NEWSLETTER

Volume II, Issue IV October - December 2002

Pakistan to Chair IOSCO Committee on Financial Intermediaries

In October, the International Organization of Securities Commissions (IOSCO) held its Annual General Meeting in Kuala Lumpur, Malaysia, where Pakistan was elected to chair the Committee on Financial Intermediaries set up by the Emerging Markets Group of IOSCO. Mr. Khalid A. Mirza, Chairman, Securities and Exchange Commission of Pakistan (SEC) represented Pakistan at the meeting. Previously, South Africa had been chairing the Committee on Financial Intermediaries at IOSCO.

Regulation of non-bank financial intermediaries like stock exchanges, leasing companies, investment banks, housing finance companies and mutual funds is among the top priorities of global financial policy makers. Pakistan has made significant progress in the development of the non-bank financial sector in the past few years. Entrusted with the responsibility to chair this important international committee, the SEC plans to set up a Secretariat in Islamabad for this purpose and will take the lead in all matters pertaining to the regulation of financial intermediaries, particularly emphasizing vital areas like capital flows, corporate governance and combating money laundering activities.


IOSCO Update

Presentation to the Asia-Pacific Regional Committee meeting

Regulatory Transfer of NBFIs from SBP to SEC

A coordination meeting of the Securities and Exchange Commission of Pakistan (SEC) and the State Bank of Pakistan (SBP) was held in Islamabad on November 18. During this meeting it was decided that the formal regulatory transfer of Non-Bank Financial Institutions (NBFI) including investment banks, discount houses, housing finance companies, venture capital companies, National Investment Trust (NIT) and Investment Corporation of Pakistan (ICP) along with the relevant records shall take place on December 1, 2002. The transfer of these NBFIs was previously scheduled to take effect from July 1, 2002, but owing to the delay in promulgation of the enabling amendments in relevant laws, it had to be postponed. However, with the recently promulgated amendments in the Banking Companies Ordinance 1962 and the Companies Ordinance, 1984, the legal hitches have been removed and these NBFIs shall, with effect from December 1, 2002, submit required information, returns and statements etc. to the SEC in the same manner and format as was previously prescribed by SBP.

According to the Companies Ordinance, 1984 (as amended through the Companies (Second Amendment) Ordinance, 2002) non-banking finance companies (NBFC) include companies licensed by the Commission to carry out any one or more of the following forms of business, namely:

Investment Finance Services;
Leasing;

Housing Finance Services;
Venture Capital Investment;
Discounting Services;
Investment Advisory Services;
Asset Management Services; and
any other form of business which the Federal Government may, by notification in the official Gazette, specify from time to time.

Earlier this year, SEC notified the Draft Non-Banking Finance Company (Establishment and Regulation) Rules, 2002. The Rules were put up for public consultation in June. Comments and suggestions from the public and stakeholders were considered by the SEC and incorporated in the Rules which have been submitted to the Ministry of Finance.

According to the NBFC rules, an NBFC shall make a separate application to the SEC for grant of license in respect of each business it intends to undertake, as specified in Section 282 A (1) of the Companies Ordinance, 1984. The application shall be submitted to the SEC in Form-II along with a non-refundable processing fee amounting to one hundred thousand rupees for each such license.

Separate tiers of minimum paid-up capital have been prescribed for each form of business to be undertaken by an NBFC which are as follows:

Investment Finance Services	Rs. 300 million	Leasing	Rs. 200 million
Investment Advisory and/or Asset Management Services	Rs. 30 million	Housing Finance Services	Rs. 100 million
Discounting Services	Rs. 200 million		
Venture Capital Investment	Rs. 5 million for a venture capital company and Rs. 50 million for a venture capital fund		

A meeting of the co-ordination committee of the SEC and SBP at the SEC head office in Islamabad in November

SEC Organizes Seminar on Demutualization of Stock Exchanges

On December 24, the SEC organized a seminar on "Demutualization of Stock Exchanges" in Karachi. The purpose of the seminar, which was attended by a large number of capital market stakeholders, was to introduce the concept of demutualization and highlight technical, procedural and regulatory aspects of this structural change for stock exchanges.

Dr. Shamshad Akhtar, Director, Asian Development Bank (ADB), gave a presentation on "Demutualization of Exchanges - The Experience of Asian Markets" as the keynote speaker at the seminar.

Other speakers at the seminar were Mr. Samir Ahmed, Managing Director, Lahore Stock Exchange (LSE), who gave a presentation on "Demutualization: The Exchange Perspective", and Mr. Ali Ansari, CEO, AKD Securities, who spoke about "Commercial Issues and Opportunities of Demutualization".

In his concluding remarks as Chairperson at the seminar, Mr. Khalid A. Mirza, Chairman, SEC said, "It is not my intention to direct the stock exchanges to demutualize, or to even recommend that the stock exchanges should demutualize. There will be no directive or fiat from the SEC in this connection. All I am asking the stock exchanges to do is to very seriously consider demutualization, i.e. the process of conversion from being non-profit, member-owned bodies to for-profit, shareholders-owned ordinary corporates. Typically, demutualized exchanges are far more effect-ive in managing conflicts among market participants, ownership and trading rights are separated and the aim is to maximize residual enterprise value accruing to share holders rather than trying to preserve the current revenue stream of members. The stock exchanges must seriously examine the pros and cons of demutualizing and also engage in a dialogue with the regulator in this connection." He further said, "Whatever be the decision, whether to demutualize or not, it should at least be a decision taken after careful consideration, and not simply an emotive response based on subjective feelings."

From left: Mr. Haroon Sharif, Executive Director, SEC, Mr. Shahid Ghaffar, Commissioner, SEC, Dr. Shamshad Akhtar, Director, ADB, Mr. Khalid A. Mirza, Chairman, SEC, Mr. Samir Ahmed, Managing Director, LSE and Mr. Ali Ansari, CEO, AKD Securities at the seminar on "Demutualization of Stock Exchanges" organized by the SEC in Karachi in December.

Below: Audience at the seminar.

Meetings of the Capital Market Consultative Group

Two meetings of the consultative group were held during the quarter in Karachi and Islamabad, which were presided over by Chairman SEC, Mr. Khalid A. Mirza. The Chairman informed the participants that SEC has already placed the road map for phasing out Carry-over Trade (COT) transactions market with margin financing on its web site. He further informed the group that some of the market participants have expressed their apprehension about the possibility of abuse in connection with cash settlement of future contracts. The group members discussed the issue at length and it was decided that the "Sub-Committee of the Group", which has developed the road map for phasing out COT transactions, should look into concerns of the market participants and come up with recommendations keeping in view the requirements of the local market without compromising on international standards.

The Group also considered the need to activate Over-the-Counter (OTC) market for the small cap and illiquid scrips. It was recommended that debt securities should also be included for trading on the quote driven OTC market. Some of the Group members pointed out certain anomalies which are hindering trading of debt securities in the secondary market. They also pointed out that trading by Banks/Development Finance Institutions (DFI) in the listed Term Finance Certificates (TFC) was done outside the exchanges in violation of the securities laws. Chairman SEC assured the Group that the Commission would look into the matter and would take appropriate steps.

In order to ensure transparency and fair play, as well as to protect the interests of investors, the need for separation of proprietary trading from trading on behalf of clients was emphasized. It was agreed that client assets must be segregated from the broker's assets. It was also agreed that client identification should be made obligatory.

It was proposed that stock split should be introduced as this would help improve liquidity in individual stocks. Chairman SEC assured that the Commission would look into the issue on a priority basis. In this connection, the Group also discussed the possibility of rationalization of the Central Depository Company charges.

Mr. Mirza informed the Group of the steps SEC intends to take to check money laundering to strengthen international efforts against the use of the capital market for illicit purposes and to prevent financial crimes. He briefly introduced the anti money-laundering unit set up at the SEC and asked the Group members for necessary suggestions in this respect. The Group felt that brokers should be careful in dealing with clients and should take appropriate step to ensure that they are dealing with clean money. In this connection, it was recommended that all monies received and paid by brokers should be made through banking channel. Furthermore, brokers should also "Know their Clients" and should have necessary account opening forms completed by each client.

Insurance Rules 2002 Notified

In February 2002, the SEC notified the draft Insurance Rules for soliciting views/comments of the interested public as well as the insurance industry. Comments/suggestions received on the draft rules from the insurance industry/general public were considered by SEC and necessary changes were incorporated in the draft rules.

On December 16, 2002, SEC notified the Securities and Exchange Commission (Insurance) Rules, 2002 which came into force immediately.

The rules have been made to carry out the purposes of the Insura-nce Ordinance, 2000 and cover important operational matters rela-ting to accounting, reporting, actuarial report, reinsurance arrange-ments, independent insurance survey and market conduct etc. as applicable to life and non life insurance companies. The rules also specify the solvency requirements for the insurers (i.e. solvency margin as well as admissibility of assets for the purposes of calculat-ing the solvency margin). The notification of these rules has been made through the Gazette of Pakistan dated December 23, 2002.

Two Mutual Funds Launched

United Bank Limited (UBL) launched the United Money-Market Fund (UMF) and units of UMF were offered to investors for subscription from November 1. The launch of UMF that targets both individual as well as institutional investors is expected to further deepen the market. UBL, which is the primary investor of the fund, has contributed the seed capital of Rs 250 million.

During the quarter, Abamco Limited also launched the Unit Trust of Pakistan (UTP)-Islamic Fund to cater to the demand of Shariah compliant investors. With the launch of UMF and UTP-Islamic Fund, the number of open-ended funds increased to seven as against two a year ago.

Furthermore, Abamco and Pakistan Industrial Credit and Investment Corporation Limited (PICIC), during the quarter, acquired the management rights of 25 mutual funds from Investment Corporation of Pakistan (ICP).

Consequent to all these changes, the number of state-run funds reduced to two and those managed by private fund managers increased to 42. Currently, the mutual funds market is worth over Rs. 31 billion and offers significant potential for growth.

From left: Mir Mohammad Ali, Head of Corporate Finance, UBL; Mr. Amer Zafar Khan, President, UBL, Mr. Khalid A. Mirza, Chairman, SEC; Mr. Shaharyar Ahmad, Group Head, Investment Banking, UBL; and Mr. Hanif Jhakura, CEO, CDC.

Seminar on "Commercial Financing of Infrastructure Projects"

A seminar on "Commercial Financing of Infrastructure Projects" was jointly organized by the Communication and Works Department, Government of Punjab, Pak-Kuwait Investment Company (Pvt.) Limited and AMZ Securities (Pvt.) Limited in Lahore in October. The seminar was chaired by Lt. Gen. (R) Khalid Maqbool, Governor, Punjab.

Addressing the audience at the seminar Mr. Etrat Rizvi, Commissioner, who represented SEC, said, "I am happy to say that we have the examples of rupee as well as dollar securitization in the recent past and SEC will be happy to support efforts in assisting persons desirous of forming companies or special purpose modarabas or an SPV (Special Purpose Vehicle)".

Mr. Etrat Rizvi, Commissioner, SEC, addressing the audience at the seminar jointly organized by the Communication and Works Department, Government of Punjab, Pak-Kuwait Investment Company (Pvt.) Limited and AMZ Securities (Pvt.) Limited in Lahore in October.

Guidelines for the Issue of Commercial Paper

In order to further develop and broaden the money market and provide an additional financial instrument to investors, the SEC has developed and issued "Guidelines for the Issue of Commercial Paper".

Commercial Paper is a short-term promissory note issued by corporations with a minimum credit rating of A- in long-term and A2 in short-term. Commercial Papers are typically used for financing working capital requirements. Through these guidelines, the SEC has notified the eligibility, the period and size, the mode of issue, the expenses and the investors in Commercial Papers.

According to these guidelines, the maturity of a Commercial Paper is to be between 30 days and one year while the equity of the issuing company should not be less than Rs. 100 million as per its latest audited balance sheet. The guidelines have also set out the minimum size of the issue of a Commercial Paper to be not less than Rs.

10 million and that it is to be issued at a discount set by the issuer, keeping in view the prevailing t-bill rates and the credit rating.

The guidelines provide the necessary regulatory framework and procedure for issue of a Commercial Paper by corporations under Section 120 of the Companies Ordinance, 1984. A copy of the guidelines is also available at the SEC website.

Amendments in Companies Ordinance, 1984

Earlier this year, the SEC had undertaken a comprehensive review of the Companies Ordinance, 1984, which was long over due as it was found deficient, in many respects, to meet the current problems in the corporate sector in the changed scenario. For this purpose, the SEC appointed a committee in January 2001, which thoroughly reviewed the 1984 Ordinance. The committee made an objective study and submitted its report wherein a number of amendments in the Ordinance were recommended.

The proposed amendments were widely circulated, inviting suggestions from professional accounting bodies, trade organizations, stock exchanges and legal experts. The proposals were also placed on the Commission's website and released to the press. A roundtable conference of corporate experts, professionals, businessmen and representatives of stock exchanges and trade organizations was also held in Lahore earlier this year for seeking their point of view on the proposed amendments. The comments received from the professional bodies, legal experts and other relevant quarters were considered and appropriate changes were made in the draft law.

The amendments mainly relate to introduction of the concept of single members of private companies and reduced number of directors of public companies, providing right of appeal against refusal of transfer of shares by the directors, empowering the SEC to rectify the register of mortgage to be maintained by the registrar and companies, reduction in period to present annual audited accounts in annual general meetings of companies, providing copies of minutes of meetings to the directors, appointment of qualified company secretary by listed companies, streamlining and simplifying the provisions relating to investment in associated companies, quorum of listed companies, winding up of companies, removal of auditors, preparation of accounts of subsidiaries of listed companies and consolidation of accounts to bring it in conformity with International Accounting Standards.

All the amendments suggested by the SEC in the Companies Ordinance, 1984, with a view to update the law and remove practical difficulties have been approved by the cabinet. This would help in smooth working of the Commission, development of corporate sector, stabilizing the stock market, protection of interest of investors and removing certain abnormalities.

IAS 39 made Fully Applicable to Mutual Funds

The International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement" was adopted by the SEC in July 2001 to further improve the financial reporting framework of listed companies in Pakistan. IAS 39 established principles for recognizing, measuring and disclosing information about financial assets and financial liabilities. The principles contained in IAS 39 have been adopted in other jurisdictions as well, including UK and Singapore, where comparable national standards have been issued.

Taking cognizance of tax anomalies that may arise from full application of IAS 39, SEC allowed the mutual funds sector to recognize unrealized gain on investments held for trading directly in equity although the same is required by IAS 39 to be included in the profit/loss for the year. The relaxation was given to mutual funds in consideration of tax implications arising from inclusion of unrealized gain in income statement.

The SEC actively pursued this issue with the Central Board of Revenue (CBR) so that income of mutual funds is bifurcated as revenue and capital gains for the purpose of applicability of tax. Pursuant to suitable amendments made in the Income Tax Ordinance by the CBR, as proposed by the SEC, the SEC withdrew the relaxation to mutual funds.

As a result, mutual funds are now required to fully comply with IAS 39 in preparing and presenting their financial statements. Accordingly, quarterly accounts for the period ending December 31, 2002 will have to be prepared in accordance with IAS 39. It is expected that full implementation of IAS 39 will enhance the quality of our corporate financials and will bring them closer to international standards.

Seminar on “Capital Markets - the Road Ahead”

A seminar titled “Capital Markets - the Road Ahead”, arranged by Daily Times and Saudi Pak Industrial and Agricultural Investment Co. (Pvt.) Limited (SAPICO) was held in Karachi in November. Speakers at the seminar included, Mr. Muddassar Malik, Director Equities, BMA Capital Management, Mr. Nasir Bukhari, Chairman of Khadim Ali Shah Bukhari & Co., and Iqbal Latif, a Paris-based investor and Director on the Board of Daily Times. Mr. Rasheed Zahir, CEO, SAPICO presented the introductory remarks.

Speaking as chief guest at the occasion, Mr. Khalid A. Mirza, Chairman, SEC said, “While our market is automated, online trading and ECNs (Electronic Communication Network) have yet to emerge. I will certainly encourage the emergence of ECNs and ATSs (Automated Trading System). We will, of course, have to develop a regulatory framework for online trading.”

Quarterly Stock Market Indicators

	July—Sep 2002	**Oct—Dec 2002**
KSE 100	2,019 on September 30	2701.42 on December 31
Market Capitalization	Rs. 463.65 billion	Rs. 595.206 billion
Average Daily Traded Volume	Rs. 4.84 billion	Rs. 10.01 billion
Average Daily Turnover	107.8 million	245.49 million
Term Finance Certificates (TFC)	8 issues	5 issues
Total amount offered in	Rs. 4.585 billion	Rs. 2.150 billion

TFCs		
Initial Public Offerings	Nil	Rs. 0.250 billion
Total Public Offering	Rs. 4.585 billion	Rs. 2.4 billion

Anti-Money Laundering Unit at the SEC

As part of the Commission's developmental initiatives, the SEC-AML (Anti-Money Laundering) Unit has formally become operational. The Unit has been established under the World Bank Technical Assistance to the Government of Pakistan for a four-year project on Banking Sector Reform (TABS).

With the increasing emphasis and global sensitivity about combating money laundering, the World Bank has allocated US$350,000 of this assistance to SEC for creating awareness and strengthening the institutional capacity of the regulator for minimizing potential of money laundering in the non-bank financial market and the corporate sector.

The project will review and recommend amendments in laws, regulations and rules enforced by SEC in order to bring our regulatory framework in conformity with international best practices for combating financial crimes. These changes in the regulatory framework will focus on detection/prevention of activities relating to money laundering e.g., irregular financial transactions, reporting customer identification, record keeping standards, internal policies and controls and verification of accounts.

Headed by the Executive Director (Chairman's Secretariat), the SEC-AML Unit comprises of two officers Bilal Rasul (Project Manager) and Maryam Tanwir (Research Associate) who focus on institutional capacity building, coordinating consulting assignments, and conducting research on various aspects of money laundering.

As part of the project, SEC intends to create awareness among key stakeholders, such as creditors and institutional investors, through publications and seminars for the public at large in order to develop their understanding of the main perspectives and framework of anti-money laundering laws and issues. Research studies and reports on best practices for development of a more transparent capital market will also be developed under the project.

Chairman and Executive Director's visit to US

Mr. Khalid A. Mirza, Chairman, SEC and Mr. Haroon Sharif, Executive Director, SEC, made a study tour to the UK and USA to meet with key institutions involved in addressing the issues relating to money laundering. They had in depth meetings at the Financial Services Authority, UK, Department of International Development, UK, The World Bank Group, US Treasury Department, Department of State, USA and US SEC. The discussions held during this visit will form the basis of a strategy to strengthen regulatory framework with an aim to eliminate any "bad smell" from our financial market.

Individual Consultant hired in AML unit

Maryam Tanwir has been hired by the World Bank in the capacity of Consultant/Research Associate, and will be working for the AML unit in the SEC. Her main responsibilities will be the review of existing theoretical and empirical work on money laundering, creation of a resource center for information, preparation of working papers, and publication of information on money laundering.

Video Conference by the World Bank and IMF

A video conference jointly organized by The World Bank and International Monetary Fund (IMF) was held at the World Bank office in Islamabad on October 23, 2002 as part of a Global Dialogue series on Combating Money Laundering and Terrorist Financing Activities. The participants represented key institutions from the World Bank Group, Maldives, Sri-Lanka and Pakistan. Haroon Sharif, Executive Director, Ayub Qureshi, Director, and Bilal Rasul, Manager, AML Unit represented SEC at this video Conference. Haroon Sharif made a brief presentation and informed the participants about various steps taken by the Commission to improve governance, transparency and efficiency of the financial market in Pakistan. The dialogue discussed the responses of participating countries to combating the issue and the institutional alignments established by each country to monitor, investigate and prosecute suspicious transactions.

Trainings on Money Laundering

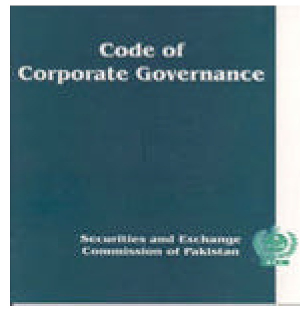
Various domestic and international trainings related to money laundering took place in this quarter. Mr. Shahid Ghaffar, Commissioner, attended a training course on "Principles and Multilateral MOU of IOSCO" in Spain; Ms. Rahat Konain, Executive Director, attended a workshop organized by the Asia Pacific Group on "Money Laundering Methods and Typologies" in Canada; and Mr. Abdul Rehman Qureshi, Commissioner attended a training course on "Securities Enforcement and Market Oversight" organized by the US SEC in Washington D.C., USA.

A Bank mission comprising a Procurement Specialist and a Disbursement Specialist conducted a two-day Procurement and Disbursement Workshop from October 31 to November 1 at the SBP office in Karachi. Mr. Bilal Rasul, Project Manager (TABS) and Mr. Imran Saif, Accounts Officer (TABS) represented SEC at the workshop, which focused on the procedures and guidelines that need to be followed by borrowers when procuring goods and services, hiring consultants, and claiming reimbursement of funds.

SEC-UNDP Project on Corporate Governance

During the past few years, the financial and corporate landscape has undergone significant changes. East Asian financial crisis and the recent accounting scandals involving corporate giants, like Enron, have brought the issue of corporate governance to centre stage. Corporate governance is largely understood as a set of relationships between the various stakeholders of a company within an institutional framework. Good corporate governance seeks to create a framework that encourages all participants to contribute towards better corporate performance through an alignment of their objectives. It entails overall management of a company to increase shareholder value while protecting the interests of other stakeholders.

Corporate governance has positive impacts on both micro- and macro-economic factors within a country. It improves transparency and accountability within a corporate entity, which promotes confidence of investors in corporate management and leadership. While this helps companies raise capital, it also leads to availability of accurate and timely information, which is essential for stability of the financial system. Adherence to good corporate governance practices helps to attract long-term "patient" foreign capital as well as diversified domestic investors, which leads to a reduction in cost of capital, provides more stable sources of financing and facilitates the broadening and deepening of local capital markets. This is vital for sustained economic growth of the country.



Realizing the need for corporate governance, countries all across the world are endeavouring to promote good corporate practices. In Pakistan, the SEC issued the Code of Corporate Governance ("the Code") in March 2002, which was subsequently incorporated in the listing regulations of the three stock exchanges. The objective of the Code is to create an institutional system, which protects the interests of various stakeholders and thus provides an environment that is conducive to investment. At present, the Code is applicable to listed public companies only.

Subsequent to issuance of the Code, the SEC signed a Memorandum of Understanding with Economic Affairs Division (EAD) and United Nations Development Programme (UNDP) in August 2002 to launch the SEC-UNDP Project on Corporate Governance. Under this umbrella, UNDP shall provide technical and financial assistance to the SEC in developing and implementing good corporate governance practices and establishing a sound regulatory framework for the corporate sector in Pakistan. A total assistance of US$ 100,000 has been committed to the SEC under this one-year Project, which will end in July 2003.

The main objective of the Project is to introduce and encourage compliance with good corporate governance practices in Pakistan. To achieve this objective, the activities under the Project have been categorized as follows:

1. Implementation of Code of Corporate Governance

2. Creating Stakeholder Awareness

3. Capacity Building of the SEC

4. Networking with other Emerging Markets

Under the above components, the SEC will conduct seminars to seek participation of various stakeholders and professionals in effective enforcement of good corporate governance practices embodied in the Code. In addition, a research study will be conducted for harmonization of the provisions of the Code with corporate laws. Appropriate amendments in corporate laws will be recommended based on the outcome of this study. A short-term consultant will also be appointed for evaluation of the state of corporate governance in Pakistan and effects of the Code on the organizational and operational efficiency of a sample of listed companies.

In order to ensure due participation of stakeholders in the corporate governance system, it is essential to broaden their understanding of the subject. In this regard, a conference will be held under the Project to discuss significant corporate governance issues; workshops will be arranged to acquaint directors and senior management of listed companies with their statutory and fiduciary duties; brochures and guidelines will be published and circulated among the various stakeholders to develop their knowledge and understanding of the main perspectives and framework of corporate governance; and keeping in view the international best practices, the Terms of Reference followed by a feasibility report for setting up an Institute of Corporate Governance in Pakistan will be developed. The institute is envisaged to be an independent professional organization that will focus on major corporate governance issues. It will, among other things, provide an independent forum for debate and dialogue between directors, stakeholder, academics and legislators; undertake public awareness campaigns; conduct educational seminars and information sessions; facilitate professional development of companies' management through education and training; and advise on the formulation of corporate governance policy and development of best practices.

The regulatory capacity of the SEC will be strengthened for efficient enforcement of good corporate governance practices in Pakistan. Training will be imparted to the officers of the SEC to enhance their understanding of key governance issues, familiarize them with latest international developments and augment their regulatory and enforcement capabilities. Moreover, a Corporate Governance Cell will be set up within the SEC. The Cell will primarily be responsible for undertaking research and awareness campaigns related to corporate governance, issuing quarterly publications on the state of corporate governance in Pakistan and the development of a corporate governance index.

The Project will also involve information sharing and identification of mutually beneficial collaboration arrangements with other emerging markets, especially in Asia. A continuous consultation will be encouraged through agreements with international corporate governance networks and research centers. It will help the SEC to keep pace with international developments on the topic and to participate in an interchange of views of prioritized issues.

Project Team

As the implementing agency, the SEC has appointed a core team for the administration and management of the project, which has commenced work in regular liaison with UNDP. The project team consists of Mr. Haroon Sharif, Executive Director as the National Component Director, Ms. Jaweria Ather, Director as the Project Manager, and Mr. Shahnawaz Mahmood as the Research Officer.

A Steering Committee has also been set up to represent major stakeholders. With an overall objective to review the project and provide policy guidelines, the Committee met in October 2002 and will meet again for subsequent review. The Committee comprises Mr. Khalid A. Mirza, Chairman, SEC; Mr. Önder Yücer, Resident Representative, UNDP; Mr. Shamim Ahmad Khan, Director, International General Insurance Limited; Mr. Shahid Hussian, Chairman, Service Industries Limited; and Mr. Basheer Chowdry, Vice Chairman, Leasing Association of Pakistan. Mr. Mirza has been appointed as the Chairman of the

Committee.

From left: Mr. Basheer Chowdry, Vice Chairman, Leasing Association of Pakistan; Mr. Shahid Hussain, Chairman, Service Industries Limited; Mr. Shamim Ahmed Khan, Director, International General Insurance; Mr. Khalid A. Mirza, Chairman, SEC; Mr. Önder Yücer, Resident Representative, UNDP; Mr. Farhan Sabih, Chief, Governance and Gender Unit, UNDP and Mr. Haroon Sharif, Executive Director, SEC at the first meeting of the Steering Committee held at the SEC head office in Islamabad in October.

Corporate Governance Cell at the SEC

To establish a Corporate Governance Cell within the SEC, Mr. Shahnawaz Mahmood was appointed as Research Officer in November . Within the Corporate Governance Cell, a resource center is being developed, which contains reference material and information on Corporate Governance. While research data will become a part of the center, relevant information is planned to be made available online as well. For this purpose an electronic library is being created.

Workshop on Responsibilities of Directors and Management of Listed Companies

For the benefit of directors and management of listed companies, a workshop was organized in Islamabad on December 28 in collaboration with Az Zaman Advocates and Legal Consultants, a firm of corporate lawyers. The main objective of this workshop was to enhance awareness of directors and management regarding their statutory and fiduciary responsibilities. Mr. Önder Yücer, Resident Representative, UNDP was chief guest at the occasion. The workshop was limited to 30 participants who greatly appreciated the efforts of the SEC to promote good corporate governance in the country.

The workshop began with an introduction to corporate governance and its importance by Mr. Khaliq-uz-Zaman Khan, Partner of Az Zaman. Two guest speakers, Mr. Adi. J. Cawasji, Company Secretary of Packages Limited and Mr. Kaiser H. Naseem, former President of SME Bank had been invited to share their views with the participants. Mr. Cawasji discussed the powers, duties and responsibilities of directors while Mr. Naseem presented a detailed analysis of effects of corporate governance on business and economy. While extensive Question and Answer sessions were incorporated, an important component of the workshop was discussion on a local and a foreign case study on Taj Company and Mirror Group respectively. The case studies provided participants with real world examples. The participants enthusiastically took part in the ensuing group discussions.

In concluding the workshop, Mr. Yücer reiterated the commitment of UNDP to work for the promotion of good corporate practices and highlighted the recently launched initiative on Global Compact.

From left: Mr. Khaliq-uz-Zaman Khan, Partner at Az Zaman, Mr. Önder Yücer, Resident Representative, UNDP, Ms. Jaweria Ather, Director, SEC, Mr. Kaiser H. Naseem, former President, SME Bank and Mr. Haroon Sharif at the workshop on "Responsibilities of Directors and Management of Listed Companies" arranged by the SEC in Islamabad in December.

Below: Participants of the workshop

Seminar on "Strengthening Corporate Governance in Pakistan"

In order to broaden the understanding of stakeholders about the main perspectives and framework of corporate governance, a seminar chaired by Mr. Khalid A. Mirza, Chairman, SEC, was held in Lahore on November 28. Mr. M. A. Shah, Country Director, ADB Pakistan Resident Mission, presented "ADB's Strategy for Improving Governance of Financial Markets" while Ms. Catherine Martens Malik, who is a former Director of Schroder Investment Management, UK, presented "A Foreign Fund Manager's Perspective on Corporate Governance". The seminar also focused on the "Role of Non-executive Directors in Corporate Governance", which was discussed in detail by Mr. Shamim Ahmad Khan who is a non-executive director in certain companies besides being the former Chairman of the SEC.

The seminar was well attended with extensive representation from all walks of society, including businessmen, representatives of stock exchanges, chamber of commerce, investment and commercial bankers and academia.

In his concluding address, Mr. Mirza said, "In the context of Pakistan, a true and fair view is impossible to obtain unless due cognizance is taken of transfer pricing and over- and under-invoicing which are known to be rampant in the corporate sector, even among multi-nationals. I think an auditor must certify that adequate checks have been applied to determine the possible effects of these ills, if any."

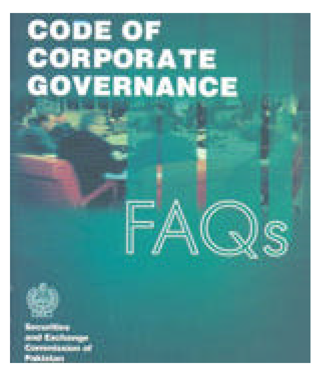
Mr. Mirza further highlighted the importance of corporate governance and reforms undertaken by the SEC in this regard. He also discussed the steps contemplated by the SEC for strengthening good corporate governance practices.

From left: Mr. Haroon Sharif, Executive Director, SEC; Mr. M. A. Shah, Country Director, ADB Pakistan Resident Mission; Ms. Catherine Martens Malik, former Director of Schroder Investment Management, UK; Mr. Shamim Ahmed Khan, former Chairman, SEC; and Mr. Khalid A. Mirza, Chairman, SEC addressing the audience at the seminar on "Strengthening Corporate Governance" arranged by SEC in Lahore in November.

Below: Audience at the seminar.

Publication of Frequently Asked Questions on the Code of Corporate Governance

In order to elucidate the provisions of the Code, Frequently Asked Questions (FAQs) on the Code were compiled. These FAQs have been published and circulated among listed companies as well as placed on the SEC website. The FAQs provide clarification in response to various questions of the business community regarding application of the Code. The corporate sector has widely commended the efforts of the SEC in assisting companies to better apply and implement the requirements of the Code.



Study Tour

A study tour to leading institutions that are actively involved in furtherance and development of corporate governance in Singapore, Malaysia and Hong Kong was arranged in November 2002. This study tour was undertaken by three officials of the SEC who met the representatives of stock exchanges, regulators, donor agencies, institutes of directors and institutes of corporate governance in the respective jurisdictions. The study tour is focused on studying regional developments in corporate governance, seeking collaboration of other jurisdictions on corporate governance issues in Pakistan, gauging the standard of corporate governance in Pakistan and identifying future areas of focus based on international experiences. Mutually beneficial discussions on issues pertinent to corporate governance were held during the course of the study tour.

Future Activities

The following activities have been planned under the Project for the quarter ending March 31, 2003:

- A research study to determine overlap between the Code and other corporate laws in Pakistan and to recommend suitable amendments in relevant laws;

- Policy-oriented research on significant aspects of corporate governance, including research on 'Institutional Ownership in Pakistan and its role in Corporate Governance';

- A feasibility study for establishing an Institute of Corporate Governance in Pakistan;

- Seminar and workshops in major cities of the country; and

Networking with other emerging markets.

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