SEC and gave valuable suggestions for consideration of the SEC.

From left: Mr. Haroon Sharif, Executive Director, SEC, Dr. Asim Khawaja, Assistant Professor, Harvard University, USA, Mr. Khalid A. Mirza, Chairman, SEC, Mr. Shahid Ghaffar, Commissioner, SEC, Mr. Ali Ansari, CEO, AKD Securities and Mr. Sameer Ahmed, Managing Director, Lahore Stock Exchange at the seminar held in Islamabad on August 27, 2002.

MAP Holds Seminar on Role of SEC

The Lahore Chapter of the Management Association of Pakistan arranged a seminar in July titled “Role of SEC in Developing the Capital Market in Pakistan”. Mr. Khalid A. Mirza, Chairman, SEC, was the chief guest at the seminar which attracted a large gathering from the corporate sector.

Speaking as Chief Guest at the seminar, Mr. Mirza said that the progress made by the SEC to improve and revitalize the capital market as well as the corporate sector, has been phenomenal and recognized as such both within Pakistan and abroad.

Seminar on "Role of Investment Professionals in the development of Pakistan's Corporate Sector

Mr. Shaukat Aziz, Federal Minister for Finance (centre) presenting a shield to Mr. Khalid A. Mirza at the seminar on "Role of Investment Professionals in the Development of Pakistan's Corporate Sector", held in Karachi on August 17, 2002 at the occasion of the launch of the Pakistan Chapter of Investment Professionals.

SEC, UNDP Sign Mou for Corporate Governance Project

The SEC, the United Nations Development Programme (UNDP) and the Economic Affairs Division (EAD) have signed a Memorandum of Understanding aimed at encouraging compliance with the principles of good corporate governance. Under this project, UNDP shall provide technical and financial assistance to the SEC in developing and implementing good corporate governance practices and further strengthening the regulatory framework for the corporate sector in Pakistan.

This one-year project, amounting to US$ 100,000 will allow the SEC to seek participation of various stakeholders and professionals in the effective enforcement of the Code of Corporate Governance and explore the possibility of extending its applicability to state-owned entities and non-listed companies. It will also allow the SEC to initiate consultations with other emerging markets so as to benefit from international best practices and lessons learned. The provisions of the Code will be harmonized with other corporate laws, and a feasibility study will be conducted to set up a national Institute of Corporate Governance. To raise investors' awareness, a report on the impact of the implementation of the Code on the corporate sector will be prepared, as well as a series of publications that may eventually lead to development of a corporate governance index for Pakistani companies.

From left: Mr. Onder Yucer, Resident Representative, UNDP, and Mr. Khalid A. Mirza, Chairman, SEC.

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