



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

NEWSLETTER

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Memorandum of Understanding Signed to Set up Institute of Corporate Governance

In July, the Securities and Exchange Commission of Pakistan (SEC), the State Bank of Pakistan (SBP) and major representative bodies of private sector agreed on the establishment of an Institute of Corporate Governance in the country, to be named the Pakistan Institute of Corporate Governance (PICG). The PICG is expected to undertake activities geared towards achieving good corporate governance in the country and creating an enabling environment for effective implementation of the Code of Corporate Governance.

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Chairman SEC, Dr. Tariq Hassan, along with the participants of a meeting held in July at CRO, Karachi to sign a Memorandum of Understanding to set up the Pakistan Institute of Corporate Governance.

Committee on Demutualization of Stock Exchanges Submits Report to SEC

In September, the Expert Committee on demutualization and integration of stock exchanges in Pakistan submitted its final report to the SEC. The SEC had constituted the Committee, comprising of national and international securities market experts, to formulate a comprehensive plan for demutualization and integration of stock exchanges.

The report was presented in a meeting held at the SEC head office in Islamabad, which was presided over by the Chairman SEC, Dr. Tariq Hassan. Commissioner SEC, Mr. Shahid Ghaffar, head of the Committee Mr. Shamim Ahmad Khan, members including Mr. Justice (Retd.) Aamer Raza A. Khan, Mr. Ebrahim Sidat and Mr. Rashid Zahir, and secretary to the Committee, Mr. Usman Hayat attended the meeting.

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Time-bound Action Plan for Regular Phasing out of Carry-over Transactions/Badla

The SEC, after extensive consultation with the stock exchanges, finalized a detailed, time-bound action plan for smooth phase out of Carry-over Transactions (COT)/badla and its replacement by margin financing/futures market. The plan was announced in September.

As per the action plan, phasing out of COT/badla will commence from 8 October 2004 and will be completed by 3 June 2005. Further, the number of shares available for margin financing and for futures market will be suitably increased.

In order to provide the necessary legal framework, the Margin Trading Rules, 2004 were notified on 30 June 2004.

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SECURITIES MARKET

Regulations for Margin Trading Issued

In September, the SEC approved the Margin Trading Regulations to give effect to the Margin Trading Rules, 2004 under section 34(1) of the Securities and Exchange Ordinance, 1969. These Regulations were finalized in view of the recommendations of the Committee comprising representatives of the stock exchanges as well as officials of the Commission. Some important regulations include:

- Margin trading shall be carried out by a client only in securities approved by the Commission from time to time.
- If a client fails to deposit additional cash or securities as margin within one business day of the margin call, the broker shall have absolute discretion to liquidate his/its margin account, including the securities deposited or purchased and carried in such account, without notice to the client, to the extent that margin is maintained at the required level.
- The broker may be authorized by a client to mortgage, pledge or hypothecate the securities deposited or bought on behalf of the client by the broker to any financial institution for a sum not exceeding the outstanding balance in the margin account.
- The client may withdraw sale proceeds or any part thereof in cash and/or any securities for the time being deposited in his/its margin account, provided that the value of the margin deposit in the margin account does not fall below the maintenance margin after such withdrawal.

Quarterly Stock Market Indicators

	April - June 2004	July - September 2004
KSE-100 Index	5,279.18 as on 30 June	5,217.65 as on 30 September
Market Capitalization	Rs. 1,421.60 billion as on 30 June	Rs. 1,489.26 billion as on 30 September
Average Daily Traded Value	Rs. 22.88 billion	Rs. 11.58 billion
Average Daily Turnover	496.96 million shares	217.56 million shares
Term Finance Certificate (TFC) Issues	—	3 issues
Total Amount Offered through TFCs	—	Rs. 3.725 billion
Equity Issues	4 issues	3 issues
Initial Public Offerings (Equity)	Rs. 3.097 billion	Rs. 8.158 billion
Total Public Offering	Rs. 3.097 billion	Rs. 11.883 billion

Increase in Shares Available in Futures Market

The SEC, vide letter dated September 16, 2004, approved the 'Eligibility Criteria for Futures Market' and the list of thirty companies eligible for futures trading at the Karachi Stock Exchange (KSE).

Similarly, the SEC approved a list of thirty companies eligible for futures trading at the Lahore Stock Exchange (LSE) and twenty-nine companies at the Islamabad Stock Exchange (ISE). Earlier, fifteen companies were traded on the futures counter at both KSE and LSE and there was no trading on the futures counter at ISE.

Draft Regulations for Proprietary Trading Issued

The SEC prepared the draft Proprietary Trading Regulations, 2004 to ensure fair treatment of clients by brokers and to safeguard investors' interests. The draft Regulations were issued in August and are expected to be implemented by December 2004.

Proprietary trading can lead to serious conflicts of interest in relationships between brokers and clients as it may allow brokers to profit at the expense of their clients. The draft Proprietary Trading Regulations seek to check market abuse arising from such situations. The draft Regulations have been forwarded to the stock exchanges for their comments.

INSURANCE

Task Force on Takaful Rules Submits Report to SEC

In September, the Task Force, constituted by the SEC for preparing requisite rules for Takaful business in Pakistan, submitted its report to the SEC.

Takaful is an Islamic mode of insurance, which provides for mutual financial aid and assistance to participants in case of occurrence of certain contingencies and whereby participants mutually agree to contribute to a common fund for the purpose. In pursuance to the Government's objective of Islamization of economy and in order to provide insurance coverage to institutions undertaking Islamic financing, the SEC has decided to allow Takaful business in the country.

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NON-BANKING FINANCE COMPANIES

Issuance of Fresh Licenses to Companies

During the quarter, the SEC granted licenses to three companies to provide investment advisory services while one company was issued license to undertake venture capital investment.

Moreover, six proposals were received from investment advisors and asset managers for launching of new funds. One fund, namely, Pakistan Strategic Allocation Fund was approved for public subscription and remaining fund managers made preparatory arrangements for public offer.

The Pakistan Strategic Allocation Fund has a capital of Rs. 3 billion. Certificates of Rs. 750 million were offered to the general public while the remaining amount was subscribed by pre-IPO investors. The Fund has an investment policy of adjusting exposure to equity and fixed income securities depending on the value of underlying investments. It is, however, at all times required to adhere to the exposure limits prescribed in the Non-banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

CORPORATE AFFAIRS

Action against Multi-level Marketing and Pyramid Schemes

During the quarter, the SEC identified certain companies that were engaged in unauthorized and unethical business practices and were deceiving the general public. These companies offered high returns to people in a short span of time through schemes that sought referrals and recruitment of new participants.

The multi-level marketing (MLM) and pyramid schemes were meant to fleece individuals falling prey to the incentives offered by these schemes. With a view to safeguarding the interest of general public, the SEC initiated legal action against companies involved in such activities.

In two cases, petitions were filed for winding up whereas five cases have so far been referred to the National Accountability Bureau (NAB) for further investigations. In addition, show cause notices were issued to four companies under Section 309 of the Companies Ordinance, 1984 (Companies Ordinance).

Registration of New Companies

During the quarter, a total of 558 new companies were registered under the Companies Ordinance showing an increase of 14 percent over companies incorporated during the corresponding quarter last year. Of these 558 newly registered companies, 537 were companies limited by shares.

Private companies accounted for 89 percent of the newly incorporated companies, followed by public unlisted and single member companies at 4 percent each. Public unlisted companies exhibited the largest increase among newly incorporated entities followed by foreign companies, unlimited companies, private companies and single member companies as compared to the corresponding quarter last year.

Authorized capital of public unlisted companies, private companies and single member companies registered during the quarter up to 15 September 2004 was Rs. 1,313.6 million, Rs. 6,855.26 million and Rs. 54.6 million respectively. Paid-up capital of public unlisted companies, private companies and single member companies registered during the quarter up to 15 September 2004 was Rs. 52.61 million, Rs. 1,100.72 million and Rs. 6.18 million respectively.

The CRO at Multan registered the largest number of companies as compared to the corresponding quarter last year followed by CROs at Lahore, Karachi and Faisalabad.

Detail of prominent sectors in which new companies were registered during the quarter is given below.

Sector-wise Incorporation of Companies

Sector	No. of Companies
Textile	45
Communication	48
Information Technology	44
Trading	39
Construction	36
Food & Beverages	31
Real Estate Development	32
Transport	27
Brokerage Houses	07

Revised Fourth Schedule to Companies Ordinance Notified

The SEC notified the revised Fourth Schedule to the Companies Ordinance, 1984 to bring it in line with International Accounting Standards (IASs) and accounting disclosure practices the world over. The Schedule lays down the requirements for balance sheet and profit and loss account of listed companies and comprises three parts. Part I contains the definitions and general requirements while Parts II and III contain disclosure requirements for balance sheet and profit and loss account respectively. The revised schedule continues to allow companies to select and adopt the form of balance sheet and profit and loss account which best suits the circumstances.

Salient amendments in the Fourth Schedule include the following:

- Part I of the revised Schedule has been modified for clarity and obsolete information has been deleted.
- In Part II - requirements as to Balance Sheet - certain items have been introduced under the head “Fixed Assets” whereas certain other disclosures have been deleted which have been comprehensively covered under various IASs.
- Disclosure requirements for long-term investments have been restructured and rearranged. Some of the disclosures related to long-term loans and advances have been deleted and various other modifications have been introduced to enhance the scope and to bring the overall disclosure requirements in line with IAS 32. Certain requirements under the head long-term deposits and prepayments in the old Fourth Schedule, binding the companies to defer the expenditure for a maximum period of five years, have been deleted.
- Under the heads “Non-current Liabilities”, “Current Liabilities” and “Contingencies and Commitments”, major sections/subsections have been deleted since most of them have been extensively covered under IAS 32 and IAS 37. Others have been simplified and comprehended for better presentation.
- In Part III - requirements as to profit and loss account - certain requirements have been modified either to provide additional disclosures or for clarity and better understanding. Obsolete information has been deleted for the sake of comprehension of the subject. Moreover, certain disclosures that have been covered under IASs have been deleted to avoid duplication.

Federal Cabinet Approves Amendments in Companies Ordinance

The Federal Cabinet, in its meeting held in September, approved a bill to further amend the Companies Ordinance to remove certain anomalies and inconsistencies in the existing provisions relating to proxies, period prescribed for payment of dividend to shareholders and period for notice to shareholders for holding of general meetings.

According to the amendments, the time period for payment of dividend to shareholders has been reduced to thirty days from forty-five days of the date of declaration. The amendment seeks to ensure rapid disbursement of profits on investment made by members of public listed companies.

Furthermore, the period of notice for convening the general meetings of shareholders has also been reduced from twenty-one days to fourteen days.

Another significant amendment is the permissibility to members of companies limited by guarantee to attend general meetings through proxy. The amendment would allow members of companies limited by guarantee to participate in the companies' affairs.

Performance of the CRO Lahore

Speculation in the real estate sector had, in the past, caused huge losses to investors leaving them with no recourse. During the quarter, the Lahore CRO of the SEC issued notices to all real estate development companies registered with it for submission of details of their business activities including land record etc.

Details collected from companies, including their advertisements in daily newspapers, were sent to the Registration Department at SEC's head office in Islamabad.

Through such efforts, the Commission is gathering data on activities of real state developers so that pre-emptive measures can be taken to save the public from losses.

OTHER NEWS

Launching Ceremony of MBA Programme at NIBAF



Chairman SEC, Dr. Tariq Hassan, addressing the launching ceremony of Joint MBA (Banking and Finance) Programme of Muhammad Ali Jinnah University and Pakistan Institute of Banking and Finance in Islamabad in July.

SEC Becomes Governing Member of IOPS

In July, the Chairman SEC, Dr. Tariq Hassan, attended the Forum on Private Pension Reform in Emerging Economies held in Paris. The Forum, jointly organised by the Organisation for Economic Cooperation and Development (OECD) and the International Network of Pension Regulators and Supervisors (INPRS), elected Dr. Tariq Hassan as a member of the Executive Committee of International Organisation of Pension Supervisors (IOPS) while SEC became its Governing Member.

The Forum included discussions on international principles and standards for private pensions; key challenges and goals for pension supervisors and IOPS; supervisory structures and methods for pension systems; and benefit security in defined contribution plans. Dr. Hassan proposed the establishment of an Emerging Markets Committee in addition to the four committees (Executive, Technical, Regional and Research) presently included in the Articles of Association of IOPS.

The SEC was one of the twenty-four members of the founding assembly, which established IOPS and elected members of its Executive Committee. IOPS would serve as a standard-setting body, promote international cooperation, and provide a worldwide forum for policy dialogue and exchange of information between members of IOPS on pension supervisory and related regulatory issues. It would also assist countries with less developed private pension arrangements through policy dialogue, appropriate technical support and research, in close cooperation with relevant international bodies and other technical assistance programmes.

Chairman SEC Presents WG3's Comments on Draft Principles of Outsourcing of Financial Services

In July, the Chairman, SEC, Dr. Tariq Hassan, presented a report to the Standing Committee-3 (SC3) of the International Organization of Securities Commissions (IOSCO) encapsulating comments on the draft principles of outsourcing of financial services by financial intermediaries. In addition to comments from the SEC, the report included comments from the six member countries of Working Group-3 (WG3) of the Emerging Markets Committee (EMC) of IOSCO.

Dr. Hassan, who is also Chairman of WG3 and ex-officio member of SC3, attended the meeting of SC3, which was held in Toronto, Canada.

He informed the SC3 that comments received from some of the EMC members indicated that outsourcing should be encouraged in areas where it enhances efficiency and facilitates business of financial intermediaries. However, it should be regulated with some caution.

Cross-border outsourcing was highlighted in comments on almost all the principles. Generally, it had been pointed out that some guidelines to determine eligibility of service providers might need to be formulated. Secondly, it was important to address jurisdictional issues.

Launching of AKD Trade's Financial Portal, KASB Direct Online System

During the quarter, two internet-based trading systems were launched to facilitate investors. The AKD Trade's Financial Portal was launched in August in Karachi while KASB Direct Online Trading System was launched in Islamabad in September.

Dr. Tariq Hassan, Chairman SEC, who was chief guest on both occasions, said that the widespread introduction of internet trading facilities would offer significant benefits to investors as well as ensure the development and modernization of our capital market in line with international standards. "It would provide advantages to a variety of subscribers through increased opportunities for trading, efficiency of execution i.e. lower costs and enhanced liquidity", he emphasized.

Dr. Hassan appreciated the two brokerage firms - KASB and AKD - for their initiatives to provide investors with internet-based trading facilities.

Meeting of Working Group on Legal and Regulatory Framework

The Chairman SEC, Dr. Tariq Hassan chaired a meeting of the Working Group on Legal and Regulatory Framework at the Planning Commission in September.

Dr. Hassan, while outlining the Terms of Reference of the Working Group, stressed the need to bridge the gap between law and economics so as to formulate legal and regulatory policies aimed at promoting economic development.

Mr. Omar Ayub Khan, MNA and member of the Working Group, suggested that key sectors in the economy, such as agriculture, industry and services, should be outlined and bottlenecks hampering investment and productivity in these sectors should be identified.

The Working Group consists of about twenty eminent economists and lawyers from around the country, of which the following attended the meeting: Dr. Tariq Hassan, Chairman SEC; Mr. Omar Ayub Khan MNA; Mr. Inaam-ul-Haq, Chairman, Policy Planning Cell, Government of Punjab; Mr. Jamshed Hamid, Former Legal Adviser, Ministry of Foreign Affairs; Mr. Feisal Naqvi, lawyer at Bhandari, Naqvi & Riaz; Mr. Mushtaq Khan, Chief Economist, Citigroup; Mr. Saqib Sherani, Economist, ABN Amro Bank; Mr. Danishmand, Director, IBA; Ms. Ayesha Tammy Haq, corporate lawyer; Mr. Salman Akram Raja, corporate lawyer; Mr. Salahuddin Ahmed, lawyer; and Mr. Adil Anwar, Director Law, SEC. Mr. Asif Sheikh, Chief Economist, Planning Commission is secretary to the Working Group.

SEC-SBP Coordination Committee Meeting held

In September, the 11th Coordination Committee meeting between SBP and the SEC was held in Karachi.

The meeting was attended by the SBP Governor, Dr. Ishrat Husain, the SEC Chairman, Dr. Tariq Hassan, and senior officials of both regulatory bodies.

The meeting discussed issues relating to public offerings, non-deposit of margin by banks and DFIs to brokers and margin financing against shares. The meeting reviewed the affairs of illegal forex companies, unauthorized international brokerage houses and MLM and pyramid schemes.

Thai Trade Delegation Visits SEC



Commissioner SEC, Mr. Etrat H. Rizvi, welcoming members of a Thai Trade Delegation.

A Thai trade delegation visited the head office of the SEC in September. The delegation met Dr. Tariq Hassan, Chairman SEC and other senior officials of the SEC. The delegation was led by His Excellency Mr. Prachuab Chaiyasarn, the Thai Trade Representative, and comprised of twelve other members belonging to different Thai ministries and trade departments.

The delegation was given a detailed presentation on the steps that the SEC has taken as the apex regulator of the capital market and the corporate sector including non-bank financial sector in Pakistan. The reform programme undertaken by SEC to enhance standards and improve governance in the capital market and corporate sector for achieving market integrity were outlined. Similarly, steps being taken in the insurance and non-banking finance sectors were also highlighted. The delegation appreciated the role of the SEC for development of corporate sector, capital market and non-bank financial sector in the country.

Chairman SEC Addresses Annual General Meeting of Leasing Association of Pakistan

In September, the Chairman SEC, Dr. Tariq Hassan, addressed the 9th Annual General Luncheon meeting of the Leasing Association of Pakistan (LAP) at Karachi. He asked the Non-Banking Finance Companies (NBFCs) to duly comply with the NBFC Rules and Prudential Regulations to create a well-organised and well-monitored NBFC regime.

The Chairman SEC said that compliance with the true spirit of laws, rules and regulations including the Code of Corporate Governance was crucial to ensure submission of timely and correct CIB information to SBP. "We have recently received complaints from SBP in this regard and are reviewing the situation," he said. Dr. Hassan stressed the need for improving the internal governance and monitoring operations of NBFCs, particularly the leasing companies when they venture into unorganised sectors and SMEs.

MoU Signed to Set Up Institute of Corporate Governance

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In this regard, a Memorandum of Understanding (MoU) was signed by the founding members to set out their agreement on the need for coordination amongst signatories for the establishment and successful operation of PICG and the nomination of authorized promoters to incorporate and register PICG.

The signing ceremony took place at the conclusion of meeting of the founding members of PICG, chaired by Dr. Tariq Hassan, Chairman, SEC at the Karachi CRO. The meeting was attended by representatives of SBP; the three stock exchanges; Pakistan Banks Association; Federation of Pakistan Chambers of Commerce and Industry; Overseas Investors Chambers of Commerce and Industry; Leasing Association of Pakistan; Modaraba Association of Pakistan; Mutual Funds Association of Pakistan; Management Association of Pakistan; Institute of Business Administration; Institute of Chartered Accountants of Pakistan; and Institute of Cost and Management Accountants of Pakistan.

The founding members would also include Investment Banks Association of Pakistan; Lahore University of Management Sciences; Institute of Chartered Secretaries and Managers; and Institute of Corporate Secretaries of Pakistan. The MoU provides that PICG shall be registered as a company limited by guarantee.

Addressing the participants of the meeting, Dr. Tariq Hassan thanked them for their cooperation and efforts in establishment of PICG, adding that signing of the MoU was a landmark event in Pakistan's corporate history as all key players had come together and resolved to commit their resources to promote good governance practices in the country.

Committee on Demutualization Submits Report to SEC

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Mr. Shamim Ahmad Khan highlighted the salient features of the report as well as the recommendations for demutualization and integration of stock exchanges.

The Chairman SEC appreciated the professional work done by the Committee. While the Committee has solicited the views of brokers, investors and issuers on the matter, the SEC intends to further consult these and various other stakeholders and take into

account their legitimate interests before implementing the recommendations. The final report of the Committee is available on the SEC's website.

Launching Ceremony of Deposit Functionality for Investor Accountholders



Commissioner SEC, Mr. Abdul Rehman Qureshi among others at the launching ceremony of Deposit Functionality for Investor Accountholders at Lahore branch of the Central Depository Company.

Task Force on Takaful Rules Submits Report to SEC

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Takaful business can be conducted under the Insurance Ordinance, 2000 but the rules for its conduct are to be formulated. In this regard, the SEC constituted a Task Force headed by former Chief Justice of Federal Shariat Court, Mian Mahboob Ahmed and comprising Shariah experts.

The task force, after detailed deliberations and consultation with religious scholars and other experts on Takaful, has prepared draft rules for the conduct of Takaful business and has also made recommendations on certain key policy issues with regard to Takaful operations in the country.

The draft rules would be finalized in consultation with the Ministry of Commerce after inviting public comments. The SEC has submitted draft rules to the Ministry of Commerce for its review.

SEC Participates in ITCN Asia 2004 Exhibition



Visitors evincing keen interest in the stall set up by the SEC in the ITCN Asia 2004 exhibition at Karachi in August.

The SEC participated in the ITCN Asia 2004 Exhibition held at Karachi from 9-12 August, 2004. During the course of the exhibition, instant assistance on company incorporation was provided and regulatory issues were explained.

A fast track Company Incorporation Desk for on-the-spot incorporation of companies was established. The SEC's guidance booklets were widely distributed among the participants and the visitors in order to create public awareness.

The main purpose of the SEC's participation was to project the strategic advantages and efficiencies that could be attained through information technology in the corporate sector and to encourage and facilitate investors, both local and foreign, by providing them instant assistance in company incorporation and disseminating information about related regulatory issues.

A number of companies were registered through the fast track Company Incorporation Desk.

'E-services for Submission of Documents at SEC' Programme

The SEC has launched a programme to develop necessary systems and streamline internal processes to provide electronic services to companies.

The project, called "E-services for submission of documents at SEC", shall offer online services including registration of companies; submission of quarterly and annual returns by companies through secured channel; access to information about various companies; registration of complaints; and complaint tracking system in order to make the relevant processes faster and transparent.

The programme will also include certain internal services such as implementation of work flow environment, business process analysis and content management in an effort to bring about greater efficiency and transparency in the internal working of the SEC. Currently in its initial phase, the project will be completed by 2006 and is part of the SEC's efforts to respond readily and effectively to new challenges posed by the communication and information technology revolution.

Investors' Complaints

The SEC received 230 complaints from investors during the quarter. Out of these, 192 were appropriately resolved, whereas 38 complaints were in process as of the close of the quarter.

Most of the complaints received were related 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.

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