Securities and Exchange Commission of Pakistan
NIC Building, Jinnah Avenue, Islamabad-44000, Pakistan
Tel: +92-51-9207091 - 4
Fax: +92-51-9204915
E-mail: headquarters@secp.gov.pk
Web: www.secp.gov.pk

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Design: CHANNEL 7 COMMUNICATIONS

ANNUAL REPORT 2003

ANNUAL REPORT 2003

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

بسم الله الرحمن الرحيم

This report has been prepared in pursuance of Section 25 of the Securities and Exchange Commission of Pakistan Act, 1997 for the purpose of reporting the activities and performance of the Securities and Exchange Commission of Pakistan during the period 1 July, 2002 to 30 June, 2003.

Abbreviations and Acronyms

ADB	Asian Development Bank
AGM	Annual General Meeting
AKFED	Aga Khan Fund for Economic Development
ALICO	American Life Insurance Company (Pakistan) Limited
AMLU	Anti-Money Laundering Unit
CCFS	Corporate Compliance and Facilitation System
CDC	Central Depository Company of Pakistan Limited
CEO	Chief Executive Officer
CGU	Commercial General Union International Insurance Plc.
CLA	Corporate Law Authority
CLAD	Company Law Administration Division
CMS	Complaints Monitoring System
COI	Certificate of Investment
Cost Audit Rules	Companies (Audit of Cost Accounts) Rules,1998
COT	Carry-over Trade
CRCS	Corporate Registration and Compliance System
CRO	Company Registration Office
CRS	Corporate Registration System
CS	Chairman's Secretariat
CU	Commercial Union Life Assurance Company (Pakistan) Limited
DMMF	Dawood Money Market Fund
EFU	EFU Life Assurance Limited
EMD	Enforcement and Monitoring Division
ETO	Electronic Transactions Ordinance, 2002
FMGP	Financial Markets and Governance Programme
HBFC	House Building Finance Corporation
IAS	International Accounting Standard
ICAP	Institute of Chartered Accountants of Pakistan
ICMAP	Institute of Cost and Management Accountants of Pakistan
ICP	Investment Corporation of Pakistan
ID	Insurance Division
IGI	International General Insurance Company of Pakistan Limited
Insurance Rules	Securities and Exchange Commission (Insurance) Rules, 2002
Insurance Ordinance	Insurance Ordinance, 2000
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offer
ISE	Islamabad Stock Exchange
ISLAP	Institute of Surveyors and Loss Adjusters of Pakistan
IT	Information Technology
JEIS	Junior Executives Induction Scheme
KSE	Karachi Stock Exchange
KSE-100 Index	Karachi Stock Exchange 100 Shares Index
LAN	Local Area Network
LSE	Lahore Stock Exchange
LUMS	Lahore University of Management Sciences
METRO	Metropolitan Life Assurance Company of Pakistan Limited
MIS	Management Information System
Modaraba Ordinance	Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980
Modaraba Rules	Modaraba Companies and Modaraba Rules, 1981

MoU	Memorandum of Understanding
MSF	Metro Bank Pakistan Sovereign Fund
MSS	Market Surveillance Software
MSW	Monitoring and Surveillance Wing
NAV	Net Asset Value
NBFC	Non-Banking Finance Company
NBFCD	Non-Banking Finance Companies Division
NBFC Rules	Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003
NCEL	National Commodity Exchange Limited
NCSS	National Clearing and Settlement System
NDLC	National Development Leasing Corporation
NICL	National Insurance Company Limited
NIT	National Investment Trust
NI(U)T	National Investment (Unit) Trust
NJI	New Jubilee Insurance Company Limited
OTC	Over-the-Counter
Policy Board	Securities and Exchange Policy Board
PRCL	Pakistan Reinsurance Company Limited
Pre-IPO	Pre-Initial Public Offer
SAFA	South Asian Federation of Accountants
SBP	State Bank of Pakistan
SEMF	State Enterprises Mutual Fund
SLIC	State Life Insurance Corporation
SMC	Single Member Private Limited Company
SMD	Securities Market Division
SPV	Special Purpose Vehicle
SSD	Support Services Division
TA	Technical Assistance
TFC	Term Finance Certificate
The Act	The Securities and Exchange Commission of Pakistan Act, 1997
The Commission	The Securities and Exchange Commission of Pakistan
The Companies Ordinance	Companies Ordinance, 1984
TRG	The Resource Group
UMMF	United Money Market Fund
UNDP	United Nations Development Programme
UK	United Kingdom
USA	United States of America
UTP	Unit Trust of Pakistan
VC	Vigilance Cell
WAN	Wide Area Network

CONTENTS

ANNUAL REPORT 2003

Chairman's Message ... i

1. The Organization ... 2
2. Chairman's Secretariat ... 6
3. Securities Market Division ... 16
4. Non-Banking Finance Companies Division ... 36
5. Enforcement and Monitoring Division ... 60
6. Company Law Administration Division ... 76
7. Insurance Division ... 92
8. Support Services Division ... 106

Annexure A: Organizational Chart
Annexure B: Organizational Structure as on 30 September, 2003
Annexure C: Management Directory
Annexure D: List of Publications
Annexure E: Lists of Tables And Charts

and experienced professionals. During the year, thirty-five professionally qualified individuals were recruited in various Divisions of the Commission at varying levels of authority. A batch of eight officers was also hired under the Junior Executives Induction Scheme, which generated considerable interest among young professionals. The Commission continued its emphasis on developing human skills and officials were sent on international and local training programmes, workshops and conferences to augment their capabilities.

The achievements of the Commission are no doubt a reflection of the unyielding commitment and tireless dedication of its management and employees. I wish to thank the members and staff of the Commission for the high level of professionalism, enthusiasm and commitment to our work during the year. While appreciating both their efforts and achievements, I also wish to solicit their support for meeting challenges that lie ahead.

The continuing challenges of the Commission include the following:

i widening and deepening the capital market;
ii broadening the equity base;
iii developing the corporate debt market;
iv developing specialized financial services, i.e. NBFCs and insurance;
v establishing principles for good corporate governance, strengthening risk management measures and encouraging corporate social responsibility and socially responsible investing;
vi improving regulatory compliance and strengthening enforcement;
vii strengthening professional support services to the corporate sector;
viii developing a comprehensive and integrated policy framework for the holistic regulation of the financial sector;
ix facilitating the integration of Pakistani market with global markets;
x raising national regulatory standards to conform to international standards and best practices to the extent possible and desirable;
xi facilitating resolution of corporate disputes; and
xii capacity building of the Commission.

ANNUAL REPORT 2003

1 The Organization

- Organizational Structure
- Securities and Exchange Policy Board
- Divisions and the Management Team

1. THE ORGANIZATION

1.1 Organizational Structure

The Securities and Exchange Commission of Pakistan (the Commission) was established in pursuance of the Securities and Exchange Commission of Pakistan Act, 1997 (the Act) and became operational on 1 January, 1999. It succeeded the Corporate Law Authority (CLA), which was a Government department attached to the Ministry of Finance. The establishment of the Commission represents an important milestone in development of the regulatory framework of the capital market in Pakistan.

During the year under review, Mr. Khalid A. Mirza, who had been Chairman of the Commission since March 2000, completed his three-year tenure and Mr. Abdul Rehman Qureshi, the senior most Commissioner took over as Acting Chairman. On 18 August, 2003, the Government of Pakistan appointed Dr. Tariq Hassan as the Chairman of the Commission. The Commission presently consists of five Commissioners, including the Chairman.

Dr. Tariq Hassan, prior to his appointment as Chairman of the Commission, was the Adviser to the Federal Minister for Finance on matters pertaining to law and economics/finance. A lawyer by profession, he holds Master's and Doctoral degrees from Harvard Law School, United States of America (USA). Dr. Hassan possesses extensive experience in corporate and capital market reforms. In his career of over twenty-eight years, he has worked in Pakistan, USA, Italy and United Kingdom (UK) in both private and public sectors as an advocate, consultant, adviser and educationist.

Mr. Abdul Rehman Qureshi is a lawyer with expertise in the regulation and administration of corporate laws. He has been associated with the CLA since 1976. During the year under review, Mr. Qureshi was overseeing the Enforcement and Monitoring Division (EMD), the Administration Wing and the Human Resource Wing within the Commission.

Mr. Zafar-ul-Haq Hijazi was a practicing chartered accountant prior to joining the Commission in 1999. During the period under review, he was the Commissioner overseeing the Company Law Administration Division (CLAD).

Mr. Shahid Ghaffar, who was the Managing Director of the Karachi Stock Exchange (KSE) prior to joining the Commission, oversees the Securities Market Division (SMD). He has wide exposure in all aspects of securities market operations and stock exchange regulations.

Mr. Etrat H. Rizvi, prior to his appointment as Commissioner in July 2002, was the Managing Director, National Development Leasing Corporation (NDLC). During the year under review, Mr. Rizvi was the Commissioner in charge of the Non-Banking Finance Companies Division (NBFCD), the Insurance Division (ID), the Information Technology (IT) Wing and the Finance and Accounts Wing.

1.2 Securities and Exchange Policy Board

While ensuring full autonomy of the Commission, the Act provides for the establishment of a Securities and Exchange Policy Board (Policy Board). The main objective of the Policy Board is to provide guidance to the Commission in matters relating to its functions and to formulate policies in consultation with the Commission. The Policy Board is also responsible for advising the Government on matters falling within the purview of the Act and other corporate laws. It also expresses opinion on policy matters referred to it by the Government or the Commission.

The Act provides that the Policy Board shall consist of a maximum of nine members appointed by the Federal Government, including five ex-officio members and four from the private sector. The ex-officio members are: (i) Secretary, Finance Division; (ii) Secretary, Law and Justice Division; (iii) Secretary, Commerce Division; (iv) Chairman of the Commission; and (v) a Deputy Governor of the State Bank of Pakistan (SBP). The Policy Board at present consists of:

- i Dr. Tariq Hassan, Chairman;
- ii Secretary, Finance Division;
- iii Secretary, Law and Justice Division;
- iv Secretary, Commerce Division;
- v Mr. Tawfiq A. Hussain, Deputy Governor of the SBP; and
- vi Mr. Mian Mohammad Anwar, Chairman, Crescent Textile Mills Limited.

1.2.1 Policy Board Meetings

During the year under review, three meetings of the Policy Board were held. In these meetings, the Board was apprised about the Commission's achievements, particularly relating to capital market developments, corporate governance, anti-money laundering measures and protection of investors. The major issues discussed and decided in the meetings were as under:

- i approval of the Securities and Exchange Commission (Insurance) Rules, 2002 (Insurance Rules);
- ii approval of amendments in the Service Manual of the Commission;
- iii consultation on proposal for conducting a seminar in Karachi on Demutualization of Stock Exchanges for awareness of investors and members of the stock exchanges;
- iv permission for opening a new current and collection account of the Commission;
- v review of performance of the CLAD during the year 2002;
- vi permission for opening a separate bank account for United Nations Development Programme's (UNDP's) grant money for promotion of corporate governance; and
- vii approval of budget for the financial year 2003-2004.

1.3 Divisions and the Management Team

The Commission is a collegiate body with collective responsibility. Operational and executive authority of the Commission is vested in the Chairman who is the Commission's Chief Executive Officer (CEO). He is assisted by the Commissioners, particularly in overseeing the working of various operational units (Divisions and Wings) as may be determined by him. During the year, in addition to overseeing the work of their respective Divisions, additional powers and functions were assigned to the Commissioners.

Chairman (centre) along with Commissioners

As of 30 June, 2003, the Commission operationally comprised the following six Divisions apart from the Chairman's Secretariat.

i Securities Market Division;
ii Non-Banking Finance Companies Division;
iii Enforcement and Monitoring Division;
iv Company Law Administration Division;
v Insurance Division; and
vi Support Services Division.

An Executive Director heads each of the Divisions, which are further subdivided into Wings for administrative purposes. During the year, the portfolios for various Divisions were re-assigned amongst the Executive Directors.

Furthermore, a re-organization of Divisions was undertaken subsequent to close of the year to enhance their operational efficiency and coordination.

ANNUAL REPORT 2003

2 Chairman's Secretariat

- Operational Structure
- Internal Audit
- Vigilance
- External Communication
- Financial Markets and Governance Programme
- Project on Corporate Governance
- Anti-Money Laundering Unit
- International Organization of Securities Commissions

2. CHAIRMAN'S SECRETARIAT

2.1 Operational Structure

2.1.1 Structure

The Chairman's Secretariat (CS) coordinates the overall functioning of the Commission and liaises with external bodies, including media, local agencies and multilateral organizations. In addition, the CS supervises the internal audit and vigilance functions within the Commission and is responsible for the management of donor-funded projects. As of 30 June, 2003, it comprised the following Wings and Units:

- Internal Audit
- Vigilance
- External Communication
- Financial Markets and Governance Programme
- Project on Corporate Governance
- Anti-Money Laundering

2.1.2 Management Team

Ms. Sadia Khan, Executive Director heads the CS. Prior to her current assignment, she was heading the Specialized Companies Division of the Commission. She has several years of financial sector and capital market experience with international financial institutions. She is assisted by various professionals in the CS for internal coordination, external communication and project execution.

Mr. Hayat Jasra, Executive Director serves as Secretary to the Commission. He has been associated with the Commission and the former CLA for over twenty-five years.

Ms. Sadia Khan, Executive Director (right) with officers of the CS

2.2 Internal Audit

The Internal Audit Wing, an independent appraisal function, examines and evaluates the adequacy and effectiveness of the Commission's system of internal control. It ensures the reliability and integrity of information, compliance with policies, procedures, laws, regulations and contracts, the safeguarding of assets and the economical and efficient use of the Commission's resources. During the year under review, the Wing carried out the following activities:

i reviewed the payroll, revenue and procurement systems;
ii reviewed the efficacy of Management Information System (MIS) reports and the completeness of personal files;
iii carried out pre-audit of all payment vouchers at the head office;
iv carried out post-audit of all imprest vouchers at the Company Registration Offices (CROs);
v analyzed the control environment at the CROs in Karachi, Lahore and Faisalabad;
vi carried out physical verification of assets; and
vii assisted the management in formulating a policy for transfer and disposal of fixed assets.

2.3 Vigilance

During the year under review, the Vigilance Cell (VC) continued to ensure expeditious resolution of investors' complaints. The complaints received during the year were significantly less in comparison to the previous year, which may be explained by reduced investor dissatisfaction with companies and market intermediaries, resulting in fewer disputes. This is partly indicative of the effectiveness of reforms instituted by the Commission for reform of the capital market and its participants.

Table 1 below shows that altogether 424 complaints, appeals and petitions were received by the VC during the year as against 604 during the previous year. Of the 424 receipts during the year and eighty-three brought forward from last year, as many as 466 complaints, etc. were disposed of while about forty-one were outstanding at the end of the year.

Table 1 Disposal of Complaints, Petitions and Appeals (July 2002-June 2003)

S. No.	Receipts	Brought Forward	Received	Total	Disposed Of	Outstanding
1	Complaints	49	351	400	377	23
2	Petitions	4	22	26	15	11
3	Appeals	30	51	81	74	7
	Total	**83**	**424**	**507**	**466**	**41**

A synopsis of the complaints lodged and resolved during the year is given in Table 2 below.

Table 2 Details of Complaints

S. No.	Nature of Complaints	Brought Forward	Received	Total	Disposed Of	Pending
1	Issue of duplicate shares under Section 75 of the Companies Ordinance, 1984 (the Companies Ordinance)	–	1	1	1	–
2	Transfer of shares under Section 76 of the Companies Ordinance	–	31	31	31	–
3	Verification of transfer deeds	–	6	6	6	–
4	Payment of dividend under Section 251 of the Companies Ordinance	–	71	71	71	–
5	Non-receipt of annual and half yearly accounts	–	25	25	25	–
6	Complaints against brokers	44	80	124	103	21
7	Miscellaneous	5	137	142	140	2
	Total	49	351	400	377	23

The on-line link established via the Commission's website for lodging complaints was frequently visited by investors as well as the general public. Through this link, the VC received sixty-three complaints and queries regarding various issues. These were forwarded to the relevant Divisions of the Commission for expeditious disposal. Predominant amongst these complaints were those pertaining to unauthorized brokerage and deposit-taking companies. Based on these complaints, the VC forwarded its observations to the CLAD with recommendation for necessary investigation and action.

The Complaints Monitoring System (CMS), a custom-designed software application, was developed and tested during the year under review. This software is being installed to reduce the time between receipt of a complaint, appeal or petition in the VC and that of its disposal by the relevant Division. The CMS was designed with the objective to monitor and coordinate appropriate resolution of complaints, etc. at the Commission on a daily basis. The CMS provides access to the database of receipts in the VC and can generate reports according to the criteria required.

2.4 External Communication

Adhering to its policy of a participative approach for effective implementation of reforms in the financial market and the corporate sector, the Commission continued to strengthen its external communication efforts. During the course of the year, while the media was generally supportive of the regulatory measures taken by the Commission, positive criticism continued to guide the Commission and provide feedback on the practical difficulties faced by the stakeholders. Moreover, handouts of developments in the Divisions and press briefings arranged with the Chairman of the Commission remained a regular feature of the External Communication Wing. These handouts helped in countering misconceptions about the reforms while assisting the market to accept and implement them in their true spirit.

During the year under review, a number of articles were written on various aspects of the financial sector, especially on the performance of the stock market. This was primarily due to the exceptional performance of the market. The External Communication Wing played its role in providing regular input so as to deter speculation and maintain a clear perspective of the market in the media.

The Wing was also actively involved in arranging various seminars in Karachi, Lahore and Islamabad during the course of the year. A newsletter, providing an update of the Commission's activities, was published every quarter. The newsletter has been appreciated within and outside Pakistan and has facilitated the exchange of ideas with international counterparts. The various issues of the newsletter can be accessed through the Commission's website.

2.5 Financial Markets and Governance Programme

In continuation of the capital market reforms undertaken during the last three years under the Capital Market Development Programme Loan of the Asian Development Bank (ADB), the ADB approved another integrated assistance package of three loans and two political risk guarantee facilities under the Financial Markets and Governance Programme (FMGP). The second phase of reforms in Pakistan, under the umbrella of FMGP, is largely developmental in nature; it primarily seeks to support the development of Pakistan's non-bank financial market through reform, capacity building and international private sector participation.

The main objectives of the FMGP are to:

- i strengthen market soundness, stability and investor confidence through improved governance, transparency and risk management;
- ii improve availability of and access to financial instruments for savings and investment and related services; and
- iii improve market efficiency and attractiveness to issuers and investors, including institutional and foreign investors.

Under FMGP, the Commission is the implementing agency to facilitate a consultancy assignment under one of the Technical Assistance (TA) loans to strengthen regulation, enforcement and governance of non-bank financial markets. The TA assignment focuses on operations of a wide array of financial intermediaries, i.e. stock exchanges, non-banking finance companies (NBFCs) and insurance companies. Specifically, a detailed review of the regulatory framework of NBFC and insurance sectors will be undertaken. Likewise, the assignment will address the areas of demutualization and electronic trading systems for the stock exchanges. Capacity building of the Commission and other market participants will also form a major part of the consultancy assignment.

The loan negotiation and consequent conditions as per a policy matrix were finalized with the ADB in October 2002. Subsequently, loan agreements were executed in Philippines in March 2003. During the year, the Commission established an independent FMGP Project Management Unit and hired a Project Manager to handle all project related assignments. It also carried out short listing of consultants for the TA assignment, which was endorsed by the ADB. The short-listed consultants were invited to submit their detailed technical proposals, which would be reviewed in making the final decision.

2.6 Project on Corporate Governance

Pursuant to the introduction of the Code of Corporate Governance in March 2002, the Commission signed a Memorandum of Understanding (MoU) with the UNDP and the Economic Affairs Division of the Government of Pakistan in August 2002. The MoU focused on undertaking a one-year project on corporate governance with the underlying objective to encourage compliance with the principles of good corporate governance. Under this umbrella, UNDP committed technical and financial assistance to the Commission in developing and implementing good corporate governance practices and establishing a sound regulatory framework for the corporate sector in Pakistan.

The Commission identified four main priority areas for improvement of the corporate governance framework in Pakistan. These included: (i) implementation of the Code of Corporate Governance; (ii) creating stakeholder awareness; (iii) capacity building of the Commission; and (iv) networking with other markets.

2.6.1 Implementation of the Code of Corporate Governance

During the course of the year, the project conducted two seminars in Lahore and Islamabad, respectively, on Strengthening Corporate Governance in Pakistan and Corporate Social Responsibility. In addition, targeted research through short-term consultancy assignments was initiated in the areas of:

- i harmonization of the Code of Corporate Governance with other laws/regulations in Pakistan;
- ii evaluation of the state of corporate governance in Pakistan and assessment of the impact of the Code of Corporate Governance; and
- iii feasibility study for the Institute of Corporate Governance in Pakistan.

While the report on harmonization of Code with corporate laws was finalized during the year, the other two assignments were in progress as on 30 June, 2003.

2.6.2 Creating Stakeholder Awareness

One of the major objectives of the project is broadening the understanding of stakeholders on corporate governance issues. In this regard, four workshops were held in major cities of Pakistan to highlight the statutory and fiduciary responsibilities of directors and the role of management in a good corporate governance framework. These events enabled participants to learn from the experiences of senior representatives of leading local companies, gain and understand the international perspective from foreign speakers as well as learn about the regulatory perspective from the Commission.

During the course of the year, the project also developed publications on significant aspects of corporate governance. The first publication on the "Frequently Asked Questions on the Code of Corporate Governance" was published in November 2002 to facilitate awareness and elucidate various requirements of the Code. A series of briefing notes on corporate governance was also initiated in January 2003 to promote awareness of the topic. Each issue of the series focuses on a key aspect of corporate governance. The project also began issuing a quarterly electronic newsletter to facilitate awareness regarding corporate governance developments in Pakistan. In addition, the project published an 'Insurance Guide' to enable the public to learn about the insurance industry and the various types of insurance offered in Pakistan.

The project undertook an indigenous research on "Institutional Shareholders and their Role in the Promotion of Corporate Governance in Pakistan". The working paper focuses on institutional shareholders as agents in improving corporate governance. It looks at the ownership structure of listed companies, nature of institutional investors, scope for institutional activism and need for policy intervention. The paper also suggests areas of corporate governance, which require the focus and attention of institutional investors.

2.6.3 Capacity Building of the Commission

A Corporate Governance Cell has been established at the Commission, incorporating a research and resource center. This unit is involved in policy-oriented research, creating awareness on corporate governance in Pakistan and issuing publications on the topic.

The project seeks to provide learning opportunities to officers of the Commission to enhance their understanding of key governance issues, familiarize them with latest international developments and augment their regulatory and enforcement capabilities. In this regard, training opportunities were arranged for several officers of the Commission during the year. These included:

- i South Asian Federation of Accountants (SAFA) International Conference on The Accounting Profession: Way Forward in Karachi in June 2003;
- ii workshop on International Accounting Standards (IASs) and the SAFA Regional Seminar in Colombo, Sri Lanka in July 2003; and
- iii study tour to Companies Commission of Malaysia in July 2003.

The project also created an electronic resource center to house articles and information related to various aspects of corporate governance. The center is regularly updated with the latest information on corporate governance developments and is accessible through the Commission's website. Currently open to officers of the Commission, the resource center will be accessible to the public at large in the near future.

2.6.4 Networking with Other Markets

In order to keep pace with international developments on corporate governance, the Commission felt it necessary to engage in continuous consultation with other markets. The consultation, through information sharing, training programmes and dialogue, will result in an interchange of views and will help refine corporate governance practices in Pakistan on the basis of international experiences. During the course of the year, participation was made in the following:

- i consultative meetings in November 2002 with the Monetary Authority of Singapore, Singapore Exchange Limited, Issuer Regulation Department, Singapore Institute of Directors, Securities Commission of Malaysia, Kuala Lumpur Stock Exchange, Malaysian Institute of Corporate Governance, Securities and Futures Commission of Hong Kong, Hong Kong Exchanges and Clearing Limited, International Finance Corporation, Asian Corporate Governance Association, and Hong Kong Institute of Directors;
- ii consultative meetings with the Institute of Directors, London Business School, Adam Smith Institute, and South Bank University in the UK in May 2003;
- iii Fifth Asian Roundtable on Corporate Governance in Kuala Lumpur, Malaysia in March 2003;

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

iv Fourth International Conference on Corporate Governance in London, UK in May 2003; and
v Second Humboldt Forum on Corporate Governance in Berlin, Germany in July 2003.

2.7 Anti-Money Laundering Unit

In January 2003, an Anti-Money Laundering Unit (AMLU) was established at the Commission as part of its continued efforts towards bringing more transparency in the financial market. The AMLU has been set up under the World Bank's TA for combating money laundering and terrorist financing. While SBP is the implementing agency for this TA for banking sector reforms project, the Commission has been awarded a four-year specialized project. The project focuses on capacity building of the Commission, consulting assignments, networking with other markets, and research and publications.

The major objectives of this project are to:

i review and harmonize existing laws/regulations for ensuring better documentation and reporting of transactions;
ii strengthen the capacity of the Commission so that it is able to play a more proactive role in curbing money laundering activities and ensuring authentic capital flows within the financial system; and
iii through a consultative process, create awareness among stakeholders about the need for an anti-money laundering framework.

The project will carry out amendments in laws enforced by the Commission and bring them in line with international anti-money laundering measures e.g., reporting of irregular financial transactions, customer identification, record keeping standards, internal policies and controls and verification of accounts through coordination with agencies. Studies and reports on best practices for development of the capital market will also be developed under this project.

2.7.1 Activities and Achievements

In addition to setting up of the AMLU at the Commission, the following major activities were undertaken during the year for carrying out the objectives of the assistance provided by the World Bank:

i a Research Associate was hired to carry out research in the area of money laundering legislation and its implications on investment flows;
ii recommendations were formulated to effectively combat money laundering, on the basis of which the Commission adopted the following measures:
   a. development of a comprehensive account opening form focusing at "knowing-your-customer" by the stock exchanges for introduction at the time of account opening at the broker level;
   b. designation of compliance officers whose responsibilities would not only be to ensure NBFCs' compliance with laws and regulations of the Commission but also to monitor adherence to anti-money laundering procedures;
   c. payment through cheques or negotiable banking instruments for money transactions above Rs. 50,000 by or to NBFCs, modarabas and insurance companies; and
   d. no physical settlement of shares, which requirement would be provided legal cover through rules/regulations of all the stock exchanges;
iii training and networking opportunities were arranged for officers of the Commission in the following forums:
   a. seminar on Securities Enforcement and Market Oversight (Enforcement Institute) arranged by the Securities and Exchange Commission in Washington D.C., USA in November 2002;
   b. workshop on Asia Pacific Group's 2002 Money Laundering Trends and Typologies in Vancouver, Canada in October 2002;
   c. visit to Financial Services Authority in the UK and Securities and Exchange Commission, Treasury Department, State Department and World Bank in the USA by Chairman, accompanied with Executive Director, CS in December 2002; and
   d. training programme at the International Institute for Securities Market Development in Washington D.C., USA in April-May 2003;
iv officers of the Commission also participated in the first video conference on combating Money Laundering and Terrorist Financing Activities held at the World Bank, Islamabad in October 2002; and
v an informative 'Brief Series' pertaining to money laundering concepts and issues was developed.

2.8 International Organization of Securities Commissions

The Commission continued to play an active role in the activities of the International Organization of Securities Commissions (IOSCO). The Commission was also honoured to chair the Working Group 3 of the Emerging Markets Committee of IOSCO. The representatives of the Commission attended the following international meetings and seminars in connection with IOSCO.

i IOSCO Seminar Training Programme relating to implementation of the IOSCO Objectives and Principles of Securities Regulation and commitment of regulators to enhance cooperation through IOSCO MoU held in Madrid, Spain in October 2002.
ii IOSCO Asia Pacific Regional Committee meeting and Enforcement Directors meeting held in Colombo, Sri Lanka in January 2003 on matters pertaining to regulation of terminals placed by overseas exchanges or trading systems and investor protection from market misconduct and false and misleading statements.
iii IOSCO Emerging Markets Advisory Board meetings held in Melbourne, Australia in February 2003. These meetings were hosted by the Australian Securities and Investment Commission. Meetings of IOSCO Technical Committee and Executive Committee were also held where Pakistan headed the Technical Committee on Financial Intermediaries.
iv IOSCO meeting of the Standing Committee 3 of the Technical Committee at the offices of the USA Securities and Exchange Commission in Washington in June 2003 on matters relating to regulation of market intermediaries in cross-border environment and the types of capital adequacy regimes applied to securities firms. In addition, the principles underlying financial reporting including current reporting practices as well as proposals for client asset protection were discussed.

Further, the Commission extended maximum cooperation and assistance to IOSCO in gathering requisite information relating to the monitoring and regulation of secondary markets, market intermediaries and collective investment schemes.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

ANNUAL REPORT 2003

3 Securities Market Division

- Operational Structure
- Sector Overview
- Performance Review
- Development of Laws
- Regulatory Actions
- Forthcoming Developmental Activities
- Investor Complaints
- Judicial Cases
- Issue of Capital
- Beneficial Ownership
- Registration and Inspection
- Monitoring and Surveillance

3. SECURITIES MARKET DIVISION

3.1 Operational Structure

3.1.1 Structure

The Securities Market Division (SMD) monitors and regulates the securities market through powers vested in the Commission under the Act, the Securities and Exchange Ordinance, 1969 and the rules framed thereunder. It is also responsible for regulating the primary and secondary market activities as well as market intermediaries. In view of the Commission being the apex regulator of the capital market, the SMD monitors the working of the stock exchanges, particularly with regard to obligations of brokers towards investors and ensuring smooth clearing and settlement operations. In addition, the SMD is entrusted with instituting appropriate regulatory reforms to deepen the market, restore investor confidence and achieve transparency, effective risk management and good governance at the stock exchanges.

The SMD is divided into the following Wings:

- Capital Issues
- Complaints
- Stock Exchanges
- Beneficial Ownership
- Surveillance

3.1.2 Management Team

Ms. Rahat Kaunain, Executive Director (right) with officers of the SMD

The SMD is headed by Ms. Rahat Kaunain Hassan, Executive Director, who has obtained an L.L.M. degree from Kings College in London. She has over eight years work experience with leading corporate law firms. Since joining the Commission in 2001, she has held the positions of Executive Director, Law and General Counsel to the SEC. She is assisted by various professionals in the Division, which include lawyers, accountants and financial analysts.

3.1.3 Laws Administered

i Companies Ordinance, 1984
ii Securities and Exchange Ordinance, 1969
iii Securities and Exchange Commission of Pakistan Act, 1997
iv Securities and Exchange Rules, 1971
v Central Depository Companies (Establishment and Regulation) Rules, 1996
vi Central Depository Companies Act, 1997
vii Central Depository Companies (Amendment) Act, 1997
viii Brokers and Agents Registration Rules, 2001
ix Companies (Buy Back of Shares) Rules, 1991
x Stock Exchange Members (Inspection of Books and Records) Rules, 2001
xi Members' Agents and Traders (Eligibility Standards) Rules, 2001
xii Companies (General Provisions and Forms) Rules, 1985
xiii Companies (Issue of Capital) Rules, 1996
xiv Companies (Asset Backed Securitization) Rules, 1999
xv Share Capital (Variation in Rights and Privileges) Rules, 2000
xvi Public Companies (Employees Stock Option Scheme) Rules, 2001
xvii The Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002
xviii Listed Companies (Prohibition of Insider Trading) Guidelines
xix The National Clearing and Settlement System Regulations, 2002
xx Guidelines for the Issue of Term Finance Certificates (TFCs) to General Public, 2002
xxi Guidelines for the Issue of Commercial Papers, 2002
xxii Guidelines for Front Running
xxiii Regulations for Short-selling

3.2 Sector Overview

Pakistan's stock market remained buoyant during the period under review and the Karachi Stock Exchange 100 Shares Index (KSE-100 Index) witnessed a phenomenal growth as it reached a record level of 3,402.48 at the close of the year from 1,770.12 in June last year. This represents an increase of 92 percent compared to a rise of 30 percent in the same period last year.

Table 3 KSE Performance at a Glance

	FY 2002	FY 2003	HIGH FY 2003	LOW FY 2003
KSE-100 Index (At closing level)	1,770 (End June 2002)	3,402 (End June 2003)	3,402 (30 June, 2003)	1,735 (15 July, 2002)
Turnover (Shares in million)	120 (Daily average for the year)	215 (Daily average for the year)	689.32 (31 December, 2002)	16.89 (2 August, 2002)
Market Capitalization (Rupees in billion; at closing level)	411.6 (End June 2002	755.8 (End June 2003)	755.9 (23 June, 2003)	405.7 (15 July, 2002)

This milestone is primarily an outcome of the Government's effective macro-economic policies, dedicated pursuit of reform agenda by the Commission and revival of confidence of both local and foreign investors. During the year under review, the aggregate market capitalization of the KSE surged by 84 percent to reach Rs. 756 billion. In terms of US dollars, the market capitalization increased by 79.3 percent, rising from $ 7.11 billion to $ 13.05 billion during the year. Another indicator of the impressive performance of the KSE was the surge in average daily turnover of shares to 215 million during the year as compared to 120 million in the last year.

During the year, the KSE sustained its position as "the best performing market among the leading stock markets in the world". Except for Pakistan and Sri Lanka, all other markets in the Asia-Pacific Region registered significant losses during the period under review.

A number of factors contributed to the bullish sentiment in the market, namely:

i the investment friendly policies pursued by the Government for revival of the national economy and restoration of investor confidence;
ii substantial improvements in economic fundamentals;
iii relatively cheap market valuation and declining returns on alternative investments;
iv huge foreign exchange reserves and rescheduling/write-off of external debts by certain donor countries, especially the USA;
v huge build-up of rupee – liquidity driven, in large, by continuing foreign exchange flows into Pakistan – thereby resulting in a cut in the interest rates;
vi expectations of early privatization of some state-owned enterprises and banks;
vii policies on privatization, liberalization and deregulation that encouraged private investments; and
viii increased interest of foreign investors in the stock market.

The start of the calendar year 2003 witnessed a bearish spell as the looming Iraq crisis brought uncertainty among market participants. Moreover, highly leveraged and over-bought positions in carry-over market by speculators added to the bearish situation from January to mid-February 2003. In the wake of profit selling, those speculating on borrowed money started 'panic selling', resulting in a sharp downward movement in the KSE-100 Index. It is noteworthy that despite the high level of volatility in the market, the risk management system at the exchanges worked effectively and no threat to market integrity was observed. However, reduced uncertainty in the Iraq war scenario brought a rebound in the market. Furthermore, anticipations of stable and improved bilateral relations between Pakistan and India fueled the bullish fervor in the month of May 2003. The budget announcement for the fiscal year 2003-2004 and a successful visit to the USA by the President of Pakistan further strengthened investor confidence in the capital market, registering an all time high level of 3,402 points at the end of the financial year 2003.

Chart 1 KSE-100 Index and Turnover at KSE (July 2002-June 2003)

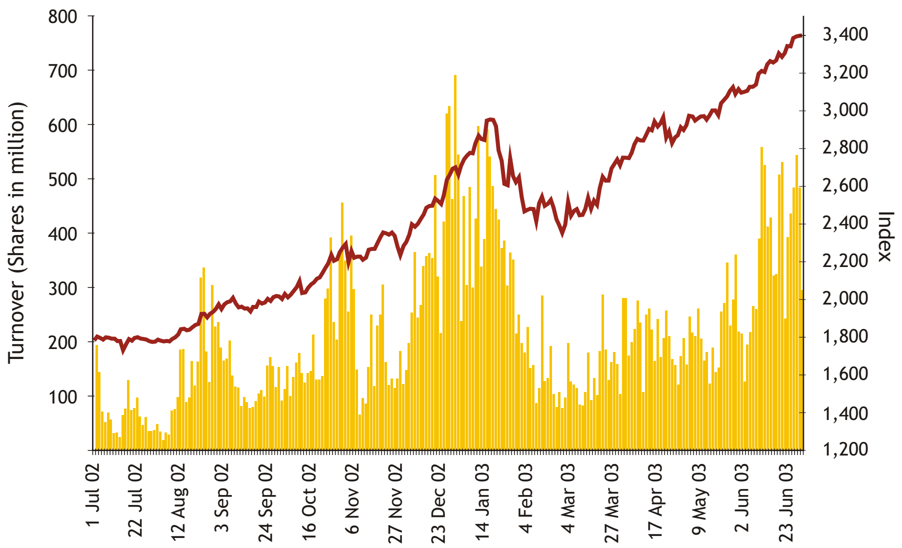
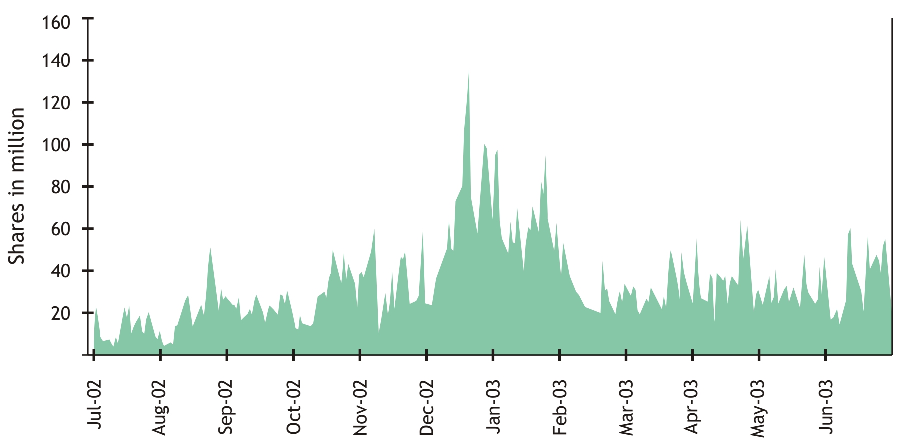


Chart 2 KSE Daily Traded Volume in Futures (July 2002-June 2003)



3.3 Performance Review

As a result of the wide ranging reforms implemented by the Commission, with the support of the stock exchanges, the capital market now exhibits a high level of integrity and transparency in terms of price discovery and trade settlement. The actual settlement, which was previously 2 percent to 3 percent of the value traded, now ranges between 8 percent to 10 percent of the same. Further, the KSE-100 Index broke all previous records to touch an all time high of 3,402.48 on 30 June, 2003. The market capitalization during this period almost doubled from Rs. 411.58 billion to Rs. 755.76 billion. This shows that genuine investment activity has increased tremendously and there is greater investor confidence in the market. In addition, there were twenty-one offerings of debt instruments and a total amount of Rs. 10.631 billion was listed on the stock exchanges during the year under review. With regard to equity offerings, Rs. 250 million was listed on the exchanges through one offer during the year.

The Commission has successfully implemented broad based reforms in the fields of risk management, governance, transparency and investor protection. As a result, the stock exchanges in Pakistan are now largely compliant with the thirty principles of Securities Regulation of the IOSCO that constitute the international standards adopted by the Financial Stability Forum[1]. In this regard, the Commission has been actively cooperating with regulators across the globe in pursuit of a safe, transparent and dynamic international financial environment.

During the year under review, additional risk management measures were introduced to enhance market integrity. The Carry-over Trade (COT) system was improved and the stock exchanges are now seeking to gradually phase out this system and replace it with margin financing/futures market. The introduction of margin financing will be another step towards bringing our market in line with international best practices. The requisite rules and regulations for margin financing are being finalized and will be issued shortly.

The Commission also approved the Regulations Governing the Over-the-Counter (OTC) Market. The stock exchanges have announced a roadmap for making this operational by October 2003. The OTC Market will provide, among other things, a cost-effective source of funds, particularly to new companies without a proven track record.

The National Clearing and Settlement System (NCSS) was launched on 24 December, 2001. During the year, the number of securities inducted into NCSS increased considerably, from thirty-two on 1 July, 2002 to 305 on 30 June, 2003.

The Central Depository Company of Pakistan Limited (CDC) is now an integral part of the capital market in Pakistan and has completed more than five years of its operations. Over the years, the depository has been providing state-of-the-art settlement system. At present, CDC has about 7,000 investor accounts, containing more than Rs. 1.2 billion securities. The number of scrips increased from 389 on 30 July, 2002 to 435 on 30 June, 2003. The recently implemented reforms, i.e. the introduction of a standardized sub-account opening form and the directive to the exchanges for restricting physical settlement of securities, are likely to enable CDC to continue to support the capital market in attracting institutional and retail investors.

[1] *The Financial Stability Forum brings together, on a regular basis, national authorities responsible for financial stability in significant international institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts, and seeks to coordinate their efforts in order to promote international financial stability, improve the functioning of markets and reduce systemic risk.*

The long-awaited Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance was promulgated on 29 October, 2002. The recently introduced law aims to ensure transparency in acquisition of substantial shareholdings.

Moreover, the recently promulgated Finance Act, 2003 includes a number of provisions that were recommended by the Commission. Among other things, the tax exempt status of capital gains on listed securities was extended till the year 2005.

The Commission has continuously emphasized the need for the stock exchanges to develop an effective and efficient in-house market surveillance system in order to monitor the market on a real-time basis. To achieve this end, the exchanges are in the process of developing and strengthening their respective market monitoring wings.

During the year, the Commission issued a directive to restrict brokers and incorporated brokerage houses from serving on the boards of directors of listed companies. The implementation of this directive will, to a great extent, reduce conflicts of interest and eliminate market abuse. Further, in order to safeguard public interest, prohibit unfair trade practices, and to ensure that brokers do not engage in conduct prejudicial to the interest of investors, the Commission issued another directive to brokers regarding business conduct in February 2003. This directive will help to raise the standard of conduct of brokers and redefine their duties and obligations towards investors.

3.4 Development of Laws

3.4.1 The Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002

The Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002 was promulgated during the year, which seeks to ensure transparency in takeovers and substantial acquisition of shareholdings. The promulgation of this Ordinance, it is expected, will benefit minority shareholders and boost investor confidence as well as help check market abuse.

3.4.2 Amendments in the Securities and Exchange Ordinance, 1969

A number of amendments were made in the Securities and Exchange Ordinance through the Finance Act, 2003. These, *inter alia*, include:

i broadening the definition of the term 'security' to include forward and futures contracts;

ii amendments relating to the regulation of the business of commodity exchange; and

iii permitting the trading of a de-listed security for a specified time period to provide an opportunity to investors for disinvestment of their shareholdings.

3.5 Regulatory Actions

3.5.1 Risk Management Measures

In order to strengthen market integrity and reduce the incidence of systemic risk, the Commission has, over recent years, introduced a number of significant reforms in risk management. During the year under review, the Commission undertook several risk management reforms.

i Rationalization of COT System

The COT (or 'Badla') is the combination of two or more transactions taking place simultaneously, which are settled in two clearings in sequence. However, the COT system is often identified as the cause of systemic risk due to volatility of funds and, therefore, provides scope for manipulation as well as excessive speculation. The COT system has been rationalized with the introduction of a ten-day COT, which allows the financee to extend the length of the contract to ten days at his option. This measure provides a safeguard against manipulation in the COT market.

ii Replacement of COT with Margin Financing and Futures Market

In Pakistan, financing against shares through banks and financial institutions is not easily available to small investors, which has resulted in development of the COT market. While the COT system has played a significant role in adding liquidity to the market, it has often been viewed as the root cause behind market crises over the last few years.

The Commission developed a road map for phasing out of COT/Badla financing in November 2002. One of the main requirements was the development of Margin Trading Rules by the Commission, which were finalized during the year and would be introduced shortly. The introduction of these Rules will help in minimizing the systemic risk posed to the market by COT. Margin accounts allow investors to buy shares up front with a relatively small amount of cash by using the assets currently held in their accounts as collateral. It is expected that, over time, margin financing and futures market will replace the COT/Badla financing system.

iii Account Holders'/Client Identification

For improving risk management and preventing market abuse, the Commission issued a directive on 7 March, 2003 under Section 34(4) of the Securities and Exchange Ordinance, 1969. Accordingly, the stock exchanges were directed that at the time of entering an order into the trading system, an identification number should be entered for the account holder/client on whose behalf the order was placed. The identification number should be unique and permanent so that a person should have only one identification number even if such person were trading through more than one account or broker. As of 30 June, 2003, the stock exchanges were in the process of implementing necessary modifications in their trading systems in order to provide for the Client Identification feature. This is expected to be achieved shortly.

iv Restriction on Physical Settlement of Shares

The Commission, vide its directive of 27 February, 2003, directed all stock exchanges to bar physical settlement of shares at the exchanges no later than 31 August, 2003. In addition, all listed companies were required to be inducted in the Central Depository System by 31 July, 2003 in accordance with the order of the Commissioner, SMD dated 30 January, 2003.

3.5.2 Improvements in Governance

i Independent Management at the Stock Exchanges

In August 2002, the Commission issued directives for restructuring the Boards of directors of the stock exchanges. As a result, the Board of an exchange should now consist of five member-directors, who are elected by members of the exchange, and four non-member directors and a Managing Director, who are to be appointed by the Commission. The restructuring of the Boards of directors has enhanced independence and integrity of the stock exchanges. The requirement for independent management at the exchanges not only promotes greater transparency and stock market efficiency but also forms an essential part of a modern, progressive capital market.

ii Restrictions on Brokers/Incorporated Brokerage Houses from Holding Office on the Boards of Directors of Listed Companies

In order to prohibit unfair trade practices, ensure a level playing field, inculcate good governance in business conduct and promote transparency in the securities market, the Commission issued a directive on 18 July, 2002 restricting stock brokers, brokerage firms and incorporated brokerage houses from serving on the Boards of directors of listed companies.

iii Measures for Enforcement of the Code of Corporate Governance

The Commission has initiated much-needed reforms for good corporate governance in Pakistan and introduced the first Code of Corporate Governance in March 2002. The Code has been incorporated in the listing regulations of the stock exchanges. In order to ensure proper enforcement of the Code, the Commission advised the stock exchanges, in their capacity as frontline regulators, to set up special wings to monitor listed companies' compliance with the provisions of the Code.

iv System Audit/Establishment of Market Monitoring Wings

The Commission, in its directive of 7 March, 2003, directed the stock exchanges to develop regulations for the system audit of members of the exchanges. Further, the Commission has directed each stock exchange to set up a monitoring and surveillance wing to check market abuse.

v Conduct of Brokerage Business

In order to safeguard public interest and prohibit unfair trade practices, the Commission, on 7 February, 2003, issued a directive to brokers regarding business conduct. Pursuant to the said directive, brokers shall provide brokerage services to an investor only after ensuring that an account has been opened in the investor's name using a standardized account opening form. In addition, a broker shall not recommend to an investor the purchase or sale of any security that is unsuitable for the investor with regard to his/her age, financial situation and investment objectives. A broker shall also educate prospective investors about the risks of investing in the securities market in terms of the risks associated with investing in a particular security, the charges or fees involved, the company's financial information or any other material information. The issuance of this directive is likely to raise the standards of broker conduct and redefine their duties towards investors.

3.5.3 Introduction of New Products/Systems

i Development of OTC Market

The establishment of an OTC Market provides start-up companies/expanding companies with greater liquidity as well as the benefits of a public listing. It also serves as a second tier market for illiquid scrips currently listed on the exchanges. The OTC Market can be, and often is, used as a stepping-stone for companies planning a full stock exchange listing in the future.

The Commission, having approved the establishment of a quote-driven OTC Market for smaller capitalized companies and debt securities, approved the Regulations Governing the OTC Market in December 2002. The OTC Market is expected to be fully operational by the end of the year.

ii Establishment of the National Commodity Exchange Limited

The emergence of trading in futures contracts in commodities will add depth to the capital market, providing investors and stakeholders with basic hedging instruments as well as enabling economic players to lock in costs.

The Commission approved registration of the National Commodity Exchange Limited (NCEL) on 16 May, 2002 under Section 5 of the Securities and Exchange Ordinance, 1969, subject to certain terms and conditions. The NCEL would deal in derivative products, mainly in futures contracts in commodities, and the specific approval of the Commission would be sought for each type of futures contract traded on the Exchange.

The recently promulgated Finance Act, 2003 has introduced amendments in the Securities and Exchange Ordinance, 1969 wherein provisions relating to the regulation of the commodity exchange have been incorporated and the definition of 'security' has been broadened to include forward and futures contracts. Pursuant to the said amendments in the law, the Rules governing the commodities exchange are currently under preparation by the Commission.

3.6 Forthcoming Developmental Activities

3.6.1 Web Based Trading

The growth and advancement of Internet Technology and its relatively inexpensive accessibility has created both opportunities and regulatory challenges for the financial industry. The use of the Internet as a medium of communication has not only become popular among the general public but has also enabled registered persons and financial services providers to dispatch and receive information about securities, futures contracts and other financial products and services instantaneously on a global basis.

In order to address the regulatory concerns arising from the growth in Internet trading, the Commission is currently reviewing this area so that regulations for Internet-based trading and services may be introduced in the near future. The implementation of such regulatory standards will strengthen market integrity and investor confidence as well as help to adapt the regulatory approach to reflect the changing market structure.

3.6.2 Proprietary Trading

Proprietary trading refers to a firm trading for direct gain instead of commission. Essentially, the firm decides to profit from the market rather than the commissions from processing trades. However, proprietary trading may lead to serious conflict of interest in relationships between brokers and clients as it may allow brokerage firms to profit at the expense of their clients. The Commission is currently in the process of reviewing this area to ensure improved supervision of proprietary trading so as to safeguard investors' interests.

3.6.3 Demutualization of Stock Exchanges

Technological change, globalization, growing competition and concern for investors' interests all put increasing emphasis on the need for stock exchanges to be cost-efficient, transparent and more widely accountable. The stock exchanges in Pakistan possess a mutualized structure, which is archaic and inefficient. Hence, the stock exchanges must consider demutualizing, or some other form of reconstitution, so as to remain competitive in today's global environment. As a consequence, the Commission has entered into dialogue with the stock exchanges on the issue of demutualization.

The Commission, over the past two years, has been advocating in various forums that the stock exchanges contemplate demutualization in line with international trends. In various meetings of the Coordination Committee of the Commission and the stock exchanges held in recent years, the Commission has emphasized that the stock exchanges should consider integration and demutualization as well as the establishment of trading terminals all over Pakistan so as to provide equal investment opportunities for all investors. In this connection, the Commission took several steps to educate and guide the stock exchanges about the benefits of demutualization and invited a number of leading international experts to deliver lectures in Karachi and Islamabad on the relevance of demutualization.

3.7 Investor Complaints

In recent years, the Investor Complaints Cell at the SMD has been instrumental in addressing investor grievances as well as receiving feedback on capital market issues. It is by virtue of the numerous complaints received by the Commission that different reform measures were conceived and implemented to enhance transparency in the securities market as well as boost investor confidence. Based on feedback from the Investor Complaints Cell, timely directions were issued by the Commission and activities, which were previously a hindrance in the development of a fair and transparent market, were streamlined to benefit investors and encourage investment in the securities market. Some of the significant reform measures have ensured that accounts are opened in the name of investors, brokers are prohibited from guaranteeing profits on certain investments and brokers do not buy and/or sell securities in the investor's account without his authority. Investors as well as brokers have appreciated these measures.

The Investor Complaints Cell monitors the cases handled by the Arbitration Committee of the stock exchanges and seeks constant feedback from the exchanges on the status of investor complaints. Through its activities, the Cell enabled the Commission to take appropriate steps to strengthen the stock exchanges as front line regulators and support them in developing an effective and transparent process of dispute resolution as well as heightened sensitivity to investor concerns. As a result, the stock exchanges adopted a more proactive role and in certain cases, strict disciplinary action was taken against brokers for violating the rules and regulations of the exchanges.

The Investor Complaints Cell, for investor protection, initiated certain measures during the year. The most significant of these measures were the prohibitory orders, under Section 20 of the Securities and Exchange Ordinance, 1969, to the brokers for, *inter alia*, employing illegal agents and the failure to resolve investor complaints. The prohibitory orders involved, in most cases, illegal brokerage houses and illegal agents, which were consequently shut down. Also, advertisements were given in newspapers warning the public about illegal brokerage houses and illegal agents. The Commission received valuable feedback from the investors and took appropriate action on the same.

Combating illegal brokerage houses and illegal agents remains one of the top priorities of the Commission and further efforts are being made to eradicate the securities market of this menace. During the year, the Investor Complaints Cell focused on improving its operational structure. It is revising and evaluating its current procedure to bring useful changes that will translate into more effective handling of complaints. For this purpose, the complaints handling procedure has been streamlined and a guide for handling complaints in an expeditious manner is in the pipeline. It will go a long way in addressing the routine concerns of the investors regarding the processing of their complaints by the Cell.

During the year, as many as 87 percent of the complaints were resolved. This was primarily owing to the sound policy decisions of the Commission as well as greater vigilance of the stock exchanges and their members. The statistics pertaining to the performance of the Investor Complaints Cell are reflected in the table below.

Table 4 Performance of Investor Complaints Cell

	KSE	Lahore Stock Exchange (LSE)	Islamabd Stock Exchange (ISE)	Total
Complaints under examination at the Commission on 1 July, 2002	24	16	3	43
Complaints received (July 2002-June 2003)	101	122	29	252
Total complaints dealt with (July 2002-June 2003)	125	138	32	295
Complaints under litigation	2	10	12	24
Complaints against defaulted members/suspended members/transfer of membership (pending with the stock exchanges)	4	47	5	56
Complaints against members prohibited under Section 20 of the Securities and Exchange Ordinance, 1969 (pending with the stock exchanges) *	45	25	—	70*
Other complaints pending with the stock exchanges	20	15	5	40
Complaints resolved (July 2002-June 2003)	42	31	10	83
Complaints under examination at the Commission on 30 June, 2003	12	10	—	22

* The Commission received numerous complaints against Mr. Yousaf Ebrahim (Member, KSE) and Mr. Haji Malik Muhammad Rafi (Member, LSE). In the interest of investor protection, the Commission issued orders against the said two members, thereby prohibiting their trading on the stock exchanges. In this respect, the Commission investigated the matter, held hearings and passed orders regarding resolution of complaints against the said members. As a result, the civil liability matters are pending with the stock exchanges.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

3.8 Judicial Cases

Ever since the establishment of the Investor Complaints Cell in the SMD in the last quarter of 2000, the focus of the Division has, to a great extent, been towards being acknowledged and having the full breadth of its discretionary powers supported by the judiciary. Owing in large part to the Cell being proactive in enforcing securities laws and, in particular, ensuring broker conduct, there has been no dearth of litigation and the opportunities that arise therefrom to educate, establish precedent and find such support from the judiciary. Therefore, the SMD handles every litigation matter with intelligence, great vigour and a positive outlook. The number of litigation cases arising in and/or pending through the year was twenty-seven. It must, however, be kept in mind that all such matters before the courts of Pakistan fall under the categories of either writ petitions, commercial appeals from orders of the Appellate Bench of the Commission or civil suits where the Commission has been made a pro forma party or party from whom relief is being sought.

3.9 Issue of Capital

The Capital Issue Wing of the SMD deals with approval of prospectuses for public offer of securities. Under the Companies Ordinance, the prospectus of any company inviting public subscription for its securities is required to be approved by the Commission prior to its issue, circulation and publication. The Wing also processes the cases regarding issuance of different classes of shares, issuance of shares at a discount, further issue of capital and issuance of commercial papers.

During the year under review, there were three public equity offerings as compared to six in the preceding year. Similarly, there were twenty-one offerings of debt instruments, i.e. TFCs, as compared to seventeen in the preceding year. All debt and equity issues offered to the general public were oversubscribed.

Table 5 below provides a comparison of share capital and TFC offerings during the year under review with the previous year.

Table 5 Share Capital and TFC Offerings

(Rs. in million)

Year	Equity Issues		Debt Issues			
	No. of Issues	New Capital Listed	No. of Issues	Amount Allowed	Amount Offered	Amount Retained
2003	3	970.000*	21	10,139.000	10,399.000	10,630.835
2002	6	7,338.286	17	12,960.000	9,710.000	10,125.975

* The amount of capital does not include that of National Bank of Pakistan, which is already listed.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

3.9.1 Share Capital

During the year under review, there was an offering of fresh equity capital by The Resource Group (TRG) Pakistan Limited. The total amount offered was Rs. 600 million, of which Pre-Initial Public Offer (Pre-IPO) was Rs. 400 million while Initial Public Offer (IPO) amounted to Rs. 200 million. The company's capital to be listed on the KSE was Rs. 720 million, including Rs. 120 million allocated to foreign and local sponsors. The detail is given in Table 6 below.

Table 6 Offerings of Fresh Equity Capital

(Rs. in million)

S.No.	Name of Company	Subscription Date	Formal Listing Date	Total Paid-up Capital	Capital already Paid-up	IPO	Subscription Received
1	TRG Pakistan Limited	7-8 May, 2003	14 July, 2003	720	520*	200	1,122

* Including Pre-IPO placement of Rs. 400 million

During the year, there were two secondary offerings of shares (disinvestment), involving shares aggregating Rs. 435.540 million in value based on offer prices. The National Bank of Pakistan offered its shares for the second time to the general public. The total capital listed on the KSE during the year on account of secondary offerings of equity capital was Rs. 250 million (excluding National Bank of Pakistan, which is already listed). Details of these two secondary offerings are as follows.

Table 7 Secondary Offerings of Equity Capital

(Rs. in million)

S.No.	Name of Company	Sector	Name of Offerer	Subscription Date	Formal Listing Date	Total Paid-up Capital	IPO	Subscription Received
1	National Bank of Pakistan (Second Offer)	Banking	Government of Pakistan	7-9 October, 2002	Already listed	Already listed	373.040	1,628.666
2	Ittehad Chemicals Limited	Chemicals and Pharmaceutical	Mr. Mohammad Siddiq (Director)	7-8 March, 2003	14 April, 2003	250.000	62.500	71.122
	Total					**250.000**	**435.540**	**1,699.788**

3.9.2 Further Issue of Share Capital

The companies can raise further capital by way of right and/or bonus issues without the approval of the Commission. However, in certain exceptional circumstances public companies can further raise their capital without the offer of right shares, subject to the approval of the Commission, on the basis of a special resolution. In this regard, the Commission approved three cases during the year.

3.9.3 Issue of Shares at a Discount

Companies may issue shares at a discount to face value, if so approved by the Commission. In this regard four applications were approved during the year.

3.9.4 Issue of Preference Shares

Under Section 90 of the Companies Ordinance read with the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000, a company limited by shares can issue more than one kind of share capital having different rights and privileges. During the year under review, two companies, namely, D.G. Khan Cement Company Limited and Dewan Salman Fibre Limited were allowed to issue preference shares.

3.9.5 Redeemable Capital

During the period under review, approvals were granted to twenty-one companies to issue TFCs involving an aggregate amount of Rs. 10.139 billion. An amount of Rs. 10.631 billion (inclusive of green-shoe option) was raised: Rs. 8.374 billion through private placement and Rs. 2.257 billion from general public. These issues include an issue under the asset backed securitization arrangement.

Table 8 on the next page summarizes the twenty-one debt issues during the year under review.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Table 8 Debt Issues

(Rs. in million)

S. No.	Name of Company	Subscription Date	Formal Listing Date	Amount of Capital Allowed	Total Amount Offered			Subscription Received			Green Shoe Option	Amount Retained
					Pre-IPO	IPO	Total	Pre-IPO	IPO	Total		
1	Engro Chemicals Limited (2nd tranche of total authorized Rs. 1.5 billion)	4-5 July, 2002	16 August, 2002	–	800	200	1,000	800	888	1,688	N.A.	1,000
2	Maple Leaf Cement Factory Limited	18-19 July, 2002	13 September, 2002	225	175	50	225	175	116	291	50% of IPO	250
3	Dawood Leasing Limited (2nd tranche of total authorized Rs. 500 million)	25-27 July, 2002	24 September, 2002	–	200	50	250	200	190	390	38% of total 2nd tranche	345
4	ORIX Leasing Pakistan Limited (2nd franchise of total authorized Rs. 1.5 billion)	29-31 July, 2002	10 September, 2002	–	600	110	710	600	142	742	Up to Rs. 48.035 million	747
5	Muslim Commercial Bank Limited	8-10 August, 2002	2 October, 2002	1,600	1,400	200	1,600	1,400	1,208	2,608	N.A.	1,600
6	Crescent Leasing Corporation Limited * (2nd Issue)	4-5 September, 2002	14 October, 2002	250	200	50	250	200	184	384	20% of total issue	250
7	Shakarganj Mills Limited (2nd Issue)	26-27 September, 2002	14 November, 2002	200	160	40	200	160	118	278	N.A.	200
8	WorldCALL Communica-tions Limited	30 September, 2002	22 November, 2002	350	250	100	350	250	208	458	N.A.	350
9	Quetta Textile Mills Limited	24-26 October, 2002	27 December, 2002	750	600	150	750	600	253	853	N.A.	750
10	Bank Alfalah Limited (Non-listed Bank)	19 December, 2002	31 December, 2002	650	500	150	650	500	914	1,414	N.A.	650
11	Union Bank Limited (1st tranche of total authorized Rs.1.5 billion)	19-21 December, 2002	29 January, 2003	1,500	600	150	750	600	483	1,083	N.A.	750
12	Security Leasing (2nd Issue)	9 January, 2003	19 February, 2003	299	239	60	299	239	350	589	N.A.	299
13	KASB Leasing Company Limited*	14-15 January, 2003	5 March, 2003	200	160	40	200	160	292	452	20% of total issue	200
14	Gulshan Spinning Mills Limited	29-30 January, 2003	14 April, 2003	400	320	80	400	320	441	761	N.A.	400
15	Paramount Spinning Mills Limited	29-30 January, 2003	14 April, 2003	400	160	40	200	160	312	472	N.A.	200
16	Gulistan Textile Mills Limited (2nd Issue)	29-30 January, 2003	14 April, 2003	400	320	80	400	320	510	830	N.A.	400
17	Paramount Leasing Limited (2nd Issue)	6-7 February, 2003	Awaited	325	250	75	325	250	341	591	Up to Rs. 75 million	400
18	Securetel SPV Limited	27 March, 2003	13 May, 2003	840	640	200	840	640	1,212	1,852	N.A.	840
19	Jahangir Siddiqui and Company Limited	18 April, 2003	17 June, 2003	500	400	100	500	400	378	778	N.A.	500
20	Trust Leasing Corporation Limited*	2-3 June, 2003	4 July, 2003	1,000	200	50	250	200	264	464	Up to Rs. 50 million	250
21	Ittehad Chemicals Limited	26-27 June, 2003	30 July, 2003	250	200	50	250	200	263	463	N.A.	250
	Total			10,139	8,374	2,025	10,399	8,374	9,067	17,441		10,631

*Green Shoe Option not exercised

Chart 3 TFC Issues Floated During the Financial Years 1996-2003

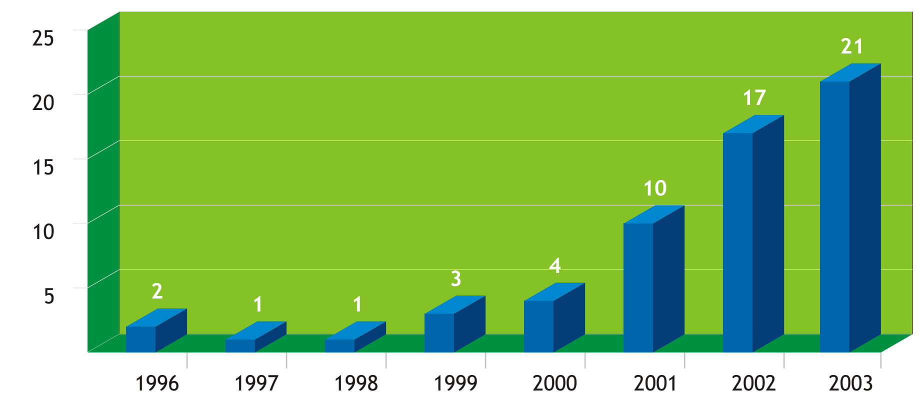
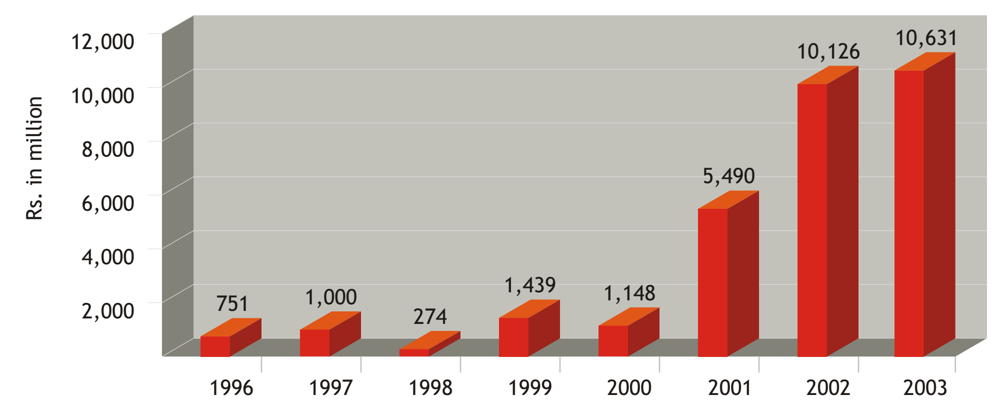


Chart 4 Amount Raised through TFCs During the Financial Years 1996-2003



3.10 Beneficial Ownership

In pursuance of Section 222 of the Companies Ordinance, every director, CEO, chief accountant, company secretary, auditor of a listed company and a person who is a beneficial owner of more than 10 percent of a listed equity security is liable to submit a return on Form 31 simultaneously with the Commission and the Registrar pertaining to particulars of his/her beneficial ownership. The aforesaid persons are also required to file Form 32 for subsequent changes in their beneficial ownership. Moreover, in order to protect interests of small shareholders and to discourage management of listed companies from making windfall gains, Section 224 of the Companies Ordinance stipulates that such beneficial owners are required to tender the amount of gain to the issuer or the Commission, as the case may be, if the said gain has been made within a period of six months on account of sale and purchase (or purchase and sale) transactions. In addition, every listed company is required to file with the Commission, an annual return on Form-A, its pattern of shareholding and an electronic copy of the list of its members, in accordance with SRO No. 1014/(I)86 dated 12 November, 1986 and Circular 6 of 2001.

During the year, the Commission finalized three cases of tenderable gain aggregating Rs. 825,749 and recovered Rs. 597,749 in respect of tenderable gain.

A software application, namely Beneficial Ownership Module, for beneficial ownership has also been developed and installed. Further, computerization is currently under process, which will enhance the efficiency of the Beneficial Ownership Wing.

3.11 Registration and Inspection

In order to establish a direct regulatory nexus with brokers and agents, the Commission notified the Brokers and Agents Registration Rules in May 2001 in terms of Section 5A of the Securities and Exchange Ordinance, 1969, which provides that no person can deal in securities unless registered with the Commission.

3.11.1 Registration of Brokers

During the year under review, the Commission granted registration to forty-seven brokers while thirty-four brokers were de-registered due to either cancellation or surrender of licences. As a result, the total number of brokers registered with the Commission increased to 278 as of 30 June, 2003.

The distribution of brokers in each stock exchange is given in Table 9 below.

Table 9 Details of Registered Brokers

Stock Exchange	Corporate Brokers	Individuals	Total
KSE	81	77	158
LSE	34	47	81
ISE	15	24	39
Total	**130**	**148**	**278**

It may be observed from the above table that the KSE accounts for 57 percent of the total brokers compared to 29 percent at LSE followed by 14 percent at ISE.

Corporate brokers constitute a significant portion, i.e. 46 percent, of the total number of registered brokers. A number of proprietors and partnership firms have converted their status into corporations, which is a sign of development of the stock market.

3.11.2 Registration of Agents

An agent is a person appointed by a member of the stock exchange to act on his behalf for the purposes recognized by the exchange and includes a sub-broker or head of a branch office. The agents provide a linkage between the investors and the broker. The statistics with respect to registration of agents during the year are presented in the table below.

Table 10 Registration of Agents

Stock Exchange	Total Number of Registered Agents as on 30 June, 2002	Registration	Cancellation/ Non-renewal of Registration	Total Number of Registered Agents as on 30 June, 2003
KSE	45	10	12	43
LSE	26	7	8	25
ISE	10	11	6	15
Total	81	28	26	83

3.11.3 Compliance with Rules

Strict compliance with the requirements of the Brokers and Agents Registration Rules, 2001 was ensured and appropriate punitive measures were taken in case of violations. Penalties were imposed on two brokers and one stock exchange for non-compliance with these Rules. Moreover, the Registration Wing of the Commission made a presentation at the stock exchanges in an effort to familiarize brokers, agents and the stock exchanges with the registration requirements. Such initiatives are expected to create awareness among brokers to maintain integrity as well as exercise skill and care in the conduct of their business.

3.12 Monitoring and Surveillance

The Monitoring and Surveillance Wing (MSW) plays the important role of market watchdog and is responsible for identifying systemic risks in the market. It points out incidences of market abuse to the Commission so that corrective measures can be taken. In addition, the MSW monitors any abnormal price fluctuations in the COT rate, the trading activities, and the systemic risk management measures implemented at the stock exchanges in order to prevent market abuse. The trading activity is monitored using on-line data and in-depth analysis is carried out based on information obtained from the stock exchanges. The MSW works as the 'eyes and ears' of the Commission in matters pertaining to market fairness and risk management. As a result of the MSW's proactive role in identifying market anomalies, the stock exchanges have become more vigilant and market participants exercise greater care.

In order to strengthen the capacity of the stock exchanges as front line regulators, the Commission is coordinating with the three exchanges to set up surveillance wings. In this regard, different international models of surveillance were carefully studied and a model customized to the local situation was developed. To strengthen the surveillance wings, a Market Surveillance Software (MSS) has been developed which is now in the final testing phase.

The Commission initiated a number of measures, in line with international best practices, in an endeavour to bring our markets at par with internationally competitive markets. In order to enhance the effectiveness of monitoring and surveillance by the exchanges, the Commission is coordinating with the KSE for implementation of an automated real time pre-trade system of margin verification and exposure control.

In addition, specific risk indicators were developed to ascertain the degree of systemic risk in the market. Any unusual trading activity observed by the Commission was reported to the concerned exchange for necessary action. To improve market fairness and curb front-running, undisclosed trading practices were harmonized across the three exchanges and extended to NCSS.

The MSW also coordinated with the KSE for development of regulations governing delivery defaults. This was a groundbreaking step in curtailing systemic risk in the market and improving market discipline. Delivery defaults have substantially reduced after the implementation of these regulations.

In February 2003, when breaches in capital adequacy limits were identified, the Commission cautioned the brokers at KSE who were in violation. This step helped curtail capital adequacy breaches by brokers. Due to another initiative taken by the Commission, the trading symbols of all listed securities were successfully standardized across the three exchanges. Previously, a security listed on the three exchanges was often traded with three different symbols creating unnecessary complexity in operations.

ANNUAL REPORT 2003

4 Non-Banking Finance Companies Division

- Operational Structure
- Sector Overview
- Performance Review
- Development of Laws
- Regulatory Actions
- Monitoring and Enforcement
- Administrative Appeals
- Judicial Cases
- Oversight of Accountancy Profession

4. NON-BANKING FINANCE COMPANIES DIVISION

4.1 Operational Structure

4.1.1 Structure

The Non-Banking Finance Companies Division (NBFCD), formerly the Specialized Companies Division, regulates and monitors NBFCs and modarabas. It is also responsible for registration of Special Purpose Vehicles (SPVs) for asset-backed securitization. In addition, the NBFCD maintains oversight of the accountancy profession and has been active in pursuing reforms to improve transparency and disclosure in corporate reporting.

The NBFCD is divided into the following Wings:

- NBFC-I
- NBFC-II
- Modaraba
- Monitoring and Inspection

Mr. Najam Ali, Executive Director (right) with officers of the NBFCD

4.1.2 Management Team

Mr. Najam Ali, Executive Director, who heads this Division, was CEO of the CDC prior to joining the Commission. He is assisted by two Directors and the Registrar Modaraba who oversee the functions of the Wings.

4.1.3 Laws Administered

i Companies Ordinance, 1984
ii Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003
iii Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980
iv Modaraba Companies and Modaraba Rules, 1981
v Companies (Asset-Backed Securitization) Rules, 1999

4.2 Sector Overview

4.2.1 Leasing Companies

The regulation of leasing companies came under the purview of the Commission in 1997 pursuant to amendments in the Banking Companies Ordinance, 1962 and issuance of the Leasing Companies (Establishment and Regulation) Rules, 1996. These rules were repealed in 2000 upon issuance of the Leasing Companies (Establishment and Regulation) Rules, 2000. With the introduction of the NBFC concept, through promulgation of the Companies (Second Amendment) Ordinance, 2002, leasing companies have been reclassified as NBFCs and their affairs are now regulated in accordance with the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules).

The leasing industry, an important segment of the financial sector, has contributed significantly over the years despite several impeding factors, such as general recession in the economy, declining interest rates and growing competition from commercial banks. The role of leasing companies in supporting the small and medium-sized enterprises has also been noteworthy.

As of 30 June, 2003, thirty NBFCs were exclusively engaged in the business of leasing, of which one was in liquidation. After a lapse of almost seven years, one leasing company was formed during the year under review. The sector continues to be highly concentrated as more than 70 percent of the total assets of the sector are held by six leasing companies.

Leasing companies demonstrated considerable growth during the year despite shrinkage in the spreads due to declining interest rates. The total assets increased by 16 percent to Rs. 51.28 billion. Similarly, the equity base rose to Rs. 9.78 billion, indicating an improvement of 24 percent. The factor that contributed to this growth was the upward swing of the capital market, which translated into gain on investments in listed securities.

Approximately, 79 percent of the assets of leasing companies were dedicated to the principal line of business during the financial year 2003. Certificates of Investment (COIs) remained a significant source of mobilizing short- and medium-term funding for leasing companies. As of 30 June, 2003, an aggregate amount of Rs. 13.87 billion was raised through COIs, which represented 27 percent of the total assets of leasing companies.

During the year under review, vehicle financing gained increasing focus due to tax incentives such as the raise in the ceiling on cost of vehicles to Rs. 1 million for the purpose of tax depreciation. The investment in lease financing increased by 11 percent to Rs. 38.53 billion during the year. Amendments in the tax law through the Finance Act 2003 e.g., allowing initial depreciation in respect of second hand plant and machinery not previously used in Pakistan and removal of the anomaly of tax deductibility of lease rentals, are expected to be instrumental in fueling further growth of the leasing sector.

Key statistics of the leasing sector as of 31 May, 2003, based on un-audited statements, are given in Table 11.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Table 11 Key Statistics of Leasing Sector

(Rs. in thousand)

S.No.	Name of Comapny	Total Equity	Total Assets	Net Investment in Leases	COIs
1	Asian Leasing Corporation Limited	62,308	100,058	37,614	—
2	Askari Leasing Limited	1,211,635	8,094,183	5,683,345	4,987,142
3	Capital Assets Leasing Corporation Limited	131,219	369,356	281,841	19,040
4	Crescent Leasing Corporation Limited	481,727	2,290,737	1,560,507	346,859
5	Dawood Leasing Company Limited	355,823	3,446,337	1,668,022	1,254,435
6	English Leasing Limited	57,484	230,565	116,803	3,866
7	First Leasing Corporation Limited	78,771	514,531	285,733	2,625
8	Grays Leasing Limited	264,211	828,477	787,589	33,200
9	Ibrahim Leasing Limited	354,997	578,901	474,360	—
10	Inter Asia Leasing Company Limited	7,555	140,300	54,545	61,215
11	International Multi Leasing Corporation Limited	87,611	104,225	56,880	—
12	KASB Leasing Company Limited	276,206	646,022	526,045	—
13	Lease Pak Limited	2,416	247,273	120,472	—
14	National Asset Leasing Corporation Limited	10,027	144,746	58,206	3,065
15	NDLC	1,271,978	6,106,155	5,165,827	2,321,412
16	Natover Lease and Refinance Limited	202,305	322,497	184,918	3,920
17	Network Leasing Corporation Limited	229,030	970,810	639,288	5,000
18	Orix Leasing Pak Limited	1,905,382	12,648,425	10,909,404	1,215,065
19	Pacific Leasing Company Limited	220,400	670,893	562,531	—
20	Pakistan Industrial and Commercial Leasing Limited	37,500	694,984	467,462	—
21	Pak Gulf Leasing Company Limited	214,821	365,700	306,522	14,943
22	Paramount Leasing Limited	341,622	2,442,910	1,540,907	483,750
23	Saudi Pak Leasing Company Limited	283,900	2,593,675	1,694,576	1,250,159
24	Security Leasing Corporation Limited	229,843	1,377,010	1,031,928	135,100
25	Sigma Leasing Corporation Limited	283,157	616,161	481,840	138,318
26	SME Leasing Limited	211,621	439,277	392,925	—
27	Trust Leasing Corporation Limited	426,226	912,557	728,948	116,107
28	Union Leasing Company Limited	392,320	3,132,671	2,657,843	1,479,160
29	Universal Leasing Corporation Limited	150,550	253,938	50,234	—
	Total	**9,782,645**	**51,283,374**	**38,527,115**	**13,874,381**

4.2.2 Mutual Funds

Mutual funds were introduced in Pakistan in 1962 with public offering of investment certificates by National Investment (Unit) Trust (NI(U)T). This was followed by establishment of the Investment Corporation of Pakistan (ICP) in 1966, which, subsequently, offered certificates of twenty-six closed-end mutual funds. The first private sector closed-end fund, namely, Golden Arrow Selected Stocks Fund Limited was floated in 1983 followed by floatation of another twelve closed-end funds between 1991 and 1996. The first private sector open-end fund was offered by ABAMCO Limited for subscription in 1997. As of 30 June, 2003 the Commission has authorized eight open-end schemes in the private sector, of which seven were floated since March 2002.

The mutual funds industry failed to take off in its initial years due to frequent changes in economic policies, limited investment options in the corporate sector, low savings rate, profusion of risk-free investment options in Government securities and lack of awareness among the general public about collective investment schemes. However, over the years the situation has significantly improved leading to a growing use of this vehicle for mobilizing and pooling resources.

The performance of the mutual funds industry during the financial year 2003 has shown a significant improvement over previous years. The growth is attributable to an effective monitoring and regulatory regime, higher corporate earnings, reduction in interest rates and a buoyant stock market. Total net assets rose to Rs. 51 billion as on 30 June, 2003 compared to Rs. 25 billion in the previous year, exhibiting an increase of more than 100 per cent. The rate of dividends paid by mutual funds also witnessed a substantial increase during the year under review. As a result, investors and promoters were attracted to venture into mutual funds, particularly into open-end funds.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Key statistics of privatized closed-end funds as on 30 June, 2003, based on un-audited financial statements, are given in the following table.

Table 12 Key Statistics of Privatized Closed-end Funds

S.No.	Name of Fund	Listed Capital (Rs. in million)	Par Value (Rs.)	Net Asset Value (NAV) (Rs.)		Market Value (Rs.)		Dividend (%)		
				2003	2002	2003	2002	2003	2002	2001
	Lot "A"*									
1	1st ICP	50.00	10.00	24.66	12.86	16.75	9.95	—	17.00	13.00
2	3rd ICP	50.00	10.00	30.14	15.56	20.00	11.60	—	29.00	16.00
3	4th ICP	50.00	10.00	59.01	20.40	40.90	20.40	—	45.00	37.00
4	8th ICP	50.00	10.00	33.16	20.07	25.25	16.00	—	48.00	32.00
5	11th ICP	50.00	10.00	33.04	16.45	19.20	12.90	—	28.00	17.00
6	12th ICP	50.00	10.00	26.86	15.69	15.50	9.50	—	23.00	19.00
7	15th ICP	50.00	10.00	27.36	13.80	15.60	6.75	—	17.00	10.00
8	19th ICP	50.00	10.00	19.92	16.76	18.50	9.90	—	23.00	17.00
9	20th ICP	50.00	10.00	29.58	16.66	18.10	9.50	—	21.00	16.00
10	21st ICP	100.00	10.00	7.80	4.82	7.25	2.40	—	9.00	5.00
11	23rd ICP	200.00	10.00	7.89	4.64	6.70	1.95	—	—	—
12	25th ICP	400.00	10.00	15.78	8.59	14.05	3.70	—	7.50	6.00
	Sub Total	1,150.00								
	Lot "B"**									
13	2nd ICP	50.00	10.00	21.38	10.93	19.15	6.95	—	18.00	12.00
14	5th ICP	50.00	10.00	25.10	12.58	18.40	8.00	—	17.00	11.00
15	6th ICP	50.00	10.00	43.83	22.99	32.40	14.50	—	30.00	25.00
16	7th ICP	50.00	10.00	26.29	13.94	18.75	6.45	—	15.00	9.00
17	9th ICP	50.00	10.00	34.91	17.45	33.00	33.50	—	165.00	60.00
18	10th ICP	50.00	10.00	34.35	12.93	24.00	13.00	—	60.00	18.00
19	13th ICP	50.00	10.00	65.86	34.11	48.70	17.25	—	35.00	28.00
20	14th ICP	50.00	10.00	24.28	13.18	17.50	7.75	—	13.00	18.00
21	16th ICP	50.00	10.00	19.92	10.33	14.60	4.20	—	10.00	7.50
22	17th ICP	50.00	10.00	26.08	14.08	18.25	7.20	—	16.00	10.00
23	18th ICP	50.00	10.00	19.67	10.46	13.45	4.60	—	12.00	9.00
24	22nd ICP	200.00	10.00	17.01	8.92	12.95	3.75	—	11.00	6.00
25	24th ICP	400.00	10.00	9.81	5.15	7.55	1.80	—	—	—
	Sub Total	1,150.00								
	Lot "C"**									
26	State Enterprises Mutual Fund (SEMF)	840.00	10.00	52.08	26.95	45.55	18.85		26.00	22.00
	Total	3,140.00								

* ICP Mutual Funds Lot "A" has been privatized and is managed by ABAMCO Limited. NAV is based on un-audited financial statements as on 31 May, 2003.

**ICP Mutual Funds Lots "B" and "C" have been privatized and are managed by PICIC Limited.

Key statistics of private sector closed-end funds as on 30 June, 2003, based on un-audited financial statements, are presented below.

Table 13 Key Statistics of Private Sector Closed-end Funds

S.No.	Name of Fund	Listed Capital (Rs. in million)	Par Value (Rs.)	NAV (Rs.)		Market Value (Rs.)		Dividend (%)		
				2003	2002	2003	2002	2003	2002	2001
1	Al-Meezan Mutual Fund Limited*	250.00	10.00	19.08	10.68	18.40	7.05	—	16.00	6.60
2	Asian Stock Fund Limited	100.00	10.00	5.91	3.71	4.00	1.50	—	—	—
3	BSJS Balanced Fund Limited*	340.00	10.00	19.38	12.35	20.30	9.00	—	15.00	11.00
4	Dominion Stock Fund Limited	50.00	10.00	3.43	3.17	8.50	1.60	2.00(i)	—	—
5	First Capital Mutual Fund Limited	150.00	10.00	8.85	5.71	5.60	2.60	—	—	—
6	Golden Arrow Selected Stocks Fund Limited	100.51	5.00	7.39	5.44	6.00	2.65	24.00B(i)	—	—
7	Investec Mutual Fund Limited (Formerly, Growth Mutual Fund Limited)*	100.00	10.00	2.50	(0.13)	8.25	1.90	2.00(i)	—	—
8	Pakistan Premier Fund Limited (Formerly, KASB Premier Fund Limited)	600.00	10.00	16.33	8.95	14.20	6.00	—	5.00	3.50
9	Prudential Stocks Fund Limited*	60.00	10.00	3.85	3.10	3.45	0.85	—	2.50	—
10	Safeway Mutual Fund Limited	150.00	10.00	17.09	3.18	10.00	2.90	—	—	—
11	Tri-Star Mutual Fund Limited	50.00	10.00	5.10	3.21	1.65	0.35	—	—	—
	Total	1,950.51								

*NAV is based on un-audited financial statements as on 31 May, 2003.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Key statistics of open-end funds as on 30 June, 2003, based on un-audited financial statements, are presented below.

Table 14 Key Statistics of Open-end Funds

(Rs. in million)

S.No.	Name of Fund	Net Assets (Rs. in million)	Par Value (Rs.)	NAV (Rs.)	Market Value		Dividend (%)		
					Offer Price (Rs.)	Re-purchase Price (Rs.)	2003	2002	2001
	Public Sector								
1	NI(U)T	31,629.00	10.00	20.58	22.80	21.75	17.50	12.00	12.00
	Private Sector								
2	Unit Trust of Pakistan (UTP)	1,669.49	5,000.00	7,145	8,206	8,044	–	15.00	12.00
3	Pakistan Stock Market Fund	783.99	50.00	89.02	91.48	89.19	–	8.94B	N.A.
4	Pakistan Income Fund	1,499.90	50.00	56.73	57.50	56.72	–	11.66B	N.A.
5	UTP Income Fund	383.26	500	509.00	555.25	544.00	–	N.A.	N.A.
6	United Money Market Fund (UMMF)	1,819.90	100	110.32	UMF-A 110.11	UMF-A 110.11	–	N.A.	N.A.
					UMF-C 110.11	UMF-C 109.01	–	N.A.	N.A.
7	UTP Islamic Fund	455.28	500	547.80	586.50	574.75	–	N.A.	N.A.
8	Metro Bank Pakistan Sovereign Fund (MSF)	527.16							
	MSF-12/03	349.47	50	50.04	50.04	50.14	–	N.A.	N.A.
	MSF-12/05	11.39	50	51.27	51.27	51.37	–	N.A.	N.A.
	MSF-12/07	12.18	50	50.54	50.54	50.64	–	N.A.	N.A.
	MSF-12/12	154.12	50	50.55	50.55	50.65	–	N.A.	N.A.
	MSF-Perpetual	271.47	50	50.16	50.16	50.26	–	N.A.	N.A.
9	Dawood Money Market Fund DMMF)	599.58	100	101.77	103.70	101.66	–	N.A	N.A.

Upon introduction of the NBFC concept, the Investment Companies and Investment Advisers Rules, 1971 and the Asset Management Companies Rules, 1995 were repealed and issued as part of the NBFC Rules after incorporating necessary changes.

4.2.3 Modarabas

The Modaraba Wing of the NBFCD regulates and monitors activities of modarabas and modaraba companies in accordance with the provisions of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (Modaraba Ordinance) and Modaraba Companies and Modaraba Rules, 1981 (Modaraba Rules).

The modaraba is an Islamic mode of business in which one party (the modaraba company) contributes its skills and efforts while the other (the modaraba certificate holders) provides the required funds; the profits earned are shared between the two parties in a pre-specified manner. The modaraba may be multi-purpose or specific-purpose, and may be perpetual or floated for a specified period.

During the last two decades, modarabas have provided attractive investment opportunities based on dividend yield. The modaraba sector has an established legal framework that allows flexibility to undertake any business activity, which is not against the injunctions of Islam. Modarabas are also exploring business ventures in the domestic and foreign markets. During the year under review, a leading fertilizer manufacturing company decided to float a modaraba for setting up a urea plant in Oman and registered a modaraba company for the purpose.

As on 30 June, 2003, there were thirty-eight Modarabas in existence with an aggregate paid-up capital of Rs. 8.31 billion. Total assets of the modaraba sector stood at Rs. 16.89 billion while the total equity amounted to Rs. 8.56 billion.

Key statistics of the modaraba sector as on 30 June, 2003, based on un-audited statements, are given below.

Table 15 Key Statistics of Modaraba Sector

(Rs. in million)

S.No.	Name of Modaraba	Paid-up Fund	Reserves	Total Equity	Total Assets
1	Al-Noor Modaraba	210.00	63.89	273.89	296.27
2	Allied Bank Modaraba	350.00	(86.85)	263.15	497.80
3	Al-Zamin Leasing Modaraba	177.05	54.32	231.37	1,086.60
4	B.F. Modaraba	51.41	7.41	58.81	61.12
5	B.R.R. International Modaraba	481.94	345.79	827.73	1,935.19
6	Constellation Modaraba	64.63	8.33	72.96	107.30
7	Elite Capital Modaraba	113.40	(12.08)	101.32	118.63
8	Equity Modaraba	262.00	166.00	428.00	455.00
9	Fayzan Manufacturing Modaraba	900.00	50.90	950.90	1,445.30
10	Fidelity Leasing Modaraba	206.33	69.97	276.30	440.56
11	Financial Link Modaraba	100.00	(98.51)	1.49	1.59
12	General Leasing Modaraba	56.25	(49.45)	6.80	176.33
13	Grindlays Modaraba	374.00	522.00	896.00	2,122.00
14	Guardian Modaraba	163.13	100.15	263.28	1,046.30
15	Habib Bank Modaraba, 1st	397.07	248.98	646.05	714.72
16	Habib Modaraba	252.00	171.00	423.00	1,562.00
17	Hajveri Modaraba	205.00	(146.00)	59.00	67.00
18	IBL Modaraba	116.88	28.85	145.73	213.46
19	Imroz Modaraba	30.00	49.18	79.18	156.86
20	Industrial Capital Modaraba	94.88	(94.54)	0.34	1.44
21	Interfund Modaraba	77.56	(65.65)	11.91	16.59
22	Investec Modaraba, 1st	30.00	(31.52)	(1.52)	26.93
23	Islamic Modaraba	100.00	22.25	122.25	146.55
24	Long Term Venture Capital Modaraba	395.92	(369.27)	26.66	185.84
25	Mehran Modaraba	83.16	(37.42)	45.74	46.76
26	Modaraba Al-Mali	182.57	71.50	254.07	329.35
27	Modaraba Al-Tijarah	75.78	(56.44)	19.34	32.81
28	National Modaraba	51.80	(40.33)	11.47	24.86
29	Pak Modaraba	125.40	(47.87)	77.53	85.15
30	Paramount Modaraba	50.00	20.98	70.98	108.96
31	Prudential Modaraba, 1st	872.18	(414.97)	457.21	486.56
32	Punjab Modaraba	340.20	117.12	457.32	608.01
33	Tri-Star Modaraba, 1st	140.80	(51.40)	89.40	91.26
34	Tri-Star Modaraba, 2nd	128.70	(89.27)	39.43	42.94
35	Trust Modaraba	273.00	153.18	426.18	566.04
36	UDL Modaraba	263.87	97.08	360.95	888.45
37	Unicap Modaraba	136.40	(137.66)	(1.26)	7.74
38	Unity Modaraba	300.00	(300.03)	(0.03)	580.00
	Total	**8,310.98**	**249.14**	**8,560.12**	**16,886.22**

4.2.4 Investment Banks

The Federal Government allowed the private sector to set up investment banks in pursuance of the Finance Division's notification No. SRO 585 (1)/87 dated July 13, 1987. The scope of activities of investment banks, as laid down in the said notification, broadly included money and capital market operations along with project and corporate finance services. Consequent to the re-classification of investment banks as NBFCs and rescinding of the notification No. SRO 585 (1)/87, these activities, with certain improvements, have been included in the NBFC Rules.

As on 30 June, 2003, there were thirteen NBFCs undertaking investment finance services, of which one was in voluntary liquidation. These NBFCs were thinly capitalized with a total equity base of Rs. 4.10 billion against the total assets of Rs. 29.03 billion. Certificates of deposits, which have been a significant source of funding for investment banks, amounted to Rs. 10.66 billion, i.e. 37 percent of total assets, as on 30 June, 2003. During the year under review, investment banks focused mainly on capital and money market operations.

Key statistics of NBFCs undertaking investment finance services as on June 30, 2003, based on un-audited statements, are given in the table below.

Table 16 Key Statistics of Investment Banks

(Rs. in thousand)

S.No.	Name of Investment Bank	Investments	Advances	Total Assets	Deposits	Total Equity
1	Atlas Investment Bank Limited	1,849,603	2,539,877	5,068,913	1,231,311	692,761
2	Asset Investment Bank Limited	28,638	48,111	100,900	116,044	(181,949)
3	Escort Investment Bank Limited	1,104,770	376,959	2,028,698	692,667	414,520
4	First Standard Investment Bank Limited	895,730	470,267	1,925,162	1,886,984	(65,276)
5	First International Investment Bank Limited	1,361,921	1,237,411	3,336,905	1,114,442	495,380
6	Fidelity Investment Bank Limited	862,067	588,008	2,012,562	446,501	576,764
7	Islamic Investment Bank Limited	1,448,118	239,378	2,913,319	2,521,314	(185,676)
8	Jehangir Siddiqui Investment Bank	2,115,399	216,973	3,072,958	343,856	942,516
9	Orix Investment Bank Limited	1,682,343	1,061,869	2,957,900	783,753	544,125
10	Prudential Investment Bank Limited	46,798	423,262	599,723	200,994	(20,206)
11	Security Investment Bank Limited	1,231,331	280,786	1,763,885	307,086	509,262
12	Trust Investment Bank Limited	775,699	1,779,333	3,247,937	1,016,720	380,850
	Total	**13,402,417**	**9,262,234**	**29,028,862**	**10,661,672**	**4,103,071**

4.2.5 Housing Finance Companies

The House Building Finance Corporation (HBFC) was established under the House Building Finance Corporation Act, 1952 and was the first organization to provide housing finance services in Pakistan. Other than HBFC, three companies have been engaged in providing housing finance services, of which one was in liquidation during the financial year.

Housing finance has been an under-developed sector and is yet to take off owing to certain constraints and difficulties, such as the complex legal framework, inadequate recovery and tenancy laws, weak enforcement of contracts and ambiguities arising from taxation laws and stamp duties. However, due to the recent shift in the Government's focus towards the housing sector coupled with other factors including availability of tax incentives, lower interest rates, restructuring of the financial sector, improved risk management practices and an

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

investment conducive environment, it is expected that the housing finance sector will gain strength in the coming years.

The housing finance sector is highly concentrated and is dominated by HBFC. As evident in Table 14 below, HBFC holds more than 90 percent of total assets, advances, investments and equity in the sector.

Key statistics of NBFCs undertaking housing finance services as on 30 June, 2003, based on un-audited statements, are as follows.

Table 17 Key Statistics of Housing Finance Companies

(Rs. in thousand)

S.No.	Name	Investments	Advances	Total Assets	Deposits	Total Equity
1	Asian Housing Finance Limited	15,062	53,835	98,226	22,814	74,489
2	HBFC	4,317,550	10,400,867	20,580,702	–	4,640,471
3	International Housing Finance Limited	7,506	172,889	295,964	12,356	170,980
	Total	**4,340,118**	**10,627,591**	**20,974,892**	**35,170**	**4,885,940**

4.2.6 Discount Houses

Similar to the housing finance sector, the discounting business in Pakistan is still under-developed. Of the four discount houses, only one was operational during the year while the remaining three were either under liquidation or were not performing discounting services.

4.2.7 Venture Capital Companies and Venture Capital Funds

The Venture Capital Companies and Venture Capital Funds Rules, 2001 have been made a part of the NBFC Rules upon re-classification of venture capital companies as NBFCs.

As of 30 June, 2003, the Commission had issued licences to two companies to undertake venture capital investment. Of these, one, namely, TRG Pakistan Limited was registered during the year under review. The company raised its capital through private placement as well as through public offering. It has been set up with the objective of investment, through a wholly owned subsidiary, in call centers located in the USA.

4.3 Performance Review

During the year, the NBFCD witnessed significant expansion in the scope of its activities due to transfer of regulatory authority over investment banks, discount houses, housing finance companies and venture capital companies from SBP to the Commission. Pursuant to appropriate amendments in the Banking Companies Ordinance, 1962, all Non-Bank Financial Institutions, except Development Finance Institutions, were brought under the regulatory ambit of the Commission. In order to ensure effective regulation and monitoring of financial institutions under its purview, the Commission developed and introduced the concept of NBFC through incorporation of enabling provisions in the Companies Ordinance.

Substantial progress was made during the year in the regulation and monitoring of NBFCs. The NBFCD issued fresh licences to NBFCs for undertaking different forms of business as mentioned in Section 282A of the Companies Ordinance. It was also instrumental in encouraging mergers and consolidation in the financial sector and during the year, no objection was granted in respect of three merger proposals. In addition, on recommendation of the Commission, certain tax incentives were introduced through the Finance Act, 2003. The availability of these fiscal incentives is expected to encourage growth of financial products and services.

The NBFCD, besides augmenting its regulatory capacity, undertook effective monitoring and surveillance of the institutions under its purview. During the year, special audits and inspection of books of accounts of a number of NBFCs were ordered for detailed scrutiny into their affairs.

In order to cope with the enhanced regulatory and monitoring responsibilities, restructuring of the NBFCD was carried out along with induction of professionally qualified staff. Under the new structure, the regulation of NBFCs has been segregated from the monitoring and inspection functions. While modarabas continue to be regulated under the supervision of the Registrar Modaraba, their monitoring has also been brought under the ambit of a central Monitoring and Inspection Wing in the NBFCD.

4.4 Development of Laws

4.4.1 The Companies (Second Amendment) Ordinance, 2002

To introduce the concept of NBFC, the requisite amendments in the Companies Ordinance were promulgated on 15 November, 2002 through the Companies (Second Amendment) Ordinance, 2002. Accordingly, a NBFC has been allowed to function as a company duly licenced by the Commission to carry out any one or more of the following forms of business, namely:

i investment finance services;
ii leasing;
iii housing finance services;
iv venture capital investment;
v discounting services;
vi investment advisory services; and
vii asset management services.

4.4.2 NBFC Rules

In order to provide a comprehensive regulatory framework, the NBFC Rules were notified on 1 April, 2003. The NBFC Rules consolidate and refine the existing legal requirements applicable to leasing companies, investment banks, discount houses, housing finance companies, venture capital companies, asset management companies and investment advisers. Upon issuance of the NBFC Rules, the following rules and notifications have been repealed/rescinded:

i Leasing Companies (Establishment and Regulation) Rules, 2000;
ii Investment Companies and Investment Advisers Rules, 1971;
iii Asset Management Companies Rules, 1995;
iv Venture Capital Companies and Venture Capital Funds Rules, 2001;
v Finance Division's notification No. SRO 585 (1)/87 dated 13 July 1987; and
vi Finance Division's notification No. SRO 1356(1)/90 dated 24 December 1990.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

The NBFC Rules include necessary provisions to cover specific aspects of the mutual funds industry. It also contains definitions of important terms and expressions to provide clarity and consistency in interpretation. The salient provisions pertaining to mutual funds are listed below:

i A closed-end fund can be floated in trust structure.

ii A closed-end fund can be floated for a definite or indefinite period of time.

iii A closed-end fund can invest in money market instruments.

iv A closed-end fund can only transact up to 10 percent of the value of transactions through a connected broker in an accounting year.

v A closed-end fund shall not invest more than 25 percent of its NAV in securities in any one sector.

vi Restrictions have been placed on sale or purchase of securities by a closed-end fund from its connected persons.

vii A closed-end fund shall have to maintain equity of Rs. 100 million to be eligible to continue its operations.

viii An investment adviser shall not be able to nominate more than 50 percent of the directors on the Board of a closed-end fund.

ix The Board of an investment company shall be accountable for any failure in adhering to the provisions of the Rules.

x A closed-end fund shall maintain its assets with a custodian.

xi The Commission can give directions to fund managers, closed-end funds, custodians and trustees, as it deems appropriate, in the interest of the capital market and the investors.

xii A mechanism for conversion of closed-end funds into open-ended funds has been provided.

xiii Separate auditors shall audit accounts of closed-end funds and their investment advisers and a fund shall rotate its auditors after every three years.

xiv The Commission can order special audit of closed-end funds and open-end schemes.

xv Remuneration of closed-end fund managers has been rationalized and linked to net assets of the fund during the year.

xvi The capital gains portion of income of closed-end funds has been excluded from the definition of distributable income.

xvii Renewal of licence of an investment adviser has been made mandatory.

xviii The contract for investment advisory is to be submitted to the Commission for approval.

xix Grace period in compliance with the NBFC Rules has been allowed to closed-end funds, which will come under the regulatory purview of the Commission upon their privatization.

xx The specific purpose as well as the limit and period of borrowing by an open-end scheme has been laid down.

xxi A minimum seed capital of Rs. 100 million has been prescribed for launch of a second open-end scheme by an asset management company.

xxii The Commission can require submission of any periodic or special report on affairs of open-end schemes and issue directives to trustees and fund managers on any aspect of the management of a fund.

4.4.3 Amendments in Modaraba Rules

Amendments in the Modaraba Rules were notified in June 2003 to require financial statements of modarabas to be prepared in accordance with IASs. The scale of fees, as prescribed under the Second Schedule of the Modaraba Rules, was also rationalized through the said notification. In addition, Form XI of the Modaraba Rules, prescribing the format of auditor's report to modaraba certificate holders, was revised to bring it in line with the format of auditor's report contained in the Companies (General Provisions and Forms) Rules, 1985. The new format requires the auditors to report that the financial statements of a modaraba have been prepared in conformity with IASs and clearly delineates the responsibilities of the management and those of the auditors.

4.5 Regulatory Actions

4.5.1 Issuance of Fresh Licences

In terms of Section 282C of the Companies Ordinance read with Rule 5 of the NBFC Rules, existing companies engaged in any form of business, as specified in Section 282A of the Companies Ordinance, and holding a valid licence/registration for carrying on such business are required to apply to the Commission for issuance of fresh licences.

After completion of necessary formalities, the Commission issued licences during the year to twenty-two companies to undertake the business of leasing, nine companies to provide investment finance services, two companies to undertake housing finance services, one company to provide discounting services and two companies to undertake venture capital investment.

In case of investment advisory services, out of sixty companies previously registered as investment advisers, only thirty-three applied for licence or sought clarification from the Commission in this regard. Three companies intimated their intention to discontinue their activities as investment advisers. While licences were issued to five companies during the year to provide investment advisory services, the remaining applicants were asked to meet the minimum conditions stipulated in the NBFC Rules for grant of licence.

Under the repealed Asset Management Companies Rules, 1995, the Commission had registered eight companies, all of which applied to the Commission for fresh licences. While one company was asked to address the observations noted during the processing of its application, licences were issued to seven companies during the year.

4.5.2 New Leasing Company Formed

After a gap of almost seven years, a new leasing company, namely, SME Leasing Limited was established during the year. It was the first leasing company that was granted licence under the provisions of the Leasing Companies (Establishment and Regulation) Rules, 2000 to carry out the business of leasing. SME Leasing Limited is a wholly owned subsidiary of SME Bank Limited.

4.5.3 Public Offering of Open-end Funds

During the year, the following open-end schemes with diversified investment objectives were approved for public offering:

i UMMF

UMMF has been launched with the objective of investment in Government securities, investment grade TFCs, rated corporate debt, COIs and other money market transactions. The launch of UMMF, with a target clientele of individuals as well as institutional investors, is expected to provide depth to the debt market. United Bank Limited contributed the seed capital of Rs. 250 million for the Fund.

ii UTP-Income Fund

UTP-Income Fund has been set up with the objective of investing in debt instruments. It is the second open-end fund launched by ABAMCO Limited and was floated in August 2002 with a seed capital of Rs. 50 million. As per its policy, the UTP Income Fund invests in fixed income securities including investment grade debt securities, Government securities, COT and spread transactions.

iii UTP-Islamic Fund

UTP-Islamic Fund is a balanced fund that provides investment options to investors with liquidity preference as compared to other Islamic modes of investment. A full-time Shariah Advisory Council has been appointed to evolve the criteria for selection of securities by the fund in view of its declared objective of investing in shariah-compliant securities. The Secretary to the Shariah Advisory Council looks after the day-to-day advisory requirements of the Fund and is responsible for placing before the Shariah Advisory Council any matter requiring the Council's opinion, verdict, Fatwa, advice or decision. Independence of the members of the Shariah Advisory Council is ensured by seeking prior approval of the Commission for any changes to it.

iv MSF

MSF has been set up with a policy of investing in portfolio of sub-schemes of varying maturities. The sub-schemes have been constituted to invest in Pak Rupee denominated bonds and debt securities issued by the Government as well as reverse repurchase transactions in Government securities. The management company of the Fund allocates the assets, within the risk parameters approved by the trustee, amongst the sub-schemes. Metropolitan Bank Limited acts as the trustee for MSF.

v DMMF

DMMF has a policy of primarily investing in debt securities. It has been set up to cater to the requirements of retail and institutional investors by providing them investment opportunities in a portfolio of investment grade debt securities, asset-backed securities, COIs, reverse repurchase transactions of short term maturity, spread transactions and COT. Bank Al-Habib Limited acts as the trustee for the Fund.

vi Applications for Launch of New Funds

Applications for the launch of four funds were at different stages of examination and approval by the Commission at the close of the year.

4.5.4 Mergers and Amalgamations

The trend of consolidation in the financial sector continued during the year. Mergers among NBFCs and modarabas were encouraged to strengthen their capital base and to achieve economies of scale. The Commission received merger proposals from the following companies during the year and granted them no objection certificates:

i merger of Capital Assets Leasing Corporation Limited with International Multi Leasing Corporation Limited;
ii merger of Paramount Leasing Limited with First Leasing Corporation Limited; and
iii merger of First IBL Modaraba into First UDL Modaraba.

Moreover, the following inter-sector and intra-sector mergers of modarabas were allowed by the High Courts during the year under review:

i Second and Third Prudential Modaraba merged into First Prudential Modaraba;
ii First Professionals Modaraba merged into Al-Zamin Leasing Modaraba; and
iii First Crescent Modaraba merged with Al-Towfeek Investment Bank Limited.

4.5.5 Privatization of ICP Mutual Funds

The Government privatized ICP mutual funds in three lots: Lot 'A' comprised thirteen funds, Lot 'B' comprised twelve funds and Lot 'C' comprised SEMF. These funds were privatized without converting them into a corporate or trust structure. A time limit of six months was given by the Privatization Commission and ICP to new fund managers under the Management Rights Transfer Agreement to restructure the privatized funds and bring them in a form acceptable under the prevalent rules. The Commission took necessary actions, including amendments in rules as well as transforming and aligning the structure of the privatized funds according to the existing legal provisions for facilitating their privatization. Among other conditions, the Commission required that assets of those funds should be placed in custody of separate entities, which were eligible to act as custodian/trustee. In addition, ABAMCO Limited and PICIC Limited, which acquired management rights of several ICP mutual funds included in Lot 'A' and Lot 'B', submitted proposals during the year for merger of certain funds and their transformation into trusts. These proposals were at different stages of approval by the Commission at the end of the year.

4.5.6 Permission to Issue COIs

During the year under review, two NBFCs engaged in the business of leasing applied to the Commission for issuance of COIs. In view of satisfactory performance, credit rating and corporate and fiduciary conduct of directors, the Commission granted permission to both companies to issue COIs.

The permission to issue COIs remained suspended during the financial year in the case of eight NBFCs undertaking leasing due to their failure to obtain investment grade credit rating.

4.5.7 Budget Proposals for Finance Act, 2003

On recommendations of the Commission, certain amendments in respect of NBFCs were introduced in the Income Tax Ordinance, 2001 through the Finance Act, 2003. These included, allowing initial depreciation in respect of imported second hand plant and machinery and removing the anomaly of tax deductibility in respect of lease rentals. In order to provide a level playing field to all participants in the financial sector, deduction has been allowed to NBFCs and modarabas in respect of profit accruing on non-performing loans and advances that is credited to the suspense account in accordance with the Prudential Guidelines.

4.5.8 Registration of Venture Capital Fund

During the year under review, a venture capital fund with the name of TMT-PKIC Incubation Fund Limited was registered. TMT Venture Limited is acting as adviser to the fund, which has raised its capital through private placement. The fund has been invested in various IT related projects.

4.5.9 Registration of New Modaraba Companies

During the year under review, two modaraba companies were registered under the Modaraba Ordinance, namely, Engro Management Services (Pvt.) Limited and Allied Engineering Management Services (Pvt.) Limited. Engro Management Services (Pvt.) Limited intends to float a specific purpose modaraba to raise funds for making an investment in Oman while Allied Engineering Management Services (Pvt.) Limited will float a multi-purpose perpetual modaraba to rent and sell industrial equipment.

4.5.10 SPVs for Asset-Backed Securitization

In December 1999, the Commission notified the Companies (Asset-Backed Securitization) Rules for development of asset-backed securitization, which constitutes an increasingly important mode of structured financing. Under the framework for asset-backed securitization, a company that is desirous of raising external finance (the originator) transfers its assets to a SPV. The SPV is required to be formed in Pakistan under the Companies (Asset-Backed Securitization) Rules, 1999. The consideration for the assets so transferred is raised by the SPV on security of the transferred assets.

The first certificate of registration to act as a SPV was granted to First Securitization Trust during the last financial year. During the year under review, the Commission granted three certificates of registration, details of which are as follows.

Table 18 SPVs for Asset-Backed Securitization

(Rs. in million)

S.No.	Name of Originator	Name of SPV	Size of Issue	Tenor	Pre- IPO	IPO	Private Placement
					Listed		Non-Listed
1	Paktel Limited	Securetel SPV Limited	990	3 years	640	200	150
2	TCS Road Transport (Pvt.) Limited	Transport Securitization Trust	50	3 years	–	–	50
3	Orient Petroleum Inc.	First Oil and Gas Securitization Limited	1,000*	3 years and 3 months	800*	200*	–

*Proposed

4.6 Monitoring and Enforcement

4.6.1 Inspection of Books of Account

During the year under review, the Commission ordered inspection of books of account of four NBFCs under Section 231 of the Ordinance. The inspections were carried out to ascertain whether proper books of accounts were maintained by the concerned NBFCs and information submitted to the Commission in various returns/documents was in agreement with the books of account. Certain irregularities were found in the case of one NBFC and the Commission initiated legal proceedings on the basis of the inspection report.

4.6.2 Special Audits of NBFCs

In terms of Section 282H of the Companies Ordinance, the Commission ordered special audits of eight NBFCs for detailed scrutiny into their affairs. In this regard, comprehensive terms of reference were prepared and independent special auditors were appointed to undertake the task.

4.6.3 Action against Management of a NBFC under Sections 271 and 276 of the Companies Ordinance

During the preceding financial year, in terms of Section 265 of the Companies Ordinance, the Commission ordered an investigation into the affairs of a NBFC engaged in the business of leasing. The order was based on the apprehension that the business of the company was being conducted with the intent to defraud its creditors and members, its affairs were not being managed in accordance with sound business principles and prudent commercial practices and the financial position of the company was such as to endanger its solvency. The investigation sought to ascertain the amount of the company's funds that had been misappropriated/misapplied, fix responsibility on relevant individuals and establish the true financial position of the company. Furthermore, the inspectors were advised to ascertain the amount of loss, if any, caused by the management of the company to its creditors and members due to fraudulent activities.

The inspectors concluded in their report that certain key persons of the management of the company were involved in fraudulent activities. The inspectors further reported that funds of the company had been misapplied and misappropriated by the directors, proper books of accounts were not maintained as required by the Companies Ordinance and the company's ability to continue as a going concern was in doubt due to misapplication/misappropriation of a huge amount of funds. The Commission, therefore, filed a petition in the High Court under Sections 271 and 276 of the Companies Ordinance for suspending the management of the company and to recover damages from the persons involved in fraud, misfeasance and breach of trust. In addition, a reference was also filed with the National Accountability Bureau for taking appropriate action against the persons involved in misappropriation of funds of the company.

4.6.4 National Investment Trust advised to issue Quarterly Reports

During the year, National Investment Trust (NIT) issued half-yearly (second quarter) accounts for the first time, on the advice of the Commission, in compliance with relevant legal provisions. NIT issued accounts for subsequent quarters as well.

4.6.5 Minimum Paid-up Capital for Mutual Funds

The NBFCD issued show cause notices to three closed-end mutual funds during the year under review in view of their failure to meet the minimum stipulated paid-up capital of Rs. 100 million under the repealed Investment Companies and Investment Advisers Rules, 1971. One of the mutual funds complied with the requirement by issuing bonus shares while another closed-end fund submitted plans to the Commission to meet the minimum level, which were under consideration at the close of the year. The directors of the third mutual fund were penalized after conclusion of due process.

4.6.6 Directive in respect of Anti-Money Laundering Initiative

As part of the Commission's initiative to combat money laundering practices in the corporate sector, the NBFCD directed the NBFCs to accept deposits from investors only after ensuring that an account has been opened in the investor's name using a standardized account opening form. Moreover, NBFCs were directed to use crossed cheques from 1 July, 2003 onwards for payments and receipts exceeding Rs. 50,000.

4.6.7 Action against Modarabas with Significant Erosion of Funds

Upon examination of annual accounts, it was observed that more than 70 percent of the paid-up funds of eight modarabas had been decimated by accumulated losses. Keeping in view the deteriorated financial position of the modarabas, show cause notices were issued to the respective management companies for winding up these modarabas under Section 23 of the Modaraba Ordinance. After implementation of necessary process, cases for winding up of two modarabas were filed before the Modaraba Tribunal. In case of the remaining six modarabas, revival plans, proposals for mergers and offers of voluntary change of management were submitted to the Commission, which were under consideration.

4.6.8 Penalties

During the year under review, punitive action was taken by the NBFCD against the erring management of modarabas. After completion of due process, penalties aggregating Rs. 4.19 million were imposed on the CEO and directors of the management companies of three modarabas for violation of the provisions of the Modaraba Ordinance, the Modaraba Rules and the Prudential Regulations.

4.6.9 Recovery of Penalties

During the year under review, proceedings against directors and auditors were initiated by the NBFCD for recovery of various penalties imposed by the Commission. Such penalties, in case of defaulters, are being recovered as arrears of land revenue. The NBFCD has ensured regular follow-up in this regard.

4.7 Administrative Appeals

During the year, the NBFCD concluded investigations into the affairs of an investment adviser and a mutual fund. The investigations were undertaken upon observing deterioration in the financial position of the adviser and the fund, gross negligence in the management of the fund, and failure to declare dividend to its shareholders since inception. Penalties were imposed on directors on the basis of findings of the investigation reports.

The directors who were penalized, subsequently, filed appeals against the orders of the NBFCD before the Appellate Bench of the Commission. However, the said orders were upheld by the Bench.

On the basis of the report of special auditor, appointed by the Registrar Modaraba, penalties were imposed on the directors and CEO of the management company of a modaraba under Section 32 of the Modaraba Ordinance. The directors, including the CEO, filed appeals against the orders of Registrar Modaraba before the Appellate Bench of the Commission, which waived off the penalties except in the case of CEO.

4.8 Judicial Cases

During the year under review, following cases were referred to the relevant courts:

i A petition under Sections 271 and 276 of the Companies Ordinance was filed in the High Court for suspending the management of a NBFC and to recover damages from the persons involved in fraud, misfeasance and breach of trust.

ii Under Section 23 of the Modaraba Ordinance cases for winding up of two Modarabas were filed before the Modaraba Tribunal.

iii A criminal complaint under Section 31 of the Modaraba Ordinance was lodged with the Modaraba Tribunal against the management of a modaraba that had filed false auditor's report with the annual accounts of the modaraba.

4.9 Oversight of Accountancy Profession

The NBFCD is responsible for oversight of the accountancy profession. The Accountancy Cell of the NBFCD has been involved in liaising with the Institute of Chartered Accountants of Pakistan (ICAP) to keep the relevant laws and regulations in synch with the dynamics of the profession, improving the financial reporting framework and enhancing integrity and independence of external auditors. In addition, the NBFCD has been actively involved in several initiatives, including the implementation of the Code of Corporate Governance and prescribing requirements for transfer pricing in order to enhance transparency in financial reporting.

4.9.1 Amendments in Chartered Accountants Bye-Laws, 1983

The Council of ICAP is empowered under the Chartered Accountants Ordinance, 1961 to make bye-laws for the purpose of carrying out the objects of the said Ordinance. The existing Chartered Accountants Bye-laws were notified by ICAP on 1 November, 1983 and have since been amended from time to time.

During the year under review, ICAP proposed amendments in bye-law 97 in the Chartered Accountants Bye-Laws, 1983 to provide appropriate changes in the induction scheme of trainee students in chartered accountants' firms. These amendments were reviewed by the Commission and notified in the official Gazette after obtaining approval of the Ministry of Finance.

4.9.2 Adoption and Implementation of IASs

The Commission has so far adopted all IASs issued by the International Accounting Standards Board except for three, of which, IAS 15 "Information Reflecting the Effects of Changing Prices" and IAS 29 "Financial Reporting in Hyperinflationary Economies" are not considered relevant to the economic circumstances in Pakistan and IAS 41 "Agriculture" is yet to be recommended by ICAP. These accounting standards, as notified by the Commission, govern the financial reporting framework of companies in terms of Section 234 of the Companies Ordinance.

Application of IAS 39, "Financial Instruments: Recognition and Measurement" on financial institutions and insurance companies remained a major issue during the year. The major impediment was inconsistencies between the requirements of IAS 39 and the provisions of relevant laws, particularly those relating to provisioning against non-performing assets and tax treatment of unrealized gains/losses on financial assets. In view of such inconsistencies, the NBFCD allowed certain relaxations in requirements of IAS 39 to leasing companies, insurance companies and modarabas, in consultation with the respective industry associations. In the case of mutual funds, IAS 39 was made fully applicable after appropriate amendments in the Income Tax Ordinance, 2001, as proposed by the Commission, were duly processed and notified by the Central Board of Revenue. In view of amendments in the tax law, the relaxation earlier given to mutual funds from the requirements of IAS 39 was withdrawn by the NBFCD to ensure full compliance with the said IAS by mutual funds.

During the year, the Modaraba Rules were amended in order to bring the modarabas within the ambit of IASs. Pursuant to the amendment, interim and annual accounts of modarabas are to be prepared in accordance with IASs notified by the Commission.

At the request of the Commission, ICAP issued a clarification to its members that the accounting policy for depreciation of fixed assets must be refined in view of the requirement for quarterly reporting by listed companies. Previously, many companies followed the policy whereby depreciation charge on their assets was calculated on yearly basis, with full year's depreciation charged in the year of addition and no charge in the year of disposal. However, with the introduction of quarterly reporting, this policy was no longer valid. The issue was raised by the Commission and consequently ICAP circulated the requirement that listed companies should be advised to change their depreciation policies so that depreciation is calculated with reference to a shorter time span - a day, week, month or quarter, as considered appropriate by the company.

4.9.3 Appointment as Auditors of Sole Proprietor Chartered Accountants

After detailed study of the provisions of the Companies Ordinance, the Partnership Act, 1932 and the Chartered Accountants Ordinance, 1961, the NBFCD clarified to companies that sole proprietor chartered accountants must be appointed as auditors in personal names instead of their business names. Moreover, chartered accountants, practicing as sole proprietors, were restricted from using the words "Chartered Accountants" after their business names as this was a misnomer. This clarification was considered expedient in order to resolve the ambiguities arising from use of business names along with the words "Chartered Accountants" by sole proprietors that conveyed incorrect impression of appointment of more than one chartered accountant as auditor of a company.

4.9.4 Code of Corporate Governance

The Code of Corporate Governance was issued by the Commission in March 2002 and was subsequently made a part of the listing regulations of the three stock exchanges. The Accountancy Cell remained the focal point for responding to the queries of companies regarding the various provisions of the Code on a day-to-day basis.

In order to facilitate effective implementation of the Code of Corporate Governance, the Commission took a number of measures during the year. These included compilation of 'Frequently Asked Questions' on the Code to provide guidance on specific practical issues faced by listed companies. In addition, checklists for compliance with the Code were issued to modarabas and NBFCs. The NBFCD also conducted research-based studies on various aspects of the Code.

4.9.5 Transfer Pricing

In view of the increasing use of 'other than arm's length price' for executing and recording transactions between related parties, the Commission introduced comprehensive requirements pertaining to transfer pricing during the year.

Through amendments in the Fourth Schedule to the Companies Ordinance, a comprehensive definition of related parties was laid down. Moreover, listed companies and their subsidiaries were required to disclose in their financial statements the accounting policy for transfer pricing to identify whether related party transactions were measured at arm's length basis in accordance with the permissible methods. Any transactions that were not conducted on arm's length basis were required to be disclosed separately.

In terms of amendments in the listing regulations of the stock exchanges, companies must now seek the approval of the Audit Committees and the Board of Directors for the transfer pricing policy. They are also required to prepare and maintain complete records in respect of transactions with related parties.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

5 Enforcement and Monitoring Division

- Operational Structure
- Performance Review
- Regulatory Actions
- Monitoring and Enforcement
- Cost Audits
- Administrative Appeals
- Judicial Cases

5. ENFORCEMENT AND MONITORING DIVISION

5.1 Operational Structure

5.1.1 Structure

The Enforcement and Monitoring Division (EMD) is responsible for review of published accounts of listed companies, their compliance with relevant laws and regulations as well as prosecution (except in relation to NBFCs, modarabas and insurance companies). It seeks to ensure transparency in financial reporting of listed companies and compliance with relevant laws, with the aim of protecting the interests of minority shareholders, creditors and other stakeholders. The EMD comprises the following Wings:

- Accounts
- Enforcement I
- Enforcement II
- Compliance and Prosecution

Mr. Rashid Sadiq, Executive Director (third from right) with officers of the EMD

5.1.2 Management Team

Mr. Rashid Sadiq, Executive Director, heads the EMD. He is a chartered accountant and has several years of executive experience with leading business groups. Three directors overseeing the functioning of the Wings assist him.

5.1.3 Laws Administered

i Companies Ordinance, 1984
ii Companies (Issue of Capital) Rules, 1996
iii Companies (Audit of Cost Accounts) Rules, 1998

5.2 Performance Review

During the year under review, the EMD took appropriate measures to ensure timely holding of Annual General Meetings (AGMs) by listed companies as well as circulation of their annual and quarterly accounts within the prescribed period of time. Its regulatory and enforcement actions also focused on discouraging unauthorized and unlawful inter-corporate financing, non-payment of dividend, irregularities relating to employees' provident fund accounts, non-compliance with statutory provisions, poor financial performance, and inadequate or misleading disclosures in accounts. The EMD ordered investigations into the affairs of various listed companies during the year. Based on the findings in the inspectors' reports, appropriate penal actions were taken against directors of those companies and their statutory auditors. Compliance with corporate laws and IASs by listed companies has notably improved as a result of stringent corporate discipline enforced by EMD.

The EMD, in the interest of shareholders, particularly focused its attention on cases of negligence and professional misconduct by statutory auditors in conducting the audit of listed companies. As a consequence, the auditors of listed companies have become more vigilant and conscious in performing their statutory duties due to which the quality of financial statements has considerably improved.

5.3 Regulatory Actions

5.3.1 Mergers and Amalgamations

The Commission has been proactive in facilitating mergers and amalgamations among companies in order to strengthen their capital base and achieve economies of scale. Consolidation within the corporate sector is expected to enhance the capacity to deal with systemic risk and to withstand exogenous shocks.

The Commission ensures that schemes of arrangement proposed by companies are not prejudicial to the interests of minority shareholders. In the event of a scheme of arrangement appearing to be detrimental to the interests of minority shareholders, the concerned Registrar makes a representation before the Court under Section 288 of the Companies Ordinance after obtaining comments of the EMD. During the year under review, the EMD received fourteen schemes of arrangements and, after due consideration, issued no objection in all the cases. During the year, the High Courts/SBP approved the following nine schemes:

i merger of Cherat Electric Company Limited with Cherat Cement Limited;
ii bifurcation and merger of Elahi Electric Company Limited with Ellcot Spinning Mills Limited, Prosperity Weaving Mills Limited and Nagina Cotton Mills Limited;
iii merger of Nafees Cotton Mills Limited with Legler Nafees Denim Mills Limited;
iv merger of Smith Kline French and Beecham Pakistan Limited with Glaxo Welcome Pakistan Limited;
v merger of WorldCall DotCom Limited with WorldCall Multimedia Limited;
vi merger of Pakistan operations of Emirates Bank Limited with Union Bank Limited;
vii merger of Khadim Ali Shah Bukhari and Company Limited with KASB Bank Limited;
viii merger of Kohinoor Raiwind Mills Limited and Kohinoor (Gujar Khan) Mills Limited with Kohinoor Textile Mills Limited; and
ix merger of Lucky Power Limited with Lucky Cement Limited.

The following five schemes were pending with the Courts at the end of the year:

i merger of Pak Water Bottlers (Pvt.) Limited and Northern Bottlers (Pvt.) Limited with Nestle Milk Pak Limited;
ii merger of Pak Saudi Fertilizer Limited with Fauji Fertilizer Limited;
iii merger of PEL Appliances with Pak Elektron Limited;
iv merger of Visionate (Pvt.) Limited with Dynea Pakistan Limited; and
v merger of Rhone Poulenc Rorer Pakistan (Pvt.) Limited with Aventis Pharma Pakistan Limited.

During the year under review, Elahi Electric Company Limited was proposed to be divided into three parts, each part to be merged with Ellcot Spinning Mills Limited, Prosperity Weaving Mills Limited and Nagina Cotton Mills Limited, respectively. The consideration offered by Nagina Cotton Mills Limited was in the form of redeemable preferred shares, a concept introduced in Pakistan for the first time. The EMD examined the scheme of arrangement and advised certain improvements and requisite amendments. The scheme was finally sanctioned on 25 October, 2002 by the concerned High Court.

The merger of Kohinoor Raiwind Mills Limited and Kohinoor (Gujar Khan) Mills Limited with Kohinoor Textile Mills Limited was initially rejected by the honourable Lahore High Court due to the Commission's apprehensions about the swap ratios being prejudicial to the interests of shareholders of Kohinoor Raiwind Mills Limited. The merging companies filed intra court appeal against this decision. However, the honourable division bench of the Lahore High Court dismissed the appeal. Subsequently, the swap ratios were improved considerably to benefit the shareholders of all three companies and the new schemes of arrangements were presented to the shareholders. The same were finally approved by the honourable Lahore High Court.

5.3.2 Payment of Dividend by Listed Companies

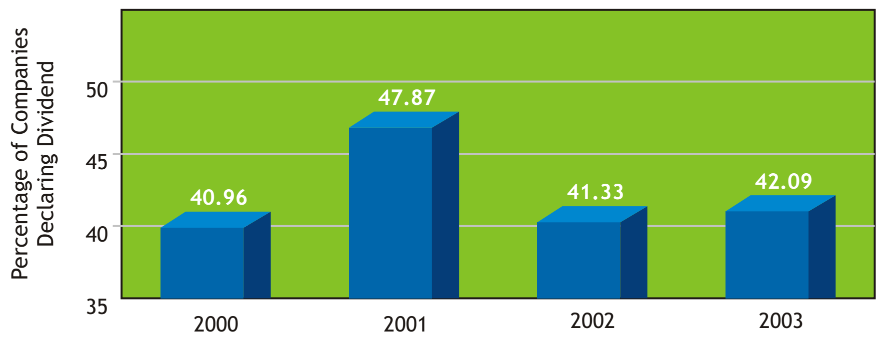
During the year under review, 245 companies paid dividends to their shareholders. The pattern of dividend payment by listed companies during the last four years is presented as follows.

Table 19 Sector-wise Pattern of Dividend Declared

S.No.	Sector	2000		2001		2002		2003	
		No. of Companies	Dividend Declared	No. of Companies	Dividend Declared	No. of Companies	Dividend Declared	No. of Companies	Dividend Declared
1	Investment Companies/ Securities Companies/Banks	39	20	38	25	40	17	24	15
2	Insurance	39	17	39	14	39	18	38	15
3	Textile Spinning	146	51	138	78	133	57	126	45
4	Textile Weaving	26	9	25	7	21	6	20	4
5	Textile Composite	54	17	54	30	57	23	56	23
6	Woolen	8	2	7	2	6	2	6	2
7	Synthetics and Rayon	26	12	26	8	24	10	23	9
8	Jute	8	3	7	2	7	1	7	2
9	Sugar and Allied	38	21	38	21	38	13	38	14
10	Cement	20	4	20	6	21	5	22	9
11	Tobacco	6	2	6	2	6	2	5	2
12	Fuel and Energy	28	20	27	19	25	17	25	16
13	Engineering	16	4	16	4	14	4	13	5
14	Auto and Allied Engineering	25	11	25	9	25	10	25	14
15	Cables and Electric Goods	15	4	15	5	13	4	12	4
16	Transport and Communication	7	2	8	3	9	4	9	3
17	Chemical and Pharmaceuticals	39	23	39	23	38	22	38	25
18	Paper and Board	15	8	15	7	14	7	13	7
19	Vanaspati and Allied	19	–	19	1	19	–	18	3
20	Construction	4	–	4	2	4	–	4	–
21	Leather and Tanneries	8	6	8	6	7	6	5	3
22	Food and Allied	22	13	22	13	20	12	18	12
23	Glass and Ceramics	10	4	10	5	10	5	10	5
24	Miscellaneous	29	12	29	12	27	10	27	8
	Total	**647**	**265**	**635**	**304**	**617**	**255**	**582**	**245**

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Chart 5 Dividend Declared by Listed Companies During the Financial Years 2000-2003



5.4 Monitoring and Enforcement

5.4.1 Holding of AGMs

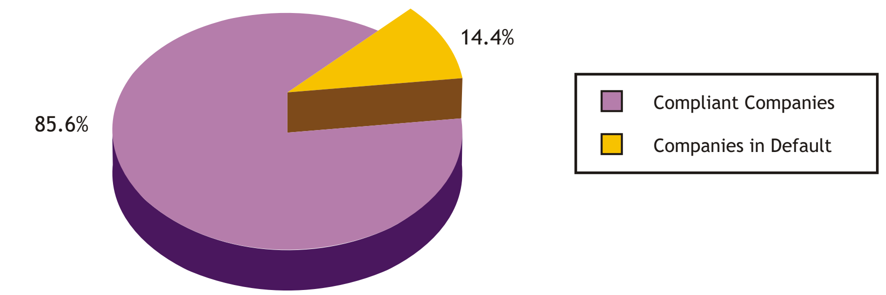
The AGMs provide a forum for shareholders to consider and approve significant matters relating to management and performance of companies, including approval of annual accounts, declaration of dividend, appointment of auditors, and election of directors. As a result of amendments made in Section 158 of the Companies Ordinance, listed companies are now required to hold AGMs in every calendar year within a period of four months instead of six months following the close of their financial year. Since the amendment was made in October 2002 when the four-month period had almost elapsed and in consideration of the hardship faced by companies whose financial year closed prior to the aforesaid amendment, the Commission, through circular dated 6 November, 2002, allowed a one-time general extension for a period of sixty days to enable companies to hold their AGMs within a period of six months instead of four months. Accordingly, companies whose financial year closed on 30 September, 2002 benefited from this relaxation.

During the period under review, the EMD undertook strict monitoring to ensure that listed companies held AGMs within the prescribed period of time and in an orderly manner. Of the 582 companies being monitored by the EMD, 498 companies were compliant whereas eighty-four companies failed to hold their meetings within the specified time period. The position is illustrated as under.

Table 20 Extent of Compliance with the Requirement for Timely Holding of AGM — Three-year Comparison

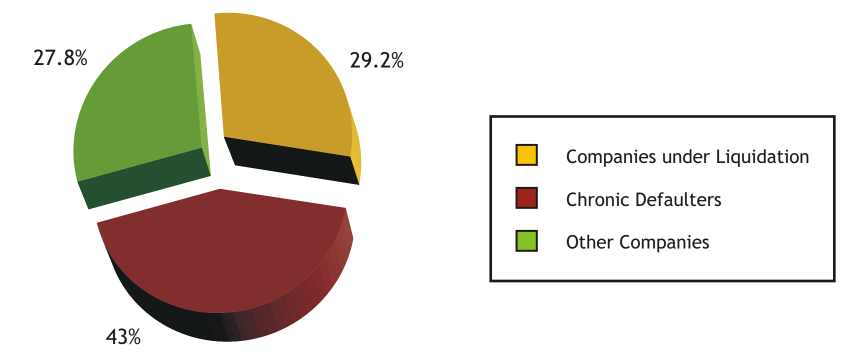
Year	Total Listed Companies	No. of Compliant Companies	Percentage of Compliance
2003	582	498	85.6
2002	617	548	88.8
2001	635	534	84.1

Chart 6 Status of Compliance with the Requirement to Hold AGM within the Stipulated Time Period



The break-up of non-compliant companies is as under.

Chart 7 Break-up of Non-compliant Companies



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Table 21 shows sector-wise status of compliance with the requirement to hold AGM on the basis of the financial year-end.

Table 21 Sector-wise Status of Holding of AGM within the Prescribed Time Period

S.No.	Sector	AGMs of Companies with Financial Year End										Default
		June		September		December		Others		Total		
		Due	Held	Due	Held	Due	Held	Due	Held	Due	Held	
1	Investment Companies/ Securities Companies/Banks	9	9	–	–	15	15	–	–	24	24	–
2	Insurance	–	–	–	–	38	28	–	–	38	28	10
3	Textile Spinning	1	1	125	109	–	–	–	–	126	110	16
4	Textile Weaving	1	1	19	12	–	–	–	–	20	13	7
5	Textile Composite	13	9	43	40	–	–	–	–	56	49	7
6	Woolen	5	3	1	1	–	–	–	–	6	4	2
7	Synthetics and Rayon	21	16	1	1	1	–	–	–	23	17	6
8	Jute	7	6	–	–	–	–	–	–	7	6	1
9	Sugar and Allied	1	1	37	36	–	–	–	–	38	37	1
10	Cement	22	22	–	–	–	–	–	–	22	22	–
11	Tobacco	4	4	–	–	1	1	–	–	5	5	–
12	Fuel and Energy	25	24	–	–	–	–	–	–	25	24	1
13	Engineering	11	9	–	–	2	1	–	–	13	10	3
14	Auto and Allied	18	15	–	–	4	4	3	3	25	22	3
15	Cables and Electric Goods	9	6	1	1	2	1	–	–	12	8	4
16	Transport and Communication	8	6	–	–	1	1	–	–	9	7	2
17	Chemical and Pharmaceutical	22	20	1	1	14	14	1	1	38	36	2
18	Paper and Board	11	9	1	1	1	1	–	–	13	11	2
19	Vanaspati and Allied	14	11	1	–	1	–	2	2	18	13	5
20	Construction	4	3	–	–	–	–	–	–	4	3	1
21	Leather and Tanneries	3	3	–	–	2	2	–	–	5	5	–
22	Food and Allied	13	10	1	1	4	4	–	–	18	15	3
23	Glass and Ceramics	10	7	–	–	–	–	–	–	10	7	3
24	Miscellaneous	23	20	–	–	3	2	1	–	27	22	5
	Total	**255**	**215**	**231**	**203**	**89**	**74**	**7**	**6**	**582**	**498**	**84**

During the year, the EMD issued thirty-one show cause notices for defaults in holding of AGMs within the prescribed time period. As a consequence of these proceedings, penalties amounting to Rs. 1,035,000 were imposed in fifteen cases.

5.4.2 Presentation of Annual Accounts in AGMs

The directors of listed companies are required, under the Companies Ordinance, to present the annual financial statements of companies before shareholders at AGMs. A delay in presentation of annual accounts or a failure to present them altogether in the AGM is a default that is punishable with imprisonment and fine.

During the year, the EMD continued its surveillance activities to identify companies that failed to prepare, circulate and present their accounts in accordance with the provisions of law. Vigilant monitoring led the EMD to identify eighty-four companies, which had not prepared and presented their accounts to the shareholders in AGMs within the specified time frame.

Last year, twenty-nine cases were initiated for prosecution of directors of defaulting companies. Of these, two cases were decided during the year under review. In the case of one company, warning was given to the directors to be careful in future. The case against the directors of another company was dismissed by the Court against which the Commission filed an appeal in the honourable Lahore High Court. As on 30 June, 2003, twenty-eight cases were pending adjudication in the respective courts.

5.4.3 Disclosure of Information in Case of Special Business

The Companies Ordinance requires that where any special business (a business other than the approval of annual audited accounts, declaration of dividend, appointment and fixation of remuneration of auditors, and election of directors) is to be transacted at a general meeting, a statement setting out all material facts concerning the business should be circulated to shareholders along with the notice of the meeting. The intention is to apprise shareholders in advance about details of significant matters to be decided in general meetings. The Companies Ordinance further requires that the nature of interest of a director, whether directly or indirectly, in such special business should be disclosed. During the year, the EMD focused its monitoring efforts on requiring listed companies to provide material information to shareholders and examined the statements of material facts pertaining to special businesses to be transacted by 122 listed companies. Strict monitoring by the EMD resulted in an enhanced disclosure of information by companies.

Where material deficiencies were noted in the notices of meetings, the Commission took appropriate actions. Accordingly, thirteen companies were advised to circulate addendums whereas nine companies withdrew their resolutions, on the direction of the EMD, as they were contrary to the provisions of the Companies Ordinance.

During the year under review, proceedings under Section 160 of the Companies Ordinance were initiated against five companies for not annexing the statement of material facts with the notice of AGM and failure to include special business in the agenda of the notice. Penalties amounting to Rs. 270,000 were imposed on three companies due to lack of satisfactory explanation. Generally, actions were taken in respect of deficiencies in the following matters:

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

i remuneration of CEO and directors;
ii investment in associated companies;
iii sale of assets by companies;
iv alteration in memorandum and articles of association;
v increase in authorized share capital;
vi issuance of bonus shares;
vii sale or lease of whole undertaking or sizeable part thereof; and
viii election of directors/increase or decrease in the number of directors.

5.4.4 Circulation of Quarterly Accounts

During the year under review, Section 245 of the Companies Ordinance, *inter alia*, was amended to require preparation and submission of quarterly accounts in place of half-yearly accounts. As a result of the amendment, companies are now required to submit quarterly accounts for first, second and third quarters within the financial year. The accounts for the first and third quarters are required to be submitted within one month of the close of the respective quarters. In respect of second quarter's accounts, the Commission, vide Circular No. 9 of 2003 dated 19 May, 2003, granted a general relaxation of further one month, enabling listed companies to circulate these accounts with limited scope review by statutory auditors within a period of two months of the close of the second quarter. Consequent to amendment in Section 245 of the Companies Ordinance, the requirement for circulation of fourth quarter's accounts by listed companies has been abolished.

A total of 1,335 quarterly accounts of listed companies were due to be filed during the year. Although it was the second year of its implementation, this requirement was substantially complied with. As many as 1,118 accounts were circulated by listed companies, exhibiting 84 percent compliance. The status of compliance for the year under review is tabulated below.

Table 22 Circulation of Quarterly Accounts

	1st Quarter 2003	2nd Quarter 2003	3rd Quarter 2003	Total
Accounts due	582	492	261	1,335
Accounts submitted	485	417	216	1,118
Compliance (in percentage)	83	85	83	84

During the year ended 30 June, 2003, ninety-four companies did not submit 217 accounts for different quarters. In view of the failure to comply with the requirements of the Companies Ordinance, eighty-one show cause notices were issued to fifty companies. After completion of due process, penalties amounting to Rs. 645,000 were imposed in twenty-three cases. As on 30 June, 2003, fifty-six cases were pending adjudication.

Considering the advantages of sharing of information via Internet, the EMD, vide Circular dated 26 May, 2003, advised listed companies to take necessary steps for maintenance of websites so that information relating to their accounts could be made available online. The Commission is considering a proposal to allow listed companies to place the quarterly accounts on their websites instead of transmitting them to shareholders by post.

5.4.5 Examination of Annual and Interim Accounts

During the year under review, the EMD undertook careful examination of published accounts of listed companies to identify deficiencies in disclosure and other irregularities. As a result of strict monitoring by the EMD, there has been more comprehensive and transparent presentation of financial statements by listed companies.

i Disclosures in Financial Statements

The Fourth Schedule to the Companies Ordinance, together with IASs, form the framework for preparation and presentation of financial statements of listed companies. During the year, the financial statements of companies were thoroughly examined and forty-eight listed companies were asked to furnish explanations with regard to the deficiencies noted. Upon a review of explanations submitted to the Commission, proceedings were initiated against two companies for not presenting true and fair view in the financial statements.

ii Disclosures in Directors' Reports

The Companies Ordinance lays down the information to be provided in the directors' reports to be annexed with the financial statements of listed companies in terms of Section 236. The EMD noted that vital information was missing from directors' reports in several cases with the result that shareholders were deprived of meaningful information about the affairs of these companies. During the year, directors of eight companies were asked to furnish reasons for deficiencies in the respective directors' reports. Based on a review of the explanations, proceedings were initiated against the CEO of one company for grossly inadequate disclosures in the directors' report.

iii Maintenance of Proper Books of Account

The directors of listed companies are required to maintain proper books of account that give a true and fair view of the state of affairs of companies. Failure to maintain proper books of account is an offence in terms of the Companies Ordinance, which is punishable with imprisonment and fine.

During the year under review, the EMD noted three cases where statutory auditors had qualified their reports on financial statements of the companies for non-maintenance of fixed assets register. The managements of those companies were directed to undertake necessary steps for preparation of the fixed assets register within one year, failing which appropriate penal proceedings would be initiated.

iv Irregularities in Provident Fund

The Companies Ordinance requires companies to deposit the employees' and employers' contributions to provident fund in a separate account and has prescribed the instruments into which this money should be invested.

During the year under review, the EMD initiated actions against directors of companies and trustees of provident fund trusts for committing irregularities in employees' provident funds. Show cause notices were issued and penalties amounting to Rs. 325,000 were imposed on directors of six companies and trustees. Moreover, directions were given to repay the contributions and loans due to respective funds along with accrued mark-up. In addition, a direction under Section 472 of the Companies Ordinance was issued in one case to repay the liability due to the provident fund account within thirty days.

5.4.6 Removal of Unqualified Auditor

Section 254 of the Companies Ordinance sets out the eligibility criteria for auditors of listed companies. During the course of the year, two cases were noted where the auditors of listed companies were not qualified for appointment in terms of Section 254. Necessary proceedings were initiated for penalizing the ineligible auditors and appointing qualified persons in their place. Furthermore, it was reiterated through a circular dated 27 December, 2002 that listed companies should appoint only those auditors, which have been given a satisfactory rating under the Quality Control Review Programme of ICAP.

5.4.7 Violation of Section 150 of the Companies Ordinance

During the year under review, the EMD initiated proceedings against a company for refusal to allow access to copies of register of shareholders to one of its members. A fine of Rs. 20,000 was imposed on the CEO and directors of the company for violating the provisions of Section 150 of the Companies Ordinance.

5.4.8 Inter-corporate Financing

While inter-corporate financing constitutes a major source of funding for productive investment and capital formation, management and sponsors of companies have abused this avenue for transfer of funds to their own benefit. In order to curb this misuse of funds, the Companies Ordinance has placed certain restrictions on investments in associated companies.

During the year under review, the Commission made efforts to deter unlawful inter-corporate financing. Timely interference by the EMD caused four companies to withdraw the proposed resolutions for making investments, aggregating Rs. 271 million, in their associated companies. Cases were also identified where investments were either made in associated companies without approval of shareholders or free of return. Proceedings were initiated against a company for violation of mandatory provisions of the Companies Ordinance. Together with eight cases brought forward from previous years, there were a total of nine cases, of which four were disposed of during the year while five were pending adjudication as of 30 June, 2003. As a result of actions taken by the EMD, it is expected that more than Rs. 776.109 million would be returned to the concerned companies.

5.4.9 Proper Exercise of Powers by Directors

Provisions of the Companies Ordinance place certain restrictions on exercise of powers by directors. Two cases of violation of these provisions were identified in previous years. In case of a company, a fine of Rs. 35,000 was imposed on its directors. Investigation proceedings were also initiated against the company to determine the transparency of sale of assets and reasons for huge loss suffered by the company in consequence of the unauthorized sale. In the second case, the directors of the company obtained a stay order from the Court in respect of the proceedings initiated by the EMD. The case was decided in favour of the Commission against which the company filed an intra-court appeal. The decision on the appeal was pending at the end of the year under review.

5.4.10 Loans to Directors

Section 195 of the Companies Ordinance prohibits public companies and private companies that are subsidiaries of public companies to provide loans, or give guarantees in connection with loans, to their directors. These restrictions equally apply to loans or guarantees to relatives of directors and private companies or firms in which such directors have substantial interest. During the year under review, the EMD initiated show cause proceedings against a company, which was found to have created a charge over its assets in favour of financial institutions/banks to secure loans for its associated undertaking.

5.4.11 Irregularities in Holding of Election of Directors

During the year under review, a company did not hold elections of the Board of directors after expiry of the term of office of directors and did not report impediments to the Registrar within fifteen days of the date of elections as required by law. In consideration of violation of Section 178 of the Companies Ordinance, necessary proceedings were initiated against the company. The case was pending adjudication at the end of the year.

5.4.12 Delay in Transfer of Shares

The EMD took serious note of complaints received from investors regarding delay in transfer of shares. As a result, show cause notices were issued to companies for not transferring the shares. Two cases were disposed of during the year and fines amounting to Rs. 75,020 were imposed on the directors including the CEO. Two cases were pending adjudication at the end of the year.

5.4.13 Misstatement in Prospectus

During the year under review, the EMD initiated proceedings under Sections 60, 66 and 492 of the Companies Ordinance against the directors of three companies.

While complaint was filed against one company in the Court of Session, the other two cases were pending adjudication at the end of the year. The case filed against one company in the Court of Session during the previous year was also pending as of 30 June, 2003.

5.4.14 Actions against Auditors

During the year under review, scrutiny of the accounts revealed several irregularities in the observance of the requirements of IASs and Fourth Schedule to the Companies Ordinance. The EMD identified several cases of negligence of statutory auditors where they had failed to act in conformity with the statutory requirements. The reports issued by such auditors either failed to bring out material facts about the affairs of companies or otherwise contained untrue statements. As a result, proceedings in nineteen cases were initiated against fourteen firms of chartered accountants during the year. Of the nineteen cases, five were pending as of 30 June, 2003 while penalties were imposed in remaining fourteen cases. These cases of negligence were also referred to ICAP for necessary action.

The perseverance of the EMD to take strict actions against erring auditors has not been without results. The statutory auditors of listed companies have now become extremely cautious about the quality of their audit work, as is evident from the large number of modified audit reports, which totaled 213 during the year as compared to 162 in the previous year.

5.4.15 Investigations into the Affairs of Companies

The EMD initiates investigations into the affairs of companies to identify misstatements in financial statements, continuous deprivation of reasonable return to shareholders, or violation of statutory provisions conducted to defraud creditors or members.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

During the year under review, the EMD ordered investigations into the affairs of seven companies under Sections 263 and 265 of the Companies Ordinance in view of concerns about the following:

i non-compliance with statutory requirements;
ii complaints of shareholders about poor performance and mismanagement;
iii inconsistencies in operating results;
iv considerable deterioration in performance; and
v oppression of minority shareholders.

5.4.16 Liquidation of Companies

Section 305 of the Companies Ordinance provides that a company shall be liable for winding up by the court if default is made in holding two consecutive AGMs or if the company suspends its business for more than one year. During the year, the Commission received applications from Registrars for sanction of the Commission to present winding up petitions against twenty listed companies that had either failed to hold two consecutive AGMs or suspended their business for more than a year. The Commission, after giving an opportunity to the companies accorded its sanction for presentation of winding up petitions against the said listed companies.

5.4.17 Investors' Grievances

During the year under review, 919 applications were received from investors as compared to 402 complaints received during the year 2002. All the complaints were appropriately and expeditiously resolved from small shareholders. These complaints pertained mainly to the following issues:

i non-receipt of dividend warrants;
ii non-encashment of dividend warrants;
iii delay/non-transfer of shares and issue of duplicate shares;
iv non-receipt of annual and interim accounts; and
v wrongful deduction of Zakat.

5.5 Cost Audits

Section 258 of the Companies Ordinance empowers the Commission to direct such class of companies as has been required to maintain cost accounting records under Section 230 (1) (e) of the Companies Ordinance to have the cost accounts audited in accordance with specified stipulations by an auditor who is a chartered accountant or a cost and management accountant. In this regard, the Commission framed the Companies (Audit of Cost Accounts) Rules, 1998 (Cost Audit Rules) that were notified on 25 July, 1998. The table below gives relevant information about the enforcement of cost audit requirements in the industries, which are required to maintain cost accounting records in terms of the orders under Section 230 (1) (e).

Table 23 Enforcement of Cost Audits

S.No.	Industry	Notification	Date of Enforcement	Number of Companies
1	Vegetable Ghee and Cooking Oil	SRO 1131 (I)/90 dated 1 November, 1990	January 1991	19
2	Cement	SRO 386(I)/94 dated 14 May, 1994	July 1994	22
3	Sugar	SRO 97(I)/2001 dated 13 February, 2001	October 2001	38

5.5.1 Cost Audit Reports

In compliance with the Cost Audit Rules, the Commission received fifty-six cost audit reports during the year. This shows marked improvement over last year when only twenty-four reports were received.

5.5.2 Actions against Companies

During the year under review, show cause notices were issued to two companies for non-compliance with the Cost Audit Rules. The violations related mainly to non-appointment of cost auditors within the prescribed period of time. After completing necessary proceedings, cases initiated against both the companies were concluded and penalty was imposed in one case.

5.5.3 Actions against Cost Auditors

During the year, eleven show cause notices were issued to cost auditors for non-submission or delayed submission of cost audit reports. Of these, ten show cause notices were issued to cost auditors of sugar companies while one was issued to the auditor of a company in the vegetable ghee and cooking oil industry. After completion of due process, these cases were disposed of and appropriate action was taken.

5.6 Administrative Appeals

During the year, Executive Director, EMD passed a number of orders appointing inspectors, imposing penalties for violations of different provisions of law and issuing directions to make good the defaults committed by the listed companies. Of these, twenty-eight orders were challenged before the Appellate Bench of the Commission. The EMD defended these cases and, resultantly, twenty-three orders were upheld while only one was set aside. Upon the close of the year 2003, four appeals were pending decision.

5.7 Judicial Cases

Any person, who is not satisfied with the order of the Appellate Bench, has the right to challenge the order of Appellate Bench in the High Court. During the year, of the twenty-four orders upheld by the Appellate Bench of the Commission, three companies challenged the orders in the High Courts. These were pending adjudication at the end of the year.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

ANNUAL REPORT 2003

6 Company Law Administration Division

- Operational Structure
- Sector Overview
- Performance Review
- Development of Laws and Regulations
- Regulatory Actions
- Monitoring and Enforcement
- Administrative Appeals
- Judicial Cases
- Developmental Activities

6. COMPANY LAW ADMINISTRATION DIVISION

6.1 Operational Structure

6.1.1 Structure

The Company Law Administration Division (CLAD) is charged with the responsibility of administering and enforcing the Companies Ordinance as well as other relevant laws, rules and regulations. It supervises and coordinates the working of the regional offices, known as CROs, which are located at Karachi, Sukkur, Multan, Faisalabad, Lahore, Islamabad, Peshawar and Quetta. The CLAD also grants licences and accords approvals in certain matters as provided in the Companies Ordinance.

The CLAD consists of the following Wings:

- Coordination, Liaison and Enforcement
- Regulation, Compliance and Appeals
- Investigation and Prosecution
- Licensing and Approval

Officers of the CLAD

6.1.2 Management Team

The position of Executive Director, CLAD is currently vacant and the Division is headed by the Commissioner. He is assisted by a Director, a Registrar of Companies and three Additional Registrars of Companies, who oversee licensing, approval, regulation, compliance and appeals. Furthermore, the CROs at Karachi and Lahore are headed by Additional Registrars while the remaining six CROs are headed by either Joint Registrar, Deputy Registrar or Assistant Registrar.

6.1.3 Laws Administered

i Companies Ordinance, 1984 insofar as it relates to private companies, non-listed public companies and foreign companies

ii Companies (Appointment of Legal Advisers) Act, 1974

iii Companies (Appointment of Legal Advisers) Rules, 1975

iv Companies (General Provisions and Forms) Rules, 1985

v Companies (Registration Offices) Regulations, 1986 (revised in 2003)

vi Companies (Invitation and Acceptance of Deposit) Rules, 1987

vii Companies (Issue of Capital) Rules, 1996 (for non-listed companies)

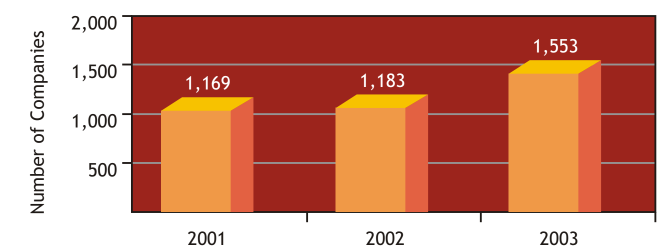
viii Companies (Audit of Cost Accounts) Rules, 1998

6.2 Sector Overview

6.2.1 Incorporation of Companies

During the year, 1,553 new companies were registered by the Commission. The number of newly incorporated companies during the year grew by 31.28 percent as compared to last year. Moreover, the companies incorporated during the year with liability limited by shares increased by 33.7 percent over those incorporated during the previous year.

Chart 8 Registration of Companies During the Financial Years 2001-2003



Details of companies registered during the year is given in Table 24 below while their geographical spread is indicated in Table 25.

Table 24 Details of Companies Registered During the Financial Years 2001-2003

Nature	Number of Companies		
	2001	2002	2003
Companies limited by shares			
Public	27	28	44
Private	1,099	1,093	1,409
Companies limited by guarantee and associations not-for-profit	14	23	28
Foreign companies	29	39	26
Single Member Private Limited Companies (SMCs)	–	–	46
Total	**1,169**	**1,183**	**1,553**

Table 25 Geographical Spread of Companies Incorporated During the Year

Type of Companies	Punjab	Sindh	Balochistan	N.W.F.P.	Total
Companies limited by shares					
Public	24	19	–	1	44
Private	851	498	15	45	1,409
Companies limited by guarantee, not-for-profit associations and trade organizations	17	9	2	–	28
Foreign companies	16	9	–	1	26
SMCs	41	4	–	1	46
Total	**949**	**539**	**17**	**48**	**1,553**

The geographical spread of registered companies as on 30 June, 2003 is shown in the following table.

Table 26 Geographical Spread of Companies as on 30 June, 2003

Type of Companies	Punjab	Sindh	Balochistan	N.W.F.P.	Total
Companies limited by shares					
Public	1,401	1,134	55	121	2,711
Private	20,493	14,829	325	2,403	38,050
Companies limited by guarantee, not-for-profit associations and trade organizations	192	242	15	16	465
Foreign companies	271	267	3	9	550
Companies with unlimited liability	5	–	1	–	6
SMCs	41	4	–	1	46
Total	**22,403**	**16,476**	**399**	**2,550**	**41,828**

The pattern of authorized capital of companies with liability limited by share capital, registered during the year, and the relevant sector in which they were to operate are given in Table 27 and Table 28.

Table 27 Pattern of Authorized Capital of Companies Registered During the Year

Authorized Capital	Number of Companies
Below Rs. 0.5 million	69
Rs. 0.5 million and above but below Rs. 1 million	324
Rs. 1 million and above but below Rs. 2.5 million	555
Rs. 2.5 million and above but below Rs. 5 million	112
Rs. 5 million and above but below Rs. 10 million	127
Rs. 10 million and above	312
Total	**1,499**

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Table 28 Sector-wise Pattern of Companies Limited by Shares Registered During the Year

Authorized Capital	Number of Companies
Commercial Banks	3
Investment Banks/Companies	1
Leasing Companies	1
Mutual Funds and Management Companies	2
Modaraba Management Companies	1
Brokerage Houses	22
Investment Advisers	1
Insurance Companies	1
Textile Spinning	14
Textile Weaving	6
Textile Composite and Others	109
Synthetics and Rayon	15
Woolen	1
Sugar and Allied	3
Tobacco	2
Fuel and Energy	46
Power Generation	7
Engineering	35
Auto and Allied	14
Electrical and Electronics	10
Transport	40
Communication	272
Chemical and Pharmaceuticals	94
Paper and Board	6
Ghee and Cooking Oil	10
Construction	39
Housing and Real Estate	5
Food and Allied	52
Leather and Tanneries	12
Miscellaneous	675
Total	**1,499**

6.3 Performance Review

In order to facilitate the investors and the general public through prompt and effective information dissemination, the Commission has undertaken a number of measures, including the introduction of online search facility for availability of company's name, publication of Promoter's Guide for incorporation of a company, accessibility to statutory forms and schedule of fees payable to the Registrar and the Commission through the website, and establishing Corporate Registration and Compliance System (CRCS) and Documents Management System to register and regulate companies in a systematic manner. During the year under review, the CLAD focused its attention on automating and modernizing the CROs so that they would be better equipped to render services to the corporate sector and the public. The CLAD also established special facilitation counters for foreign investors and cells for redressal of complainants' grievances in the CROs. Training was imparted to officials of the CROs on operating the application software and computerized infrastructure created for this purpose.

6.4 Development of Laws and Regulations

6.4.1 Amendments in the Companies Ordinance

A review of the Companies Ordinance was undertaken last year to introduce certain new concepts in the statute, bring its provisions in line with the current corporate practices and address practical difficulties. The proposed amendments were considered at different levels and finally approved by the Cabinet, whereupon the Companies (Amendment) Ordinance, 2002 was promulgated in October 2002. Notable amendments are as under.

i Single Member Companies

The concept of SMC has been introduced to allow sole proprietors to form companies with limited liability. While all the provisions of the Companies Ordinance would be applicable to SMCs, an ensuing benefit would be the tax advantage as a corporate individual.

ii Reduction in the Period to hold AGM

In order to ensure timely availability of audited accounts to members and earlier holding of AGM, it has been provided that accounts should be circulated and AGM held within four months (instead of six months) of the close of the financial year of a company.

iii Investment in Associated Companies

In case of investment in associated concerns, the maximum limit of 30 percent of the paid-up capital plus free reserves of the investing company, and waiver from the Commission for the same, has been withdrawn. A company is now permitted to invest in associated companies on the basis of special resolution of its members, passed after full disclosure of the terms of investment.

iv Appointment of Official Liquidator

To ensure that the official liquidator carries out liquidation diligently, it has been provided that one person would not become liquidator of more than three companies at a time. Further, the liquidator would complete his work within the prescribed time, failing which remuneration would be denied to him.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

v Right of Appeal Given to Shareholders

Previously, no remedy was available to a shareholder who was denied the right of transfer of shares in his name. A right of appeal has now been provided to the Commission against such refusal by directors and against delay in registration of transfer of shares.

vi Extension in Period for Registration of a Mortgage or Charge

In order to facilitate companies in cases of inadvertent delay, power has been entrusted to the Commission to allow extensions in period for registration, and modification or satisfaction, of a mortgage or charge. Prior to this amendment, the power was vested in the Courts.

vii Circulation of Minutes of Meetings

An amendment has been made whereby the minutes of Board meetings must be circulated to the members of the Board within fourteen days of each meeting. Previously, there was no prescribed period for circulation of minutes of Board meetings.

viii Appointment of a Whole-time Qualified Company Secretary

Appointment of a whole-time, qualified company secretary has been made mandatory in listed companies as well as SMCs. This requirement would ensure readily available advice to the management in corporate matters and is expected to promote corporate governance and improve compliance with statutory provisions.

ix Quorum of General Meetings of Listed Companies

Quorum of a general meeting of a public listed company has been rationalized and increased from three members to ten members present in person, who represent not less than 25 percent of the total voting power either on their own account or as proxies. This change was necessary to ensure improved participation of shareholders in general meetings.

x Financial Statements of Subsidiaries of Listed Companies

The private and non-listed public companies, which are subsidiaries of listed companies, have been obligated to prepare their accounts in accordance with the requirements of the Fourth Schedule to the Companies Ordinance.

xi Consolidated Financial Statements

An amendment has been made whereby a holding company must attach the consolidated financial statements of the group with its financial statements. The new provision would ensure that shareholders and other users of financial statements are provided adequate information on the overall performance and state of affairs of the group.

6.4.2 Amendments in the Companies (General Provisions and Forms) Rules, 1985

During the year, amendments in the Companies (General Provisions and Forms) Rules, 1985 were finalized after taking into consideration the comments received from various quarters. It is expected that the notified amendments would facilitate the companies while reducing the response time for the Commission. Some of the major amendments are as follows.

i Mode of Serving Notices and Documents

Previously, companies were allowed to send reports, notices or documents to their members through registered post or certificate of posting. In view of the increasing demand by the corporate sector to provide legal cover to the use of courier service for communication with the shareholders, the same has been allowed in addition to traditional postal mail.

ii Reformatting of Forms and Returns

The forms and returns to be submitted by companies to the Commission and the CROs have been reformatted to eradicate redundant information. The formats have been simplified with a view to promote the corporate sector's compliance with statutory requirements and to facilitate automated data capture and retrieval.

iii Application for Alteration in Memorandum of Association

The documents to be submitted by companies with applications for alteration in memorandum of association have been specified to avoid potential delays in obtaining the Commission's approval.

iv Company Representatives in Proceedings Before the Commission

The CEO, company secretary and such other persons who possess the qualifications prescribed by the Commission have been included in the list of persons eligible to represent a company in proceedings before the Commission. It is pertinent to note that a chartered accountant, a cost and management accountant or an advocate practicing at the level of High Court/Supreme Court can also appear on behalf of a company in proceedings before the Commission.

v Authorized Signatories on Returns Submitted to the Commission

To eliminate disputes over authenticity of returns submitted by companies to the Commission, it has been provided that these returns would only be submitted under the signature of the CEO or the secretary of a company.

Consequent upon the promulgation of the Companies (Amendment) Ordinance, 2002 some further amendments were deemed necessary in the Companies (General Provisions and Forms) Rules. Accordingly, the following notable amendments have been proposed in the Rules so as to synchronize their requirements with those of the Companies Ordinance, as amended.

i Particulars to be Provided by a Subscriber

Since national identity cards are an acceptable identification document, it has been proposed that a subscriber would mention his national identity card number, or in the case of a foreign national, his passport number, in the relevant corporate documents.

ii Disqualification from Appointment as a Director

To restrain loan defaulters from appointment as directors of companies, it has been proposed that if the amount of default in repayment of a loan to a financial institution is Rs. 1 million and above, such a person would be disqualified to become a director.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

iii Approval of Capital and Other Expenditure by Directors

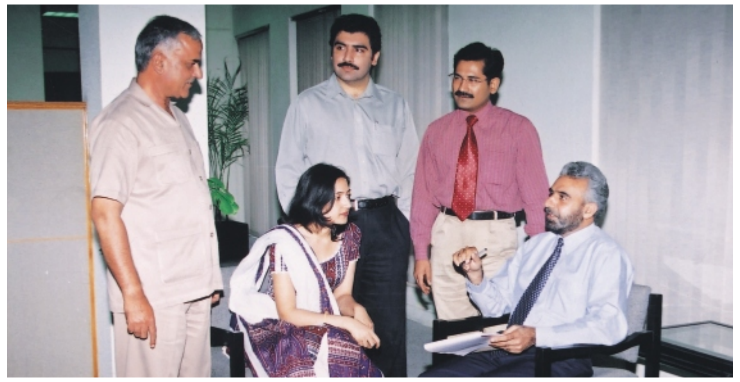
The threshold for directors' approval under Section 196 of the Companies Ordinance is being increased. In case of capital expenditure to be incurred on any single item, the limit is proposed to be increased to Rs. 1 million while the amount of book value, for disposal of fixed assets, is to be increased to Rs. 500,000 to allow operational flexibility to management.

iv Qualifications of Company Secretary

The qualifications of a company secretary to be appointed by a listed company or a SMC are being prescribed.

v Auditors' Report on Consolidated Financial Statements

To ensure uniformity and standardization of reporting, new formats through Form 35-C and Form 35-D are being prescribed for the auditors' reports on consolidated financial statements and on subsidiaries' accounts, respectively.



Officers of CRO, Lahore

6.4.3 The Companies (Registration Offices) Regulations, 2003 (Draft)

The Companies (Registration Offices) Regulations, 1986 are being replaced by the Companies (Registration Offices) Regulations, 2003. Accordingly, the Registrars of companies are required to dispose of the cases of companies within definite periods of time. It is envisaged that the new regulations would facilitate corporate entities in timely compliance with statutory requirements as well as the CROs in maintaining the companies' database.

6.4.4 The Companies (Single Member Private Limited Companies) Rules, 2003 (Draft)

Subsequent to the inclusion of the concept of SMC in the Companies Ordinance, the Companies (Single Member Private Limited Companies) Rules, 2003 have been framed by the Commission to provide impetus to the formation of SMCs. The draft Rules, once notified, are expected to provide a regulatory framework for these companies and clarify matters concerning their formation.

6.4.5 Substitution of the Third Schedule to the Companies Ordinance

Every company registered under the Companies Ordinance has to file an annual return with the Registrar. The disclosure requirements for the annual return are contained in the Third Schedule to the Companies Ordinance. These requirements were colossal, extending to as many as nineteen printed pages. Consequently, there was much agitation from the management of companies and their consultants as they faced difficulty in preparation and submission of this return. In order to address these concerns, the Commission reformatted the annual return, deleting unnecessary details and redundant information to reduce the size of the return to six pages.

6.4.6 Cost Accounting Record Orders

The Cost Accounting Record Orders under Section 230 (1) (e) of the Companies Ordinance have been drafted for pharmaceuticals and chemicals, fertilizers, engineering goods, motor vehicles, electric cables and conductors, synthetic and rayon, thermal power and textile industries, with the assistance of the Institute of Cost and Management Accountants of Pakistan (ICMAP). These draft orders were at varying stages of finalization at the close of the year. It is expected that the requirements for maintenance of cost accounting records in these sectors would be useful in providing comprehensive information pertaining to their operations and costing mechanism.

6.5 Regulatory Actions

6.5.1 Amalgamations and Mergers of Companies

During the year under review, the CLAD filed oral and written representations in respect of thirty-six cases of mergers in the Court. Decisions were taken on twenty-two cases whereas fourteen were pending adjudication as of 30 June, 2003.

6.5.2 Incorporation of Private Security Companies

Private security companies are regulated by the Ministry of Interior, the Commission and the Provincial Governments. The Ministry of Interior issues no objection certificates to the Commission for incorporation of such companies. This is followed by a licence from the respective Provincial Government. Pursuant to issuance of the licence by the Provincial Governments or Commissioner, Islamabad Capital Territory, private security companies can commence business. During the year, the Commission incorporated twenty-six private security companies.

6.5.3 Companies Easy Exit Scheme

The Companies Easy Exit Scheme was launched last year to enable dormant companies to have their names struck-off from the register of companies. During the year, the Commission pursued to complete the requisite formalities in case of 2,860 companies. These companies were neither doing any business nor had any assets or liabilities, as supported by board resolutions and auditors' certificates.

6.5.4 Approvals and Permissions

The Companies Ordinance contains a number of provisions in which approval of the Commission or the Registrar is mandated for effecting the requirements of such provisions. A large number of applications were received during the year and, after due process, necessary approvals were accorded. Relevant details are given in Table 29.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Table 29 List of Cases Approved under the Companies Ordinance

S.No.	Nature of Approval/Permission Sought	Number of Cases Disposed of
1	Amendment in memorandum and articles of association under Section 21	176
2	Extension in time for filing the order confirming alteration in memorandum of association with the Registrar under Section 25	4
3	Incorporation of new companies	1,553
4	Availability of name under Section 37	3,522
5	Change of name under Section 39	151
6	Registration of prospectus under Section 57	9
7	Commencement of business certificate under Section 146	27
8	Grant of licence to associations under Section 42	22
9	Conversion of public companies into private companies under Section 44	2
10	Grant of loans to directors of non-listed public companies under Section 195	1
11	Appointment of sole purchase and sale agents under Section 206	1
12	Alteration in articles of association under Rule 6(4) (iii) of the Companies (General Provisions and Forms) Rules, 1985	9
13	Registration, modification and satisfaction of charge under Sections 121, 129 and 132	5,814
14	Extension in period for holding of AGMs by non-listed public and private companies under Sections 158 and 233	36
15	Extension in period for payment of dividend under Section 251	1
16	Issue of certified copies of documents	13,649
17	Calling of overdue meetings under Section 170	37
18	Inspection of records maintained with CROs	6,199
19	Appointment of auditor under Section 252	5
20	Issue of shares under the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000 read with Section 90 of the Companies Ordinance	6
21	Condonation of delay in submission of particulars of charge under Section 131	5
22	Miscellaneous (minor activities, providing information to different agencies and shareholders, etc.)	**15,631**

6.6 Monitoring and Enforcement

6.6.1 Developments in the case of Taj Company Limited

The Supreme Court of Pakistan, which had earlier granted stay in the proceedings for winding up of Taj Company Limited on the application of Anjuman-e-Bahbood-e-Mutasreen, Taj Company and others, vacated the same through an order dated 13 June, 2003. Accordingly, the official liquidator restarted the liquidation process during the year. The Lahore High Court, Lahore however, granted status quo on application of the Administrator of Taj Company Limited. The Commission has filed an application against the stay in the interest of early completion of winding up proceedings.

6.6.2 Action against Companies Engaged in Illegal Foreign Exchange (Forex) and Brokerage Business

The Commission noted through newspaper advertisements and complaints lodged with it that certain companies were involved in unlawful and fraudulent activities and were projecting themselves as international forex and brokerage firms. Since the activities were prejudicial to the public interest, notices were issued in the press to warn the public to avoid dealing with such companies. Simultaneously, notices were also issued to the companies for taking necessary legal action. Enquiries revealed that such companies were dealing in foreign and local currencies, opening of portfolio accounts, mutual fund plans, trading accounts and commodity markets internationally as well as locally. These companies were doing business without authorization from any regulatory agency. To save the public from their illegal business, the Commission issued show cause notices to such companies where sufficient evidence was available to proceed against them. These proceedings have culminated in filing of petitions for winding up of the concerned companies.

6.6.3 Action against a Private Limited Company

A company, incorporated in March 2002 with the main objective of designing and developing computer software packages, had been carrying on multi-level marketing activities. It had been offering public its membership cards at US$ 99 and, in return, offering different packages of learning and facility of web hosting. The marketing strategy adopted by the company offered different referral programmes giving incentive of US$ 1 to US$ 5 to a person who referred clients/members. Since invitation and acceptance of deposits under the garb of multi-level marketing scheme is an offence, the Commission filed a petition for winding up of the company in terms of Section 309 (b) read with Section 305 of the Companies Ordinance in the High Court of Sindh. As of 30 June, 2003, the proceedings were in progress.

6.6.4 Investigations

Investigations into the affairs of two companies were ordered on the application of shareholders of the companies and on the report of the concerned Registrar, which conveyed that the affairs of these companies were not being managed in accordance with prudent commercial practices.

The Commission appointed inspectors in both the cases in June 2003. Based on the findings of the inspectors, necessary prosecution would be initiated against the companies.

6.6.5 Adjudication of cases under the Companies Ordinance

During the year, 4,956 cases were adjudicated by the CROs, Registrar of Companies and Executive Director, CLAD for violations of various provisions of the Companies Ordinance. Appropriate actions were taken against the companies and their management where violations were proven.

6.6.6 Liquidation of Companies

The Commission disposed of eighty-seven cases pertaining to liquidation of companies. Of these, ten cases of winding up were subject to supervision of Court while seventy-seven involved voluntary winding up.

6.6.7 Striking off the Names of Defunct Companies

Section 439 of the Companies Ordinance provides that where the Registrar has reasonable cause to believe that a company is not carrying on business or is not in operation, he may, by following the prescribed procedure, strike off the name of such company. During the year, names of 1,117 companies were struck off from the register of companies as compared to fifty-one companies dissolved last year.

6.6.8 Complaints

During the year under review, sixty-seven complaints were received by the CROs and the CLAD at Islamabad from shareholders and the general public. The complaints related, among other things, to disputes in shareholding, ownership of the company and removal of directors by one group of the company. All the complaints were satisfactorily disposed of.

6.6.9 Defaulter Companies Action Programme

In order to ensure better compliance by companies with statutory requirements of the Companies Ordinance, the Defaulter Companies Action Programme was launched on 1 May, 2003. The Programme covers selected prosecutions for defaults in non-filing of returns/accounts, late filing of returns/accounts and non-holding of AGM.

The status of the Programme as of 30 June, 2003 was as follows.

Table 30 Defaulter Companies Action Programme

	Non-listed Public Companies	Associations Not-for-Profit	Listed Companies	Foreign Companies	Total
No. of Defaulter Companies	1,233	334	108	441	2,116
No. of Demand Notices Issued	1,233	334	108	441	2,116

6.6.10 Concession to Defaulting Companies

The Companies Ordinance requires companies to file certain reports and returns with the Registrar within a specified period of time. Delay would entail prosecution under Section 476 of the Companies Ordinance. To encourage companies to regularize their defaults, those companies that filed statutory returns up to 31 December, 2002 were absolved from penal action.

6.7 Administrative Appeals

The Registrar of Companies has a pivotal role in administration of the Companies Ordinance. The heads of the CROs exercise different powers under the Companies Ordinance and appeal against the decision of the concerned Registrar can be lodged with the Registrar Headquarter. The Registrars at the CROs adjudicated 4,740 cases under different provisions of the Ordinance, particularly, Section 476. Appeals were filed with the Registrar Headquarter by the companies and their executives in 219 cases, which were decided on the merits of each case.

6.8 Judicial Cases

The Commission's decision to wind up a company, found to be taking deposits in violation of the prescribed requirements, under court supervision was challenged by the company in the Honourable Sindh High Court. This petition was pending adjudication in the Court at the close of the year.

6.9 Developmental Activities

6.9.1 CRCS

As a part of the Commission's automation programme, the Corporate Registration System (CRS), as the first core database application, was developed and implemented in November 2001. The system facilitates registration of companies and development of their database. As the scope of work gradually expanded over time, the Corporate Compliance and Facilitation System (CCFS) was integrated with the CRS in July 2002 to facilitate management of information contained in statutory returns. Later, the merged system was renamed as CRCS. Additionally, all major registers, including the register of companies, register of mortgages, chronological index of mortgages, register of companies whose names have been struck off, register of companies in liquidation, and company profiles being maintained at CROs under the Companies (Registration Offices) Regulations, 1986 were automated during the course of the year.

MIS reports can also be generated through the system on the basis of given criteria such as:

- i rejected names;
- ii extension in the names' reservation period;
- iii subscribers;
- iv directors of companies;
- v statutory auditors of companies;
- vi sector-wise classification;
- vii fee paid to the Commission and the Registrar; and
- viii statutory forms.

Additional information was also included in the database of companies. The major additions were:

- i list of incorporated companies;
- ii list of foreign companies;
- iii list of companies wound up;
- iv list of companies struck off by the Registrar;

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

v list of companies transferred from one CRO to another;
vi list of companies which changed their names;
vii list of companies by authorized capital; and
viii list of companies by paid-up capital.

The system for incorporation of companies and updating the existing information is accessible to CROs through the central server. It is expected that the steps being taken by the Commission for automation of registration and compliance functions would facilitate in developing a system for electronic submission of statutory returns, i.e. Form A, Form 3, Form 7, Form 10, Form 16, Form 17, Form 21 and Form 29.

6.9.2 Document Management System

The Document Management System has been integrated with the CRCS for storage of companies' documents as electronic images in the central server. This would facilitate quick retrieval of information and development of an efficient and paperless environment in the CROs.

6.9.3 Reduction in Rates of Stamp Duty

During the year under review, the Commission succeeded in its efforts to reduce the stamp duty on registration of memorandum and articles of association levied by the Provinces of Sindh and Punjab. The Commission is continuing its efforts to altogether abolish the stamp duties levied by the provinces and the Islamabad Capital Territory as it is time consuming and renders minimal revenue.

6.9.4 Conference of the CLAD

A three-day conference of officials of the CLAD and the CROs was held in Islamabad in March 2003 to discuss recent amendments in the legal framework and standardization of procedures for handling public complaints. Considering the usefulness of such a forum, it was decided that such conferences would be held frequently for capacity building.

6.9.5 ITCN Asia 2002 Exhibition

The Commission participated in the ITCN Asia 2002 Exhibition held at Karachi from 10-12 August, 2002. During the course of the exhibition, incorporation and regulatory functions of the Commission were explained and 'on-the-spot' incorporation of companies was provided. The services of the Commission were highly appreciated by local and foreign delegates.

6.9.6 Model Memorandum and Articles of Association

During the year, a succinct, single-page memorandum and articles of association was developed and placed on the Commission's website. This model would serve to facilitate promoters desirous of incorporation of companies.

7 ANNUAL REPORT 2003

Insurance Division

- Operational Structure
- Sector Overview
- Performance Review
- Development of Laws
- Regulatory Actions
- Monitoring and Enforcement
- Judicial Cases
- Developmental Activities

7. INSURANCE DIVISION

7.1 Operational Structure

7.1.1 Structure

The Insurance Division (ID) is responsible for regulating the insurance sector and administering the insurance law that covers licensing and supervision of insurers and other related entities. The ID is divided into the following Wings:

- Actuarial Services
- Life Insurance Prudential Supervision
- Non-life Insurance Prudential Supervision
- Market Conduct Supervision
- Enforcement and Prosecution

Mr. Shafaat Ahmad, Executive Director (left) with officers of the ID

7.1.2 Management Team

Mr. Shafaat Ahmad, Executive Director, heads the ID. He has thirty years of experience in various Government organizations and has dealt with Pakistan's insurance sector for thirteen years, having also held the post of Controller of Insurance for five years. He is assisted by a Deputy Director overseeing and coordinating between the Wings.

7.1.3 Laws Administered

i Insurance Ordinance, 2000
ii Securities and Exchange Commission (Insurance) Rules, 2002
iii Ministry of Commerce, Insurance Rules, 2002

7.2 Sector Overview

The insurance industry is an integral component of the overall financial system in an economy and has gained substantial importance during the last decade. In Pakistan, however, the insurance industry is still in its infancy. With the recent promulgation of the Insurance Ordinance, 2000 (Insurance Ordinance) — which replaced the Insurance Act, 1938 — and the introduction of the Insurance Rules, an environment conducive to the growth of the industry has been created. It is expected that the sector will now get the necessary impetus for further growth.

There were thirty-two insurance companies listed on the stock exchanges that had aggregate paid-up capital of Rs. 4.2 billion as on 30 June, 2003. There were, in all, fifty-three private insurance companies, of which six were foreign while forty-seven were local enterprises. Of the forty-seven local insurance companies, forty-five were engaged in non-life insurance business and two in life insurance business. In case of foreign insurance companies, four operated in the non-life insurance and two in the life insurance sector. The public sector comprised of four state owned entities, i.e. State Life Insurance Corporation (SLIC), National Insurance Company Limited (NICL), Pakistan Reinsurance Company Limited (PRCL) and Alpha Insurance Company, which is a fully owned subsidiary of SLIC. While SLIC underwrites the business of life insurance, Alpha Insurance is engaged in non-life insurance business and NICL provides insurance coverage to public sector entities. PRCL remains the only local enterprise in the business of reinsurance and every non-life insurer in Pakistan is required to cede a certain proportion of its premium to PRCL.

7.2.1 Performance of Life Insurance Companies

The total premium collected by the five life insurance companies during the year ended 31 December, 2002 was Rs. 10.31 billion, indicating a 23.76 percent increase over the previous year. Of this, Rs. 1.76 billion represented first-year premium that increased by 23.94 percent as compared to the last year. Renewal premium grew by 16.70 percent. Group premium also registered a significant growth of 23.46 percent reaching Rs. 2.21 billion during the year. On the whole, the state-owned SLIC remained the dominant player in the life insurance market with a share of 82 percent in terms of gross premium written.

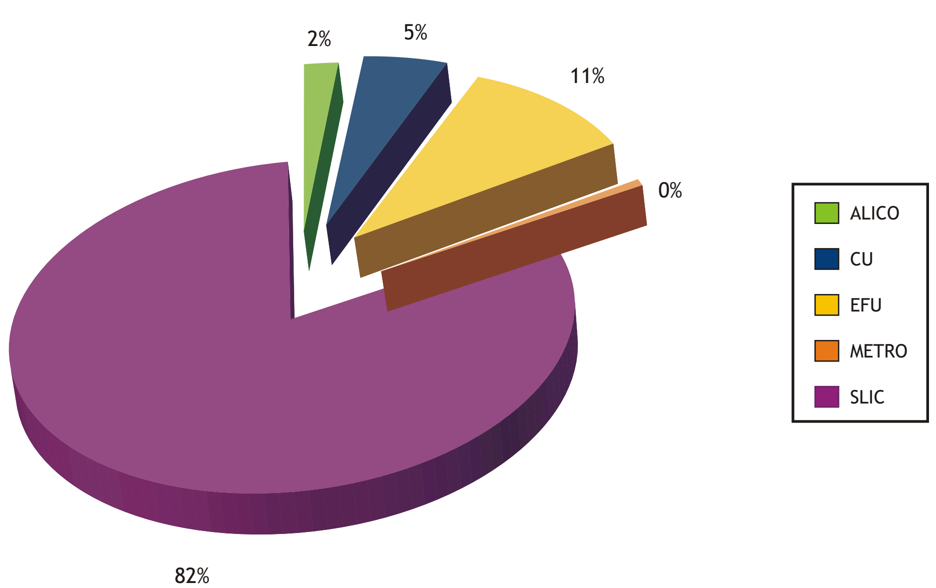
The market share of life insurance companies, in terms of premium written, during the year ended 31 December, 2002 is presented in Table 31.

Table 31 Premium Written by Life Insurance Companies (January 2002-December 2002)

(Rs in million)

	American Life Insurance Company (Pakistan) Limited (ALICO)	Commercial Union Life Assurance Company (Pakistan) Limited (CU)	EFU Life Assurance Limited (EFU)	Metropolitan Life Assurance Company of Pakistan Limited (METRO)	SLIC	Total
Gross Premium						
First Year	83	89	237	3	1,352	1,764
Second year renewal	36	60	134	3	811	1,044
Subsequent year renewal	52	81	264	17	4,686	5,100
Single premium individual policies	–	32	151	–	–	183
Group premium individual policies	78	275	309	16	1,529	2,207
Annuities	–	–	–	–	7	7
Total Gross Premium	**249**	**537**	**1,095**	**39**	**8,385**	**10,305**
Re-Insurance Premium Ceded						
On individual policies	11	9	28	1	18	67
On group policies	8	96	149	–	3	256
Total re-insurance premium ceded	19	105	177	1	21	323
Net Premium	**230**	**432**	**918**	**38**	**8,364**	**9,982**

Chart 9 Share in Gross Premium Written by Life Insurance Companies (January 2002-December 2002)



7.2.2 Performance of Non-life Insurance Companies

There is oligopoly within the non-life insurance sector in Pakistan since ten companies account for almost 83 percent of the total private sector, non-life insurance business. The total premium underwritten by non-life insurance companies, excluding the state-owned NICL, during calendar year 2002 was Rs. 13.06 billion, which shows an increase of 13 percent over the previous year. Of this amount, Rs. 10.85 billion was attributable to the ten largest companies while the remaining thirty companies underwrote the balance premium of Rs. 2.21 billion. Premium underwritten by NICL during the year ended 31 December, 2002 amounted to Rs. 2.55 billion. Fire insurance portfolio of the industry increased significantly by 34 percent whereas marine and miscellaneous sections showed an improvement of 2 percent and 4 percent, respectively. Overall, the non-life insurance sector recorded a satisfactory performance during the year despite adverse circumstances prevailing in the international reinsurance market.

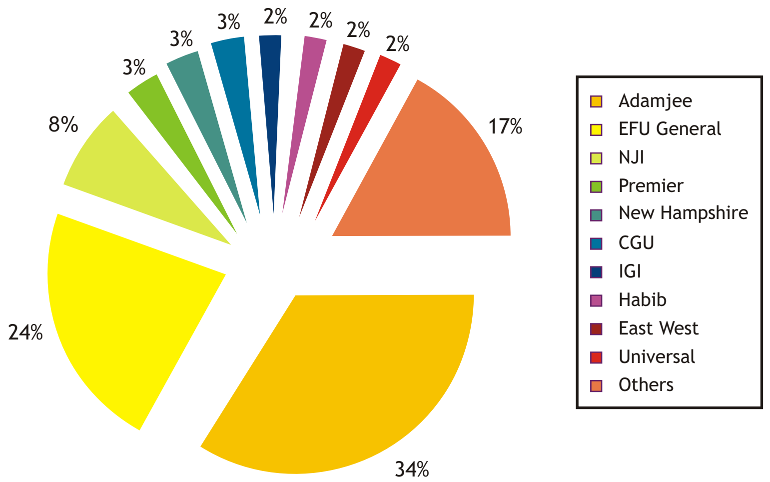
The premium written by non-life insurance companies during the year ended 31 December, 2002 is presented in Table 32.

Table 32 Premium Written by Non-life Insurance Companies (January 2002-December 2002)

(Rs. in million)

S.No.	Company	Un-earned Premium Reserves	Written Premium				
			Fire	Marine	Miscellaneous	Treaty	Total
1	Adamjee Insurance Company Limited	1,968	1,631	767	2,104	111	4,613
2	EFU General Insurance Limited	1,387	1,403	450	1,126	100	3,079
3	New Jubilee Insurance Company Limited (NJI)	398	238	124	618	15	995
4	Premier Insurance Company of Pakistan Limited	155	220	64	89	14	387
5	New Hampshire Insurance Company	191	120	40	221	–	381
6	Commercial General Union International Insurance Plc. (CGU)	118	82	84	149	27	342
7	International General Insurance Company of Pakistan Limited (IGI)	78	121	70	107	–	298
8	Habib Insurance Company Limited	62	100	62	104	–	266
9	East West Insurance Company Limited	101	111	22	113	5	251
10	Universal Insurance Company Limited	–	74	66	99	8	247
11	NICL	668	425	1,539	589	–	2,553
12	Other 36 Companies	907	743	390	1,052	21	2,207
	Total	**6,033**	**5,268**	**3,678**	**6,371**	**301**	**15,619**

Chart 10 Share of Private Sector Non-life Insurance Companies in Written Premium (January 2002-December 2002)



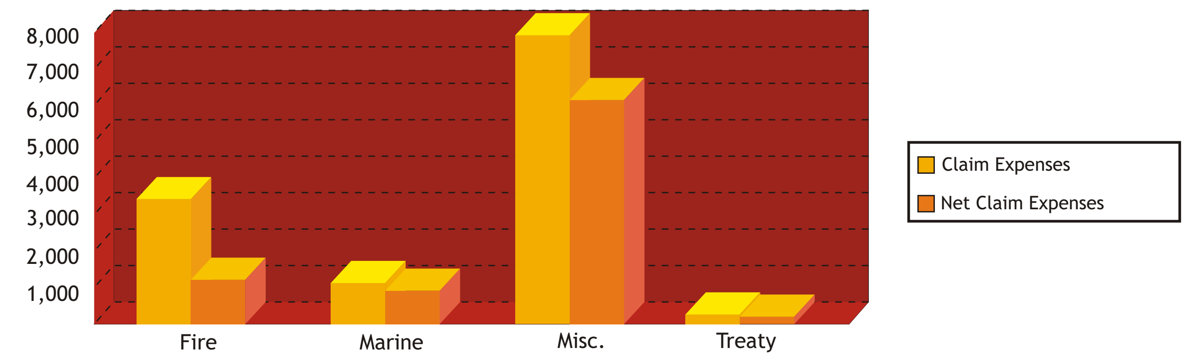
The industry incurred claim expenses amounting to Rs. 12.93 billion during the year ended 31 December, 2002. Of this amount, Rs. 8.75 billion represented net claim expenses after deducting all reinsurance recoveries. The details are given in Table 33.

Table 33 Claim and Net Claim Expenses of Non-life Insurance Companies (January 2002-December 2002)

(Rs. in million)

S.No.	Classes	Claim Expenses	Net Claim Expenses
1	Fire	3,430	1,219
2	Marine	1,347	1,182
3	Miscellaneous	7,874	6,111
4	Treaty	280	241
	Total	**12,931**	**8,753**

Chart 11 Claim and Net Claim Expenses of Non-life Insurance Companies (January 2002-December 2002)



7.3 Performance Review

The ID, which replaced the Department of Insurance operating under the Ministry of Commerce, is entrusted with the responsibility to regulate and promote sound development of insurance business and ensure the protection of interests of the insurance policyholders. During the year under review, the ID took significant measures to improve the regulation of insurance industry. These include:

i enhancement of paid-up capital of non-life and life insurance companies to Rs. 50 million and Rs. 100 million, respectively;

ii notification of Insurance Rules;

iii introduction of new accounting regulations and formats for the published financial statements, regulatory returns and auditors' report;

iv introduction of a Code of Conduct for Surveyors and Loss Adjusters;

v introduction of the Code of Corporate Governance for registered insurance companies; and

vi publication of the Insurance Guide.

7.4 Development of Laws

7.4.1 Insurance Rules

The Commission published the Insurance Rules an December 12, 2002. The draft rules, as required under sub-Section (2) of Section 167 of the Insurance Ordinance, were earlier notified for soliciting comments of the interested public and the insurance industry. These comments were taken into account in finalizing the Rules.

The Insurance Rules cover important operational matters relating to accounting and reporting, actuarial reports, reinsurance arrangements, independent insurance survey and market conduct, etc. as applicable to life and non-life insurance companies. The Insurance Rules also specify solvency and capital requirements for insurers. The eligibility criteria for insurance agents/intermediaries has been laid down, which includes minimum educational qualifications at the point of entry, practical on-the-job training, and adherence to the code of conduct and capital requirements for insurance brokers. It is essential that the role of agents, being the bridge between the insurer and the insured, be streamlined since they form the key distribution channel for any insurer.

The Insurance Rules also seek to ensure that surveyors conduct their business independently and in a professional manner. The provisions of the Insurance Rules are expected to improve the quality and timeliness of survey reports issued by surveyors. This will not only ensure that policyholders get the reports on time but will also enable the insurers to settle the claims expeditiously. In terms of the Insurance Rules, surveyors are required to adhere to the code of conduct and also conform to the requirements pertaining to minimum paid-up capital and corporate structure. Further, the surveying firms should have a professional indemnity policy to safeguard the interests of policyholders.

7.5 Regulatory Actions

7.5.1 Formats for Annual Returns and Guidelines

The Commission prescribed new formats for annual returns to be submitted by insurance companies under the Insurance Rules. For the year ended 31 December, 2002, all insurance companies submitted their annual returns to the Commission on the newly prescribed formats.

New accounting formats for non-life insurance companies consist of the following two parts:

i Published Financial Accounts

- a. Form GA (Balance Sheet)
- b. Form GB (Profit and Loss Account)
- c. Form GC (Statement of Cash flow)
- d. Form GD (Statement of Premium)
- e. Form GE (Statement of Claims)
- f. Form GF (Statement of Expenses)
- g. Form GG (Statement of Investment Income)

ii Regulatory Returns

- a. Form GH (Analysis of Claims)
- b. Form GI (Statement of Estimated Exposures)
- c. Form GJ (Statement of Assets for Solvency Purposes)
- d. Form GK (Classified Summary of Assets)

The formats for life insurance companies consist of the following two parts:

i Published Financial Accounts

- a. Form LA (Balance Sheet)
- b. Form LB (Profit and Loss Account)
- c. Form LC (Statement of Cash flow)
- d. Form LD (Revenue Account)
- e. Form LE (Statement of Premium)
- f. Form LF (Statement of Claims)
- g. Form LG (Statement of Expenses)
- h. Form LH (Statement of Investment Income)

ii Regulatory Returns

- a. Form LI (Statement of Assets for Solvency Purposes)
- b. Form LJ (Classified Summary of Assets in Pakistan)

Necessary regulations were also notified to prepare these returns, such as the methods for recognition of premium, liability for outstanding claims, commission income and expense, valuation of assets, liabilities and investments, etc.

It is expected that the new formats and guidelines for preparation of financial statements would improve disclosure and presentation in reporting and enable the stakeholders to better assess the financial health of insurance companies.

7.5.2 Code of Conduct for Surveyors and Loss Adjustors

As the role of surveyors and loss adjusters has a direct implication for policyholders, it is important to regulate their conduct. In this regard, the Institute of Surveyors and Loss Adjusters of Pakistan (ISLAP), in consultation with the ID, prepared a code of conduct to enable surveyors and loss adjusters to serve the stakeholders in a befitting manner.

Salient features of the code are as follows:

- i all members must behave ethically and with integrity;
- ii all members of ISLAP will be liable to disciplinary action if they commit any act or default that is likely to bring discredit to the member surveyors;
- iii the surveyors will keep proper records of surveys;
- iv surveyors and loss adjusters will maintain confidentiality of information which they may acquire during the course of a survey; and
- v a restriction has been placed on receiving and providing any hospitality from and to the employees of the client.

The Code will go a long way in improving the conduct of insurance surveyors and loss adjusters and bring the much needed discipline in this field.

7.5.3 Code of Corporate Governance for Registered Insurance Companies

The Commission has been focused on establishing an improved corporate governance framework to ensure transparency and accountability within the insurance sector. During the year under review, the Commission introduced the Code of Corporate Governance for insurance companies in order to promote good business practices and bring uniformity throughout the insurance industry in Pakistan. The Commission took this initiative in accordance with its powers under Section 60 of the Insurance Ordinance.

The Code was developed along the lines of the Code of Corporate Governance already issued for listed companies in Pakistan. Necessary changes were made keeping in view the diversified corporate structure of the insurance sector. The Code primarily aims to establish a system whereby a company is directed and controlled by its directors in accordance with best practices to protect the interests of stakeholders including the policyholders. It proposes to introduce broad based representation of executive and non-executive directors on the Board. Key elements of the Code are openness and transparency in corporate affairs so that directors discharge their statutory and fiduciary duties in a transparent, diligent and timely manner. It seeks to provide a system to registered insurers for formulation and evaluation of their internal practices and procedures.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

It is expected that proper implementation of the Code, which is progressive in nature, would be instrumental in establishing and enhancing the integrity and capacity of the insurance industry.

Salient features of the Code include setting up of underwriting, claims settlement, reinsurance, co-insurance and audit committees; implementing internal audit and control systems; mandatory rotation of auditors after five years; and restriction on auditors as well as on appointed actuaries to hold, purchase, sell or take any position in shares of the company.

7.5.4 Directives

During the year under review, the ID continued to provide necessary directions to the insurance industry in line with its regulatory objectives. The significant directives issued in this regard are discussed below.

i In order to safeguard policyholders from unrealistic growth rate projections provided by life insurance companies for investment-linked contracts, all life insurance companies were advised to send written/published brochures, pamphlets or illustrations pertaining to investment-linked policies to the Commission for review. Accordingly, the Commission would compare the rate of return offered by companies with the prevailing market rate. In case the rates provided by companies seem exaggerated as compared to the market rate, the companies would be instructed to bring them down to a reasonable level.

ii The Insurance Ordinance empowers the Commission to direct life insurance companies to curtail their management expenses to ensure reasonable return to the life insurance policyholders. In order to control such expenses, a directive was issued to life insurance companies to provide information to the Commission regarding their expense ratios (percentage of expenses of the first, second and subsequent year premiums). This information would help the Commission in fixing the level of expenses for life insurance companies and prove useful in devising a strategy to reduce the expenses to an acceptable level, which would ultimately help in increasing the value for life insurance policyholders.

iii Life insurance companies were directed to provide maximum disclosure on the terms and conditions of policies to the policyholders/intending policyholders under Rule 33 of the Insurance Rules. Life insurance companies are consequently required to provide to the policyholders, a clear statement of the expected surrender values, the assumptions on which those surrender values are based and a statement of the options available to a policyholder to discontinue his/her policy.

7.5.5 Mergers and Acquisitions

The Commission, as its policy, facilitates mergers and amalgamation among companies. In case of insurance companies, in particular, consolidation through mergers and acquisition is expected to result in fewer but more robust companies with stronger capital base, higher solvency margins and better claims paying ability.

During the year under review, the following companies submitted their merger schemes to the Commission:

i Asia Insurance Company Limited and Indus Insurance Company Limited, with paid-up capital of Rs. 25 million each; and

ii Business and Industrial Insurance Limited and Orient Insurance Limited with paid-up capital of Rs. 41 million and Rs. 36 million, respectively.

The Commission, upon detailed scrutiny of the schemes of arrangements, approved these mergers.

Effective 1 January, 2003, NJI took over the non-life insurance business of the Pakistan branch of CGU. In a related transaction, NJI together with the Aga Khan Fund for Economic Development (AKFED) purchased the shareholding of CGU in CU. AKFED purchased 57.09 percent holding in CU while NJI acquired 6.34 percent holding. The Commission granted approval to the transaction under Section 67 of the Insurance Ordinance.

7.5.6 Takaful: An Islamic Mode of Insurance

During the year under review, the Commission allowed Pak-Kuwait Investment Company to establish the first ever Takaful Insurance Company in Pakistan. Takaful, an Arabic word meaning "guaranteeing each other", is at par with insurance but the arrangement is approved under Islamic jurisprudence or Shariah guidelines. The concept of Takaful is in line with the principles of compensation and shared responsibilities among the community, where resources are pooled to help the needy.

The Commission is evaluating the existing Takaful models around the world in the process of developing the relevant rules and regulations for this mode of insurance.

7.6 Monitoring and Enforcement

7.6.1 Compliance with Paid-up Capital Requirement

The paid-up capital requirement, as provided in the Insurance Ordinance, was raised to Rs. 100 million in the case of life insurance companies and Rs. 50 million in the case of non-life insurance companies, with compliance obligatory by 31 December, 2002. With effect from 1 January, 2003, nine non-life insurance companies that failed to comply with this statutory requirement were directed to cease underwriting insurance business.

7.6.2 Registration under the Insurance Ordinance

Under the Insurance Ordinance, all companies were required to register themselves with the Commission. However, eight companies failed to obtain certificate of registration within the specified period. Since these companies were in violation of the condition laid down under Section 6 of the Insurance Ordinance, their winding up was recommended to the EMD under Section 143 (2)(c)(i) of the Insurance Ordinance.

7.6.3 Examination of Statutory Returns

During the year under review, the ID undertook careful examination of statutory returns submitted by insurance companies to identify instances of non-compliance with the Insurance Ordinance and other deficiencies and irregularities. Periodic review meetings with the management and appointed actuaries of the insurance companies were held to rectify the anomalies noted by the Commission.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

7.7 Judicial Cases

Table 34 Judicial Cases Pertaining to the ID

S.No.	Title of the Case	Description of the Case	Court in which Case is Pending
1	WP.No.2201/2002 National General Insurance Company Limited Vs. the Commission	Petition under Article 199 of the Constitution of Islamic Republic of Pakistan for declaration to the effect that order dated 16 July, 2002 conveyed to the petitioner is without lawful authority having no legal effect.	Lahore High Court, Rawalpindi Bench
2	WP.No.2227/2002 Union Insurance Company of Pakistan Limited Vs. the Commission	Petition under Article 199 of the Constitution of Islamic Republic of Pakistan for declaration to the effect that order dated 16 July, 2002 conveyed to the petitioner is without lawful authority having no legal effect.	Lahore High Court, Rawalpindi Bench
3	WP.No.2507/2002 Credit Insurance Company Limited Vs. the Commission	Petition under Article 199 of the Constitution of Islamic Republic of Pakistan for declaration to the effect that order dated 13 August, 2002 conveyed to the petitioner is without lawful authority having no legal effect.	Lahore High Court, Rawalpindi Bench
4	WP.No.75/2003 Ittefaq General Insurance Company Limited Vs. the Commission	Petition under Article 199 of the Constitution of Islamic Republic of Pakistan for declaration to the effect that order dated 1 January, 2003 conveyed to the petitioner is without lawful authority having no legal effect.	Lahore High Court, Rawalpindi Bench
5	WP.No.13231/2002 Pakistan Guarantee Insurance Company Limited Vs. the Commission	Petition under Article 199 of the Constitution of Islamic Republic of Pakistan for declaration to the effect that order dated 16 July, 2002 conveyed to the petitioner is without lawful authority having no legal effect.	Lahore High Court, Lahore
6	MA.No.57/2000 Shalimar General Insurance Company Limited Vs. the Commission	Appeal under Section 110 sub-Section (12) of the Insurance Act, 1938 (repealed).	High Court of Sindh, Karachi

7.8 Developmental Activities

7.8.1 Insurance Website

A separate website of the ID was developed during the year under review to allow consolidation of all information relating to the insurance sector. This website will raise awareness about the insurance sector among the general public. The website currently covers information about the ID, history of insurance, types of insurance, reinsurance, overview of insurance industry in Pakistan and list of insurers/reinsurers and surveyors. The laws, rules and regulations governing the insurance sector have been placed on the website for the information of all concerned. An online complaint system has also been introduced. The website is linked with the Commission's website.

7.8.2 Insurance Guide

An Insurance Guide was published during the year under review to create awareness about insurance amongst the general public. This is the first guide of its kind in Pakistan for the benefit of existing and potential policyholders which details the processes involved in obtaining an insurance policy as well as lodging a claim. The guide covers the following areas:

i introduction to insurance;
ii types of insurance;
iii types of insurance intermediaries;
iv procedure for obtaining an insurance policy;
v procedure for lodging a claim;
vi reinsurance; and
vii main features of the Insurance Ordinance.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

8 Support Services Division

- Operational Structure
- Human Resource
- Administration
- Finance and Accounts
- Information Technology
- Legal Wing

8. SUPPORT SERVICES DIVISION

8.1 Operational Structure

8.1.1 Structure

The Support Services Division (SSD) is entrusted with the responsibility of facilitating the overall operations of the Commission and ensuring its smooth functioning. The SSD has been organized into the following Wings:

- Human Resource
- Administration
- Finance and Accounts
- IT
- Legal

Mr. M. Javed Panni, Executive Director (left) with officers of the SSD

8.1.2 Management Team

Mr. M. Javed Panni, Executive Director heads the Administration and Finance and Accounts Wings of the SSD. He has been associated with the Commission and the erstwhile CLA in different capacities for twenty-five years. Mr. M. Hayat Jasra, Executive Director, also working in the capacity of Secretary to the Commission, supervises the Legal Wing. As of 30 June, 2003, the Human Resource Wing was headed by Mr. Abdul Rehman Qureshi, Commissioner while the Finance and Accounts Wing and the IT Wing were headed by Mr. Etrat Rizvi, Commissioner. They were assisted by three Directors overseeing the work of each Wing and reporting to the respective Commissioners.

8.2 Human Resource

The main functions of the Human Resource Wing include: formulation of personnel policies and procedures; recruitment and placement of suitably qualified personnel; advice on reward systems and processing of employees' transfers, retirements, resignations, and dismissals; coordination with other Divisions on matters of staff development; organization of local and foreign training programmes; and maintenance of employee service records including performance evaluation reports. In performing its functions, the Human Resource Wing is guided by the need to uphold employees' morale and motivation.

8.2.1 Recruitment

During the year under review, the Human Resource Wing continued with a transparent and objective recruitment process. Candidates were selected purely on merit after considering the nature of work of each Division and keeping in view the staffing requirements. Remuneration packages offered to successful candidates were largely commensurate with the market. As a major step towards making the remuneration of the Commission's employees more competitive, salaries were raised by 25 percent. The restructuring of the pay scales also helped in attracting experienced and qualified professionals from the private sector.

Since its establishment on 1 January, 1999, the Commission has inducted 135 professionally qualified individuals at varying levels of authority and responsibility. During the year under review, a total of forty-seven new employees were recruited as compared to thirty-two during the last year. Of these, thirty-five were offered officer-level positions while twelve were hired at the staff level. The thirty-five officers include eleven chartered accountants, five cost and management accountants, four law graduates, whereas fifteen hold graduate and post-graduate level degrees in relevant disciplines. The year under review experienced a significant improvement in gender balance at the Commission as eighteen female employees were hired, which represent almost 38 percent of the overall induction during the year.

8.2.2 Junior Executives Induction Scheme

During the year under review, the Junior Executives, who were inducted under the Junior Executives Induction Scheme (JEIS) last year, successfully completed their on-the-job training in two Divisions and were offered permanent positions in the Commission based on their performance evaluation and internal staffing requirements. Besides attending an induction programme at the Lahore University of Management Sciences (LUMS), these Junior Executives were also sent on study trips to KSE, CRO Islamabad and other relevant institutions to further enhance their understanding of the core functions of the Commission.

The JEIS was advertised on 1 September, 2002 for inducting new executives. The scheme generated considerable interest amongst the post-graduate degree holders; the Commission received over 1,000 applications this year compared to 900 in the last year. After careful scrutiny of the applications, a competitive examination was arranged for 570 short listed candidates. To ensure impartiality and maintain a competitive benchmark within the selection process, the examination papers were developed and marked by the Institute of Business Administration, Karachi. This year, eight Junior Executives were declared successful and selected under the scheme. The selected individuals underwent an orientation on the structure and functions of the Commission and were appropriately designated at different Divisions of the Commission. In order to further broaden the exposure of Junior Executives, it was decided that each Junior Executive would be rotated to three Divisions, for a period of four months in each Division, and would be offered permanent position after successful completion of the one-year probation period.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

8.2.3 Training Programmes and Seminars

During the year under review, the Human Resource Wing arranged participation of officers of different Divisions in various training programmes. A number of training courses were conducted in-house as well. These training programmes played a vital role in updating the knowledge of employees in different areas and enhancing the skills required for efficient and effective performance. The major training sessions arranged during the year were:

i study trip to KSE, CDC and NCSS from 11-12 October, 2002;
ii training programme on Law for Business Executives conducted by LUMS from 3-6 February, 2003;
iii training programme on Human Resource Management: Policies and Practices held at LUMS from 17-19 February, 2003;
iv a two-week workshop on Financial Reporting Framework in Pakistan conducted by SKANS School of Accountancy at the Commission from 22 January-20 February, 2003 in which thirty-four officers participated;
v Sixth Course on Computer Hardware Problem Solutions conducted at National Institute of Public Administration, Karachi from 5-10 May, 2003; and
vi certificate course on WTO Principles and Laws conducted at International Islamic University from 23-28 June, 2003.

The Human Resource Wing also arranged participation of officers of the Commission in seminars and conferences organized by different institutions. Nominated officers presented the Commission's views on these occasions. Some of the seminars and conferences in which officers of the Commission actively participated during the course of the year are as follows:

i seminar on Non-Banking Financial Institutions in East Asia Region, Thailand from 4-6 September, 2002;
ii Confederation of Asian and Pacific Accountants' Workshop on Train the Trainer held at Dhaka, Bangladesh from 4-6 September, 2002;
iii seminar on Data Warehousing in Telcos: Making the Right Decision held in Islamabad on 31 October, 2002;
iv Summer School Internship Programme of the Australian Securities and Investments Commission, Australia on 9-16 March, 2003;
v IOSCO, Emerging Markets Committee, Working Group 4, Insider Trading Seminar organized by Securities and Exchange Board of India in Mumbai, India from 3-5 April, 2003;
vi Second Public Pension Fund Management Conference in Washington D.C., USA from 5-7 May, 2003;
vii SAFA Conference held in Karachi from 2-3 May, 2003;
viii Managerial Grid Seminar conducted by LEAD Pakistan at LEAD House in Islamabad from 17-21 February, 2003; and
ix Post Budget Seminar 2003-2004 held at ICMAP on 14 June, 2003.

In addition, the Commission arranged a seminar on Overview of Capital Markets and Future Trends in Islamabad on 27 August, 2002 as well as a seminar on Demutualization of Stock Exchanges in Karachi on 24 December, 2003. These seminars were well-attended and dignitaries from the Government, corporate sector and academia contributed to the overall discussion.

8.2.4 Staff Welfare and Development

In order to achieve its objective of staff development, certain amendments were made in the Service Manual during the year under review. Necessary provisions were made to facilitate employees in the areas of leave and resignations. The amendments in the Service Manual contributed towards addressing practical difficulties in implementing some of its guidelines.

During the year under review, medical examination of all employees was also carried out by qualified medical specialists so as to ensure the health and fitness of employees. These examinations were in continuation of the annual rounds of medical check-up.

8.3 Administration

The Administration Wing provides various support services relating to transport, stationery, furniture and fixtures; hiring and maintenance of office premises; mail receipts and deliveries; printing of various reports; and maintenance of assets.

8.3.1 Refurbishment of Offices

During the year, the refurbishment and modernization of CROs in Lahore, Islamabad and Peshawar were completed. Offices at these stations have been completely renovated and now provide a modern working environment. During the year, certain additional refurbishments were undertaken at the head office in Islamabad and CRO, Karachi. As part of the capacity building of the Commission, new computers were purchased for officers of various Divisions and CROs.

8.3.2 Provident, Gratuity and Employees Pension Funds

Effective 1 July, 2000, the Commission established funds to provide terminal benefits for its employees.

The following trusts were set up for administration of the funds:

i SEC Provident Fund Trust;
ii SEC Gratuity Fund Trust; and
ii SEC Employees Pension Fund Trust.

The respective Boards of Trustees constituted under the Trust Deeds comprise two trustees representing the Commission and two trustees representing members of the funds.

The Provident Fund Trust and the Gratuity Fund Trust have been recognized by the income tax authorities and are accordingly exempt from income tax. Application for recognition of the Pension Fund Trust for the purpose of tax exemption was under consideration of the income tax authorities, as on the close of the year.

The total membership of the three funds as on 30 June, 2003 was as under:

Table 35 Membership of Retirement Funds

Fund	Number of Members
SEC Provident Fund Trust	204
SEC Gratuity Fund Trust	234
SEC Employees Pension Fund	449 *

* Includes all regular employees, Chairman and Commissioners.

During the year, terminal benefits were paid to employees, in accordance with the rules of the funds, in the following manner:

Table 36 Terminal Benefits Paid to Employees

Nature of Benefits	No. of Employees	Amount Paid (Rs.)
Provident Fund	1	17,127
Gratuity Fund	29	2,369,769
Pension Fund	7	5,198,622 (Commutation) 32,649 (Monthly Pension)

8.4 Finance and Accounts

The Finance and Accounts Wing is involved in maintaining accounts, treasury management, and budgeting. The major functions of the Finance and Accounts Wing include:

i preparing periodic MIS reports;
ii development of annual budget;
iii processing requests for payments;
iv maintenance of fixed assets records;
v processing of and recording receipts;
vi accurate and timely payment of employee payroll;
vii coordinating annual audit of the Commission and preparing financial reports;
viii funds management;
ix evaluation/advice on financial matters of the Commission; and
x maintenance of financial record on computerized accounting software.

For the preparation of various periodic financial reports, a multi-user accounting software is being used. A transparent and effective internal control system is also in place for recording and execution of financial transactions. Policies and procedures are well documented and were consistently followed during the year.

8.4.1 Financial Statements and Budgetary Reports

The Finance and Accounts Wing assists in formulating budget and authorization requests and monitors utilization of the Commission's resources. As such, the Wing is also responsible for budget justification and execution. It developed, implemented, and monitored the budget for the year 2002-2003. The budget for the financial year 2003-2004 was prepared and was approved by the Commission and the Policy Board in May 2003, as per requirement under Section 24 of the Act. Financial statements of the Commission for the year ended 30 June, 2003 were also prepared by the Wing and were audited by S. M. Masood & Company, Chartered Accountants. These were submitted to the Federal Government within the time frame provided in the Act.

8.4.2 MIS

Monthly MIS reports, giving review of financial performance and financial position of the Commission, were introduced in January 2002. These reports give details of revenues generated and expenditure incurred by each Division at the head office and CROs. The MIS reports include the following:

i Balance Sheet;
ii Income and Expenditure Account;
iii Cash Flow Statement;
iv Capital Budget Variance Report;
v Revenue Budget Variance Report; and
vi Division-wise Income and Expenditure Statement.

These reports encapsulating the revenue and expenditure position were placed before the Commission every month during the course of the year.

8.5 Information Technology

In addition to the normal day-to-day operational activities relating to maintenance of software, hardware, website and communication systems along with managed workstations and security protection services, the IT Wing is also involved in a number of on-going projects. The Commission is resolved to responding readily and effectively to the new challenges posed by the communication and IT revolution. The IT Wing has, during the year under review, progressed enormously in providing the most efficient services and solutions in enhancing the overall efficiency in activities performed by the various Divisions. The operations at IT Wing can be divided into the following major areas:

i software systems and database maintenance/development;
ii web site/Intranet re-engineering and maintenance;
iii Local Area Network (LAN)/Wide Area Network (WAN) connectivity and central services;
iv managed workstation services;
v hardware maintenance services; and
vi training in information technology products and services.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

8.5.1 Software Systems and Database Maintenance/Development

Companies are required to submit various returns to the Commission on periodic intervals. Currently, all document submissions and fee payments take place manually. The submission process, however, can be slow and there is limited automatic consolidation of data. An alternate approach to manual submission is now possible with the Electronic Transactions Ordinance, 2002 (ETO) and the IT Wing is analyzing the best possible ways to implement Electronic Submission Systems in light of the ETO. The ETO allows for information to be submitted to relevant authorities in electronic form and for affixing electronic signatures instead of signing by hand. It also offers the legal status to preserve records in electronic form in lieu of physical document/ledger form. Some of the features that have become possible following this mechanism of document/data submission are creation of company profiles through the Commission's website and maintained on the Commission's servers, directly accessible by companies with options to directly modify some of the information in the profiles. The IT Wing intends to start working on this application soon after the required hardware and software systems have been acquired.

Furthermore, the following twelve software systems have been/are being developed to automate various functions at the Commission.

i Enforcement and Monitoring System

To facilitate the management of information received by the EMD regarding listed companies, the system provides various options to manage the workflow of actions taken on returns and also allows different post submission analyses.

ii CRS

To facilitate the registration of companies and develop a company database, which is pivotal to all other software systems at the Commission, a database of approximately 44,000 companies has been housed on the Commission's Central Database Server at Islamabad with online access to CROs. The system has been in place since November 2001.

iii CRCS

To facilitate management of information received through statutory returns, CCFS was integrated with CRS and the merged system named as CRCS.

iv Diary System

This is to automate the diary register and track handling of documents at the Commission to ensure timely response.

v CMS

This is to keep track of investor complaints and to know when and what action was taken to resolve each complaint.

vi Specialized Companies Monitoring System

This is to monitor submission of various returns filed by NBFCs.

vii MSS

This is to provide support to the MSW for monitoring of trading at the stock exchanges. This system is still under development.

viii Beneficial Ownership Module

This is to keep a record of beneficial owners of public companies to monitor corporate compliance and insider trading.

ix General Ledgers

One of the MIS components, it maintains the accounts of the Commission in an efficient manner.

x Payroll System

It processes salaries of the Commission's employees and provides other facilities like automatic tax computation and deduction, loan repayments, production of statutory statements relating to salary payments, etc.

xi Human Resource

In addition to maintaining employees' records, this important MIS component facilitates generation of various management reports.

xii Fixed Assets System

This is to keep a record of fixed assets of the Commission and to provide for automatic calculation of periodic depreciation.

The IT Wing is also developing its capacity for in-house software development by creating a core team through induction of software professionals. Plans are well underway to integrate some of the existing applications with a workflow system to form an effective MIS for the Commission. A Résumé Submission System, which is in the analysis phase, will be integrated with the Human Resource system thus enabling candidates to create and post their résumé online against job vacancies. The system will provide easy search criteria for the Human Resource Wing to short list candidates and schedule tests/ interviews.

8.5.2 Web site/Intranet Re-engineering and Maintenance

Envisaging the significance of information exchange and sharing through Internet and Intranet, the Commission has ensured its presence in cyberspace at www.secp.gov.pk. The site is regularly updated. Efforts are also under way to re-engineer the site in order to improve its presentation and make it more user friendly. At present, the site provides information on the securities market, annual report of the Commission, quarterly newsletters, an update of key indicators and corporate laws and related rules and regulations. An interface of the CRS has also been provided on the site for company name search facility, company registration guidelines and forms along with provision for online investor complaint registration.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Due to prevalent Denial of Service attacks on the international telecom infrastructure of Pakistan Telecommunication Company Limited, the IT Wing has hosted the site on international servers abroad. To further improve the reliability and security, two more redundant sites, namely, www.secp.org.pk and www.secp.net.pk have been hosted on different networks. All these sites are mirrors of each other and can be accessed alternatively in the event of failure of any one of them. A Professional IT group of Federal Capital also honoured the Commission with the Sword of Cyber Defense award. This award was given to acknowledge the high level of professionalism of IT Wing in supporting an un-interrupted service of the Commission's website during the Virus, DDOS and hacking attacks from international hackers. These attacks were repulsed effectively and the systems were kept up and running while almost every Government site was down for four to five weeks.

The IT Wing has also designed and developed an Intranet Site "IntraIT" for the Commission. The Intranet site for the most part holds key information required by officers and staff of the Commission for day-to-day functions. Some of the information qualified for placement on the Intranet includes, but shall not be limited to, Standard Operating Procedures at the Commission, popular downloads, various forms used by IT Wing for processing user requests, forms used by Divisions, etc. In due course of time these forms will be modified to lodge online submission. Various tutorials have been placed on the site for new users and more training material will be developed and made available subsequently.

8.5.3 LAN/WAN Connectivity and Central Services

The Commission deployed a LAN spawning over ten floors of the building in November 2001. WAN connectivity has been set up using DXX between headquarters, major CROs and stock exchanges. There is a plan to create a Virtual Private Network comprising of headquarter and the CROs based on Digital Subscriber Line technology. IT Wing maintains a variety of servers in order to support the wide-ranging and variable set of applications, clients and servers needed by the Commission. There are a number of central services being supported including central email system through Microsoft Exchange Server, achieving and backup of user data on the File Server, Internet surfing facility through a Proxy Server, etc. There are also plans to increase the bandwidth for enhancing the speed of external connectivity.

8.5.4 Training in IT Products and Services

Capacity building was accomplished through informal and formal training programmes during the course of the year. IT Wing conducted in-house training programmes for officers and staff of the Commission in Microsoft Office, email and Internet. An orientation package has been developed for new entrants to the Commission and is conducted on regular intervals according to the needs of the various Divisions.

8.6 Legal Wing

During the course of the year, the Legal Wing continued to work independently under the direct supervision of the Chairman. It offers legal opinion on issues referred to it by the various Divisions of the Commission. It also assists the Commission in the framing of various rules and regulations for the effective management of the Commission's internal working as well as for the discharge of the Commission's overall responsibilities as the apex regulatory body. This includes suggesting appropriate amendments in applicable corporate statutes in line with contemporary regional and international initiatives. The Legal Wing has, in particular, reviewed the effect of proposed legislation for curbing money laundering and facilitating freedom of information with a view to recommending possible measures to the Commission for protection of the interests of investors, companies and the securities market in general.

The Legal Wing liaises with various Government ministries, in particular the Ministry of Finance, to ensure expeditious disposal of important legal matters. Additionally, the Wing provides essential support and assistance to outside counsels engaged for defending the Commission in legal proceedings. This involves vetting of petitions, appeals and written statements that are submitted before the Court. The Legal Wing also houses the Registrar of the Appellate Benches of the Commission, which undertakes extensive research and provides assistance for effective resolution of legal issues and procedural matters in connection with appeals against the orders of the officers of the Commission. During the course of the year, the Legal Wing finalized the Appellate Bench Rules, 2003 to provide guidelines to contesting parties for expeditious disposal of cases. The Wing was also instrumental in setting up of a legal resource center with a view to facilitating the Appellate Benches' access to reference materials for considered dispensation of pending cases.

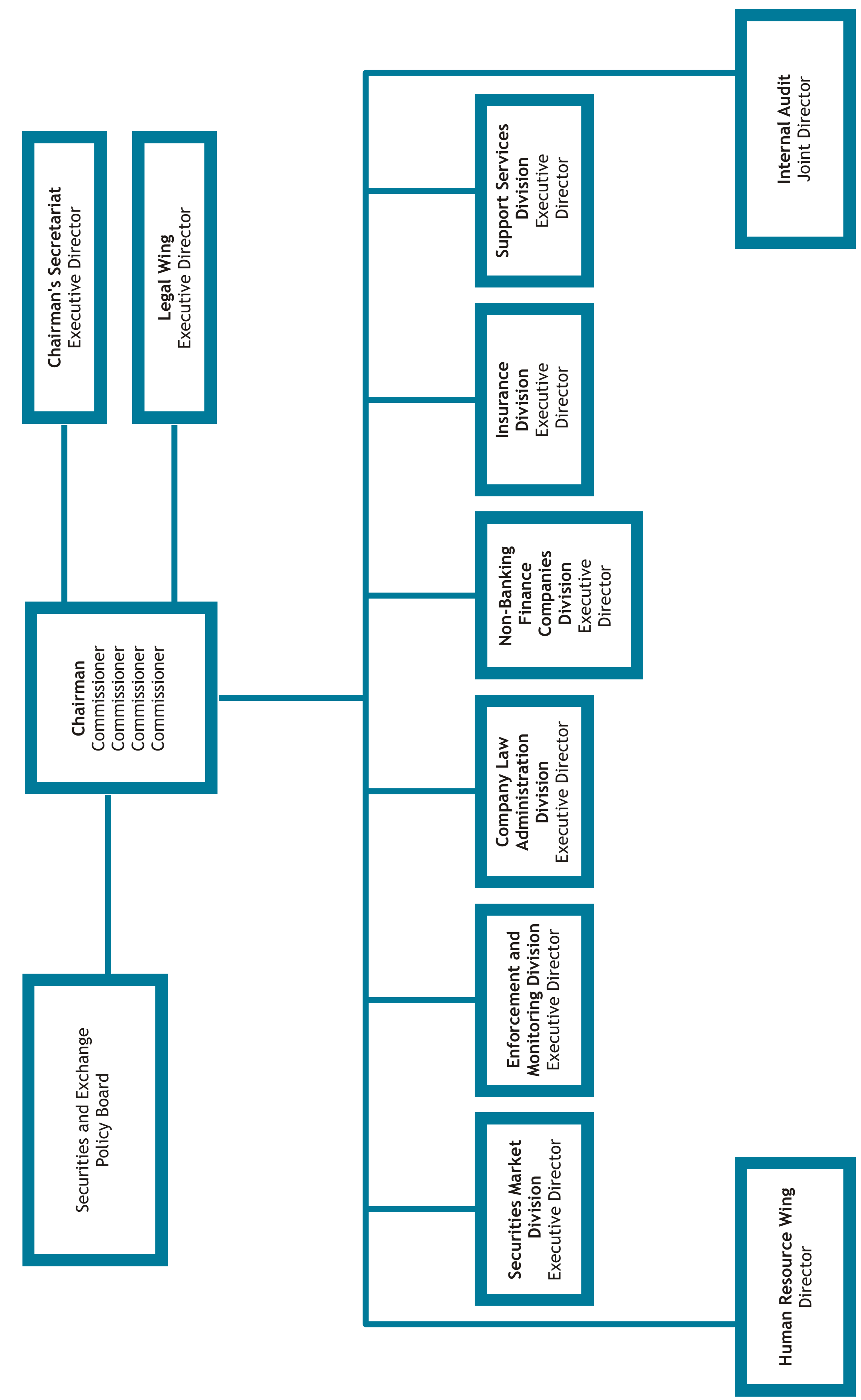
Mr. M. Hayat Jasra, Executive Director (left) with officers of the Legal Wing

In connection with the Code of Corporate Governance, the Legal Wing prepared a comparative study of the Code, as applicable in Pakistan, with other jurisdictions during the year. It also provided comments in preparing the manual highlighting the salient aspects of corporate governance.

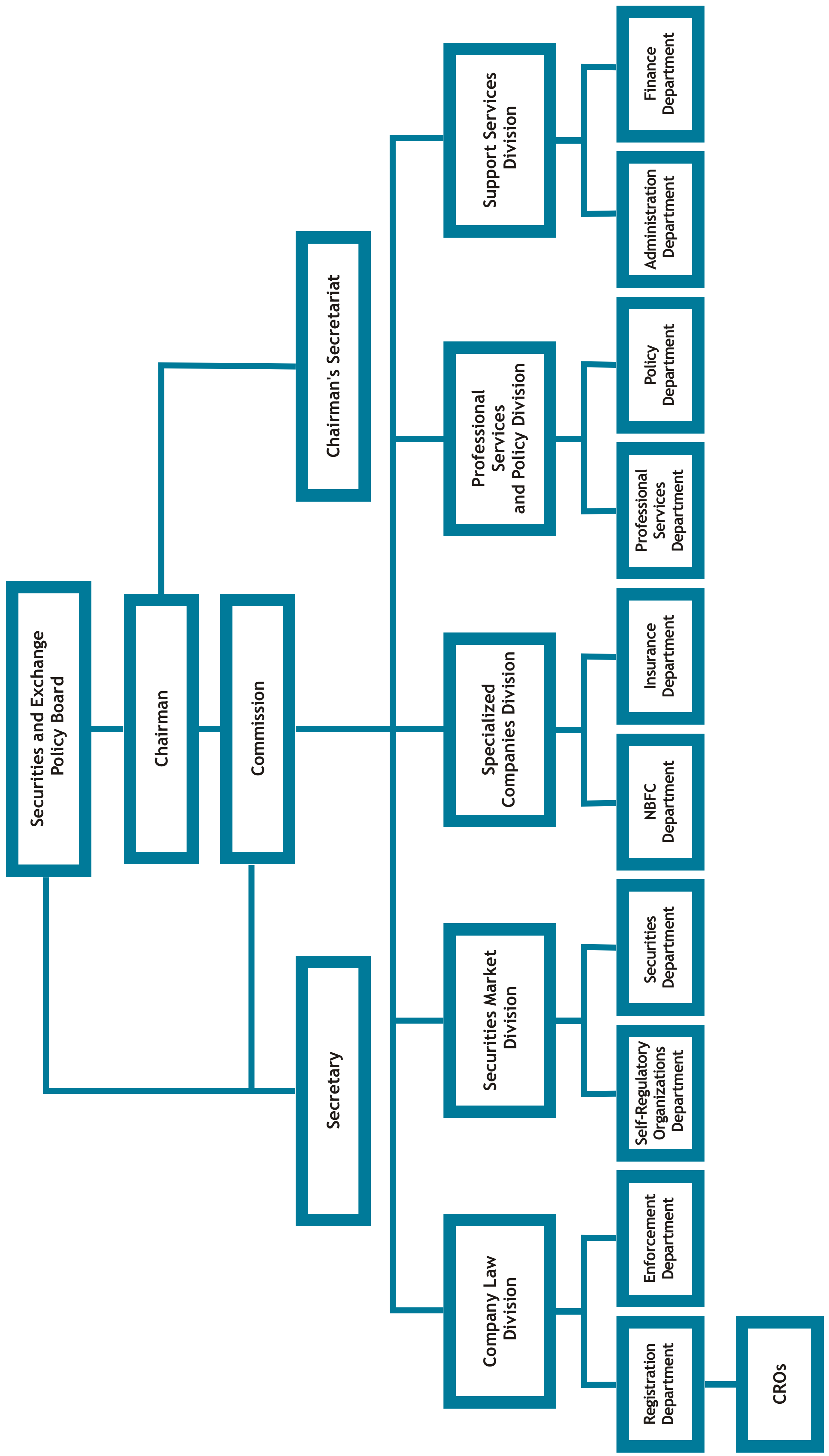
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Annexure

Annexure A - Organizational Chart



Annexure B - Organizational Structure as on 30 September, 2003 (After Restructuring)



Annexure C - Management Directory

Name	Designation	Email Address	Telephone Number
Dr. Tariq Hassan	Chairman	tariq.hassan@secp.gov.pk	+92-51-9205310
Abdul Rehman Qureshi	Commissioner (Company Law Division)	rehman.qureshi@secp.gov.pk	+92-51-9202692
Zafar-ul-Haq Hijazi	Commissioner (Professional Services and Policy Division and Support Services Division)	zafar.hijazi@secp.gov.pk	+92-51-9206513
Shahid Ghaffar	Commissioner (Securities Market Division)	shahid.ghaffar@secp.gov.pk	+92-51-9204314
Etrat H. Rizvi	Commissioner (Specialized Companies Division)	etrat.rizvi@secp.gov.pk	+92-51-9224670
Muhammad Hayat Jasra	Executive Director (Law)	hayat.jasra@secp.gov.pk	+92-51-9207637
M. Javed Panni	Executive Director (Support Services)	javed.panni@secp.gov.pk	+92-51-9204811
Rahat Kaunain	Executive Director (Securities Market)	rahat.kaunain@secp.gov.pk	+92-51-9203126
Rashid Sadiq	Executive Director (Enforcement Department)	rashid.sadiq@secp.gov.pk	+92-51-9212084
Najam Ali	Executive Director (NBFC Department)	najam.ali@secp.gov.pk	+92-51-9205869
Shafaat Ahmad	Executive Director (Insurance Department)	shafaat.ahmad@secp.gov.pk	+92-51-9208887
Waseem Irshad	Director (Human Resource)	waseem.irshad@secp.gov.pk	+92-51-9205713
Tariq Bakhtawar	Director (Finance)	tariq.bakhtawar@secp.gov.pk	+92-51-9209707
Umer Hayat Khan	Director (NBFC)	umar.hayat@secp.gov.pk	+92-51-9210211
Akbar Ali Shah	Registrar Modaraba	akbar.shah@secp.gov.pk	+92-51-9212070
Abbas Hassan Kizilbash	Director (CS-Internal)	abbas.kizilbash@secp.gov.pk	+92-51-9214006
Jaweria Ather	Director (CS-External)	jaweria.ather@secp.gov.pk	+92-51-9218597
Fayyaz Mahmood	Director (Professional Services and Policy)	fayyaz.mahmood@secp.gov.pk	+92-51-9207648
M. Ishaq Mallal	Registrar (Company Law)	ishaq.malal@secp.gov.pk	+92-51-9206514
Nazir A. Shaheen	Additional Registrar (Company Law)	nazir.shaheen@secp.gov.pk	+92-51-9206306
Ashfaq Ahmed Khan	Director (Enforcement)	ashfaq.ahmed@secp.gov.pk	+92-51-9206515
Imran Bashir	Director (Accounts)	imran.bashir@secp.gov.pk	+92-51-9221513
Arshad Javed Minhas	Director (IT)	arshad.minhas@secp.gov.pk	+92-51-9212103
Aamir Masood	Director (Securities Market)	aamir.masood@secp.gov.pk	+92-51-9207598
Tahir Mahmood	Additional Registrar (CRO Karachi)	tahir.mahmood@secp.gov.pk	+92-21-2415855
Muhammad Siddiqui	Additional Registrar (CRO Lahore)	muhammad.siddique@secp.gov.pk	+92-42-9200274
Muhammad Musharaff Khan	Joint Registrar (CRO Islamabad)	musharraf.khan@secp.gov.pk	+92-61-9208740
Mohammad Asif	Deputy Registrar (CRO Multan)	cromul@brain.net.pk	+92-91-9200920
Shaukat Hussain	Joint Registrar (CRO Peshawar)	cropsh@psh.paknet.com.pk	+92-91-9213178
Mudassir Rahim	Joint Registrar (CRO Faisalabad)	crofsb@fsd.paknet.com.pk	+92-41-9220284
Saeed Ullah	Deputy Registrar (CRO Quetta)	croqta@qta.paknet.com.pk	+92-81-844136
Nabi Buksh Khoroh	Assistant Registrar (CRO Sukkur)	croskr@hotmail.com	+92-71-30517

Annexure D - List of Publications

In addition to the quarterly newsletter, the Commission has prepared the following publications:

Title of Publication	Date of Publishing
Investor Guide Volume I	August 2002
Investor Guide Volume II	August 2002
Investors' Guide to Lodging Complaints	August 2002
Code of Corporate Governance	November 2002
Frequently Asked Questions on Corporate Governance	November 2002
Insurance Guide	August 2003
Promoter's Guide	August 2003
Brief Series on Corporate Governance	Initiated in January 2003
Brief Series on Anti-Money Laundering	Initiated in March 2003

All publications are available at the Commission's website.

Annexure - E Lists of Tables and Charts

List of Tables

Table 1 Disposal of Complaints, Petitions and Appeals (July 2002-June 2003)
Table 2 Details of Complaints
Table 3 KSE Performance at a Glance
Table 4 Performance of Investor Complaints Cell
Table 5 Share Capital and TFC Offerings
Table 6 Offerings of Fresh Equity Capital
Table 7 Secondary Offerings of Equity Capital
Table 8 Debt Issues
Table 9 Details of Registered Brokers
Table 10 Registration of Agents
Table 11 Key Statistics of Leasing Sector
Table 12 Key Statistics of Privatized Closed-end Funds
Table 13 Key Statistics of Private Sector Closed-end Funds
Table 14 Key Statistics of Open-end Funds
Table 15 Key Statistics of Modaraba Sector
Table 16 Key Statistics of Investment Banks
Table 17 Key Statistics of Housing Finance Companies
Table 18 SPVs for Asset-Backed Securitization
Table 19 Sector-wise Pattern of Dividend Declared
Table 20 Extent of Compliance with the Requirement for Timely Holding of AGM - Three-Year Comparison
Table 21 Sector-wise Status of Holding of AGM within the Prescribed Time Period
Table 22 Circulation of Quarterly Accounts

Table 23 Enforcement of Cost Audits

Table 24 Details of Companies Registered During the Financial Years 2001-2003

Table 25 Geographical Spread of Companies Incorporated During the Year

Table 26 Geographical Spread of Companies as on 30 June, 2003

Table 27 Pattern of Authorized Capital of Companies Registered During the Year

Table 28 Sector-wise Pattern of Companies Limited by Shares Registered During the Year

Table 29 List of Cases Approved under the Companies Ordinance

Table 30 Defaulter Companies Action Programme

Table 31 Premium Written by Life Insurance Companies (January 2002-December 2002)

Table 32 Premium Written by Non-life Insurance Companies (January 2002-December 2002)

Table 33 Claim and Net Claim Expenses of Non-life Insurance Companies (January 2002-December 2002)

Table 34 Judicial Cases Pertaining to the ID

Table 35 Membership of Retirement Funds

Table 36 Terminal Benefits Paid to Employees

List of Charts

Chart 1 KSE-100 Index and Turnover at KSE (July 2002-June 2003)

Chart 2 KSE Daily Traded Volume in Futures (July 2002-June 2003)

Chart 3 TFC Issues Floated During the Financial Years 1996-2003

Chart 4 Amount Raised through TFCs During the Financial Years 1996-2003

Chart 5 Dividend Declared by Listed Companies During the Financial Years 2000-2003

Chart 6 Status of compliance with the requirement to Hold AGM within the Stipulated Time Period

Chart 7 Break-up of Non-compliant Companies

Chart 8 Registration of Companies During the Financial Years 2001-2003

Chart 9 Share in Gross Premium Written by Life Insurance Companies (January 2002-December 2002)

Chart 10 Share of Private Sector Non-Life Insurance Companies in Written Premium (January 2002-December 2002)

Chart 11 Claim and Net Claim Expenses of Non-life Insurance Companies (January 2002-December 2002)