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# Vision, Mission

## Vision

The development of modern and efficient corporate sector and capital market, based on sound regulatory principles that provide impetus for high economic growth and foster social harmony in the country.



# Mission

To develop a fair, efficient and transparent regulatory framework, based on international legal standards and best practices, for the protection of investors and mitigation of systemic risk aimed at fostering growth of a robust corporate sector and broad based capital market in Pakistan.

# & Strategy

## Strategy

To develop an efficient and dynamic regulatory body that fosters principles of good governance in the corporate sector, ensures proper risk management procedures in the capital market, and protects investors through responsive policy measures and effective enforcement practices.

# Chairman's Message

I am pleased to present this eleventh annual report of the Securities and Exchange Commission of Pakistan (the SECP). The report focuses on the activities and achievements of the past year (July 2009 to June 2010) relative to the SECP's statutory objectives. The report is indicative of the challenges posed by economic turbulence of recent years and the catastrophe caused by the unprecedented floods that hit the country in 2010. The devastations were severe, causing loss of life, property, livestock, crops, infrastructure, etc. and affecting all spheres of life. The disaster is expected to have a major and lasting impact on the country's economy.

The prevailing situation posed a big challenge for the regulators to establish trust and confidence and manage risks in the market. The SECP is entrusted with the integrated administration and regulation of, inter alia, the capital markets, corporate sector, insurance sector and financial (non-banking) sectors in Pakistan and is committed to confront the challenge through its responsive policy measures and effective enforcement practices. The objective is to protect investors, foster principles of good governance in the corporate sector and ensure effective risk management procedures in the capital market.

As the regulator of an emerging market, the SECP's regulatory philosophy is dovetailed with the objectives of enforcement, market development and investor protection. The SECP is always supportive of product and market development initiatives and conscious effort is made to ensure that the regulatory framework is facilitative and conducive for innovation. Our regulatory philosophy is based on consultative rule making, facilitative implementation and stringent enforcement.

The SECP, over the past year, focused its efforts on promoting investor confidence through increased



vigilance over systemic risks, enhancing surveillance of the markets, and supervision over the conduct and prudential limits of market intermediaries. Penalties were imposed and warnings were issued where there were instances of market abuse, price manipulation, insider trading and brokers' operational malpractices. The SECP suspended the registration of five members of the Karachi Stock Exchange (KSE) due to unresolved investor's complaints. Subsequently, enquiries were initiated and based on the reports received by the Commission, criminal complaints have been filed in the session court against three brokerage houses, while the criminal complaints in the matter of remaining two brokerage houses are in the process of being finalized.

Taking cognizance of continuous non-compliance of securities market laws by companies as detrimental to the investors' interest, the Commission ordered suspension of trading in the shares of 40 non-compliant listed companies in August 2010. Restrictions were also imposed on the transfer of shares and off-market transactions of these companies at the stock exchanges.

To further improve risk management of the capital market, the concept of concentration and liquidity margin was introduced and the client-level margining system was implemented in a phased manner at the stock exchanges and the NCCPL to assist in eliminating chances of misuse of one client's margins and to ensure segregation of clients' assets from brokers' assets.

In order to allow an easy exit mechanism to the investors and cooling off period for the market, SECP is also facilitating introduction of Index based Market Halts, with progressively increasing the circuit breakers on individual scrips thereby allowing the securities a wider range for movement, in line with international best practices.

The regulatory framework of the National Commodity Exchange Limited (NCEL) was amended to make it mandatory for all existing and new NCEL members to register with the SECP as brokers within a specified timeline, to support the principles of a demutualised exchange. In order to align the risk management measures of NCEL with the corresponding contributions in Settlement Guarantee Fund (SGF), minimum balance requirements in the SGF were removed to ensure smooth operation of the fund. Moreover, a variety of commodity futures contracts were approved for listing at NCEL. In the precious metals segment, Silver Contract was launched and contracts for Gold with varying sizes were listed at NCEL to cater to the needs of small investors. The crude oil futures contract was introduced to fulfill the hedging requirements of the oil industry whereas rice contract with additional option of delivery was also listed to benefit the agricultural sector.

Restrictions were imposed on transfer of securities through free delivery in the Central Depository System (CDS) and prolonged parking of shares in the CDC main account. Moreover, the unpaid letters of rights (LoRs) were also declared CDS-eligible securities and a mechanism was introduced to allow trading and subsequent settlement of these LoRs in dematerialized form. The CDC Regulations were amended to provide for regulatory action against non-compliance of registrar/transfer agents, reconciliation report and extension in the period of obtaining list of beneficial owners by the issuer from the CDC to facilitate the issuers. The process of introducing an automated settlement process at the CDC is also underway whereby securities would move directly from the seller's sub-account or house account to the buyer's sub-account or house account. The process is expected to establish adequate level of authentication and control and will assist in preventing misuse in procedures governing movements of book-entry securities.

In order to prevent Modarabas from engaging in money laundering activities, the SECP imposed conditions on the conduct of Modarabas business and adequately addressed the requirements for a comprehensive Customer Due Diligence/Know Your Customer (CDD/KYC) policy and specified minimum requirements for account opening, identification of documents, verification of documents, risk analysis, record retention period and ongoing due diligence.

The legal reform process initiated by the Commission few years back saw considerable progress during the year. The Stock Exchanges (Corporatization, Demutualization and Integration) Act was approved by the National Assembly on October 8, 2009 and is pending approval from the Senate. The Demutualization Law undoubtedly holds great importance in the reform process initiated by the Commission and shall bring-in greater balance amongst the interest of different stakeholders. The structural reforms subsequent to the promulgation of this law are vital for bringing the local capital markets at par with international jurisdictions. The draft Securities Act has been vetted by the Law and Justice Division and will be tabled before the Cabinet Standing Committee while the Futures Trading Act is presently being vetted by the Law and Justice Division.

The SECP after extensive consultation with the relevant stakeholders finalized Rules providing legal framework for margin financing, margin trading, securities lending and borrowing and pledging. The Securities (Leveraged Market and Pledging) Rules, 2010 have been drafted to not only introduce effective disclosure requirements, ensure greater transparency, but also to meet the financing needs of capital markets while providing retail investors with an easy access to financing against shares and a platform for securities lending and borrowing and pledging.

To open up the real estate market to small investors, amendments were made in the REIT Regulations to address the issue of capital constraints and to enable even medium size projects to qualify for REITs. The amendments included reduction in the fund size of a REIT from Rs5 billion to Rs2 billion and the reduction in capital requirements for REIT Management Com-

pany (RMC) from Rs500 million to Rs200 million. A new concept of hybrid REIT was also incorporated to introduce a composite product promising rental income as well as capital gain. This will permit the RMC's to build properties for sale and retain/acquire a few properties for rental purposes.

In order to encourage investment banks towards non-fee-based financial services and to take a more active role in capital market, the regulatory framework was amended in April 2010 and investment banks were allowed to undertake brokerage business from their own platform instead of forming a separate company. This strategic shift is expected to promote corporate brokerage houses culture and consequently will also contribute to address the corporate governance issues in the brokerage industry. For the Non-Banking Finance (NBF) sector, the SECP extended the timeline for meeting prescribed minimum equity requirements till June 2011. The application of classification and provisioning criteria was also deferred for two years till June 2012.

In order to encourage a steady shift towards a well documented corporate sector, the SECP achieved notable targets during the year. The focus remained on provision of an enabling electronic submission environment and making eServices a success, developing the legal framework to meet new demands of regulation, and ensuring statutory corporate compliance through creating awareness as well as enforcing regulatory actions. eServices has made the company registration process easier and as a result almost 40% of the newly registered companies got registered online, showing the increasing adaptability by the public towards eServices. To further strengthen online submission regime, the registration of foreign companies and filing of annual and quarterly accounts by all companies has also been enabled through the eServices. The SECP efforts have also been recognized by the World Bank in its Doing Business Report, 2010 which revealed significant improvements in 'Starting a Business' indicator, inter alia taking into account the registration procedure. The country's ranking improved by 17 points from 80th in 2009 to 63rd in 2010.

The total corporate portfolio exceeded 56,000 companies as of 30th June, 2010. This has been a result

of the Commission's pro-registration facilitation mechanism and extensive awareness campaigns. To facilitate corporate compliance, the SECP also launched Companies Regularization Scheme and Easy Exit Scheme that allowed companies to make good their past defaults and also allowed to get themselves de-register from the corporate status on completion of prescribed requirement. Both schemes received encouraging response from the corporate sector.

The SECP issued the Companies (Corporate Social Responsibility) General Order, 2009 to formalize the disclosure and reporting mechanism in respect of CSR activities carried out by companies.

The SECP has always stressed the need for maintaining a high level of corporate governance standards and feels that the application of these standards has helped in improving governance and transparency in the market. In order to ensure that the boards of directors of organizations comprise of professionals with the highest standards of integrity and honesty and to promote business ethics and inculcate practices of good corporate governance, a Fit and Proper Criteria for directors on the boards of the stock and commodity exchanges, the CDC and the NCCPL was introduced. The Code of Corporate Governance (CCG) is also currently being revised taking into account recommendations of the task force constituted by the Pakistan Institute of Corporate Governance (PICG), concerns of the market participants and international best practices.

Insurance is one area where we need to strengthen regulation and supervision. Unfortunately, the insurance penetration in Pakistan is one of the lowest in Asia. In order to ensure an effective and centralized supervision of the insurance industry along with the consolidation of regulatory framework, in July 2009 the powers and functions conferred under section 167(2) of the Insurance Ordinance, 2000 were entrusted from Ministry of Commerce to SECP. While enhancing the risk management measures of the insurance industry, the need was felt to revise the solvency requirements and also frame provisions on the investments of insurance companies. The SECP in light of the recommendations of the Committee constituted to review the existing solvency provisions

and practices and also the stakeholders feedback received on the draft amendments to the Securities and Exchange Commission (Insurance) Rules, 2002, finalized the Solvency Rules to be notified accordingly.

At the international front, SECP achieved a milestone and became signatory to the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMoU) Appendix B, on December 14, 2009. The listing on Appendix B indicates the SECP's commitment towards bringing its laws and systems in compliance with international standards and gain accession to Appendix A of the MMoU. At bilateral level, the SECP established cooperative arrangements and signed an MoU for exchange of information and cooperation with the Securities and Exchange Organization Iran on October 3, 2009. SECP being the chair of IOSCO EMC WG3 completed work on the mandate "Guidance to emerging market regulators on Minimum Entry Requirements and Continuous Risk Based Supervision of Market Intermediaries". The report was approved by EMC in November 2009. The SECP is completing work on the WG3 new mandate adopted to develop "Guidance for the Efficient Regulation of Conflict of Interests Facing Market Intermediaries". The SECP has also initiated a self-assessment of IOSCO objectives and principles to measure its progress towards implementation of the international securities regulatory standards using the IOSCO methodology.

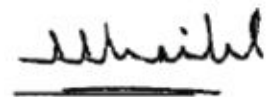
At SECP, we endeavor to provide an attractive investment environment for investors. To achieve this, the Commission will take all necessary legal and operational measures to increase market liquidity, improve risk management and enhance investor protection and confidence. Emphasis will also be on creating new financial instruments for the markets, improving disclosure standards and capital adequacy regime and early enactment of demutualization law for the stock exchanges. SECP will also strive to facilitate consolidation in the NBF sector through mergers and acquisitions in order to enhance risk absorption capacity and urge investment banks to broaden activities through non-fund financial services.

The quality and future success of our capital market

rests greatly on how well its stakeholders govern themselves. The Commission has successfully implemented its reform agenda in the past and substantially improved the market governance frameworks. Targeting to raise the level of governance practices by boards and operational management, the SECP will be focusing its attention on building governance capacity both in the market and for ourselves. For the market, we plan on enforcing the revised Code of Corporate Governance, 2002 taking into account the lessons learnt from the practical issues in implementation, ensuring that the Code reflects changing governance concerns and practices. As for the SECP, we will continue to raise the bar on our delivery standards and will be looking closely to see where and how we can make ourselves more transparent and accountable in the pursuit of our core mandate and objectives.

In the end, I am compelled to point out that owing to demands made by the Ministry of Finance, the SECP had to pay disputed tax amounting to Rs. 846.319 million and also made an additional provision of Rs. 99.353 million in respect of default surcharge and penalty in the financial statements. The matter is still pending decision at the Lahore High Court Rawalpindi Bench and in case the final decision is in favour of the Commission, then the payments shall be adjusted from future taxes.


As ever, the guidance of the SECP policy board members, contributions of my fellow Commissioners and the management team have been invaluable during the year. I thank them wholeheartedly for their counsel and support throughout the year. Without doubt, not only the efforts of the SECP and its staff alone, but also the contributions of all dedicated participants in the corporate sector, the capital markets, the NBF sector and the insurance sector will serve to be useful in helping us accomplish our goals.



**Salman Ali Shaikh**  
Chairman







# Whom and How We Regulate

## CORPORATE SECTOR

How	Whom		Responsible Division/Department	Number of Employees
	Type	Number		
<p>Supervise and monitor CROs</p> <p>Grant license to associations not for profit</p> <p>Perform delegated powers of the Commission</p> <p>Perform statutory powers of registrar of companies</p> <p>Process appeals, revision and review applications</p> <p>Liaise with other jurisdictions</p> <p>Develop legal framework</p> <p>Improve facilitation mechanism including eServices</p>	<p>Private Companies, Public Unlisted Companies, Single Member Companies, Companies Limited by Guarantee, Associations-Not-for-Profit, Trade Associations, Foreign Companies</p>	55,511	Registration Department	26
<p>Register companies</p> <p>Process mortgages/charges related matters</p> <p>Issue certified true copies</p> <p>Provide inspection of companies' record</p> <p>Issue certificate of commencement of business</p> <p>Handle alterations to Memorandum and Articles of Association</p> <p>Grant approvals and permissions</p> <p>Examine and record statutory returns</p> <p>Adjudicate defaults falling within the jurisdiction of CRO</p> <p>Enforce compliance</p> <p>Dissolve companies</p> <p>Implement facilitation schemes</p>	<p>Private Companies, Public Unlisted Companies, Single Member Companies, Associations-Not-for-Profit, Companies Limited by Guarantee, Trade Associations, Foreign Companies</p>	55,511	Company Registration Offices	108
<p>By enforcing corporate laws</p> <p>Monitoring submission of reporting requirements and information disclosure to assure companies' conduct according to rules and regulations</p> <p>Conducting routine inspections and special investigations and by taking administrative action against wrongdoers</p> <p>Facilitating inflow of capital by permitting issue of shares otherwise than right, preference shares and shares at a discount</p> <p>Providing relaxation of requirements of Companies (Issue of Capital) Rules, 1996 to facilitate equity issue by way of right</p> <p>Initiating actions against wrongdoers through administrative proceedings</p> <p>Proposing and/or amending rules and regulations for authorization/operation/internal control of companies</p>	<p>Listed Companies, Unlisted Companies and Private Limited Companies with a paid-up capital of Rs7.5 million and above (excluding NBFCs and Notified Entities, REIT Schemes, Private Equity and Venture Funds, Modaraba, Insurance Companies and Stock Brokerage Houses) and Foreign Companies in Pakistan.</p> <p>Companies registered in terms of provisions of sections 42 and 43 of the Companies Ordinance, 1984</p>	About 9200	Enforcement Department	45
<p>Enforcing takeover laws</p> <p>Monitoring regulatory compliance</p> <p>Reviewing documents/reports prepared by financial advisors, property valuers and auditors</p>	<p>Listed Companies (except NBFCs and Notified Entities REIT Schemes, Private Equity and Venture Funds, Modaraba, Insurance Companies and Stock Brokerage Houses)</p>	535		

## SECURITIES MARKET

How	Whom		Responsible Division/Department	Number of Employees
	Type	Number		
By issuing and renewing licenses of securities depositories and clearing companies Approving amendments to the regulatory framework Granting approval to new products, systems and other operational activities Devising and proposing rules pertaining to these entities for the approval by the Federal Government Handling all policy and regulatory matters relating to the stock and commodity exchanges, CDC and NCCPL Appointing non-member directors on the boards of stock exchanges, CDC and NCCPL	Karachi Stock Exchange	1	Stock and Commodity Exchanges, Clearing and Depository, Policy and Regulation Wing	12
	Lahore Stock Exchange	1		
	Islamabad Stock Exchange	1		
	Central Depository Company of Pakistan Limited	1		
	National Clearing Company of Pakistan Limited	1		
	National Commodity Exchange Limited	1		
Monitoring and surveillance of the trading activities of all the market participants Ensuring compliance of the trading activities under provisions of law Conducting investigations/enquiries on detection of market abuse or malpractices Examination of returns of beneficial ownership Compliance of all the prevalent laws	Members of the stock exchanges	299	Market Monitoring and Surveillance and Beneficial Ownership Wing	15
	Individual Investors and Institutional Investors	All listed companies		
	Directors, chief executives, managing directors, chief accountants and shareholders with more than 10% shareholding of listed companies			
	Members of the stock exchanges.			
Stock Exchanges	3			
By issuing and renewing certificates of registration to brokers By issuing and renewing certificates of registration to agents Redressing investor complaints received against the brokers, agents and stock exchanges Monitoring and initiation of actions against unregistered brokerage houses	Members of the stock exchanges	299	Brokers & Agents Registration and Investor Complaints Wing	6
	Agents of the stock exchanges	368		
Issuance and Offering of Securities: By approving issuance and public offering of securities Approving issuance of securities outside Pakistan  Handling complaints against issuers, share registrar and transfer agents, consultants to the issuer/offerer Issuing rules and regulations, guidelines governing securities issuance and offering Suggesting amendments to the rules and regulations, guidelines governing securities issuance and offering Issuing licenses to special purpose vehicles Providing necessary relaxations where	Securities Issuers/Offerers	Various	Capital Issues Wing	10
	Securities Issuers/Offerers, Consultants, Share Registrars and Bankers to the Issue/Offer			
	Securities Issuers/Offerers			

How	Whom		Responsible Division/Department	Number of Employees
	Type	Number		
<p>required, in case of issuance of commercial papers</p> <p>Providing necessary relaxations from the requirements of the Companies (Issue of Capital) Rules, 1996 and listing regulations of stock exchanges, in case of issuance of securities</p> <p>Providing necessary relaxations from the requirements of Balloters, Transfer Agents and Underwriters Rules</p> <p>Approving Employees Stock Option Schemes</p> <p>Processing cases of violations of section 18A of the Securities and Exchange Ordinance, 1969</p> <p>Issuing and Renewing Certificate of Registration:</p> <p>Reviewing documents and reports filed by the credit rating companies.</p> <p>Examining of the existing legal framework for credit rating companies</p> <p>Monitoring of the intermediaries associated with IPOs</p>	Issuers of commercial papers	Various	Capital Issues Wing	
	Issuers/Offerers			
	Underwriters, Balloters and Transfer Agents			
	Offerers of the scheme			
	Applicants of shares			
	Credit rating agencies	All companies acting as underwriters in IPOs		
Share Registrar and Transfer Agents				
Underwriters	All the Companies providing shares register and transfer service			

### SPECIALIZED COMPANIES

How	Whom		Responsible Division/Department	Number of Employees
	Type	Number		
By providing no-objection certificates for formation of an NBFC	NBFC carrying out Asset Management and Investment Advisory Services	30	NBFC -II Wing	10
Issuing and renewing licenses to AMCs to provide Asset Management Services and IAs to provide Investment Advisory Services	Collective Investment Schemes/AMC/IA	127/28/23		
By registering open-end and closed-end mutual funds				
Monitoring, Inspection and Examining business operation and financial soundness				
Initiating enforcement actions				
Issuing NOCs for formation of new NBFCs	NBFCs carrying out the business of:		NBFC -I Wing	8
Issuing and renewing licenses				
Approving appointments of chief executives and directors and allowing mergers and acquisitions	Leasing	9		

How	Whom		Responsible Division/Department	Number of Employees
	Type	Number		
Initiating enforcement actions	Investment Finance Services	8		
Issuing guidelines, circulars, amendments to rules and regulations governing the NBFC sector	Housing Finance Services	1		
By registering a corporate body as modaraba company	Modaraba Companies	40	Modaraba Wing	6
Granting authorization to modaraba company to float and manage modaraba	Modarabas	26		
Issuing guidelines and circulars, under Modaraba Ordinance and pertinent Rules				
Regulating private pension fund industry: Issuing certificate of registration to eligible applicants Issuing guidelines and circulars under VPS Rules where required/ appropriate Approving and renewing promotional material Approving allocation schemes and other products under the VPS Rules Monitoring performance of pension funds	Asset management companies which have been licensed as pension fund managers to undertake pension fund business funds	5	Pension Wing	3
Issuing permission to form a NBFC (RMC) Licencing an RMC to provide REIT Management Services Registering REIT schemes	RIET Management Company	2	REITs and NI Wing	4

## INSURANCE

How	Whom		Responsible Division/Department	Number of Employees
	Type	Number		
By regulating insurance sector, which includes life and non-life companies, takaful operators, insurance agents, brokers and surveyors, and bodies connected with insurance business	General (non-life) insurance companies	32	Insurance Division	22
Issuing licenses based on rules, taking into account financial condition and other criteria	State-owned Company	1		
Issuing rules and regulations for authorization, operational and internal control of the insurance business	Life insurance companies	7		
Prescribing and enforcing capital adequacy requirements for the general insurance industry, ensuring maintenance of statutory solvency margins and collection of registration/supervision fees	Takaful operators	5		
	Local reinsurer	1		
	Surveyors	290		
	Brokers	5		
	Authorized surveying officers	345		

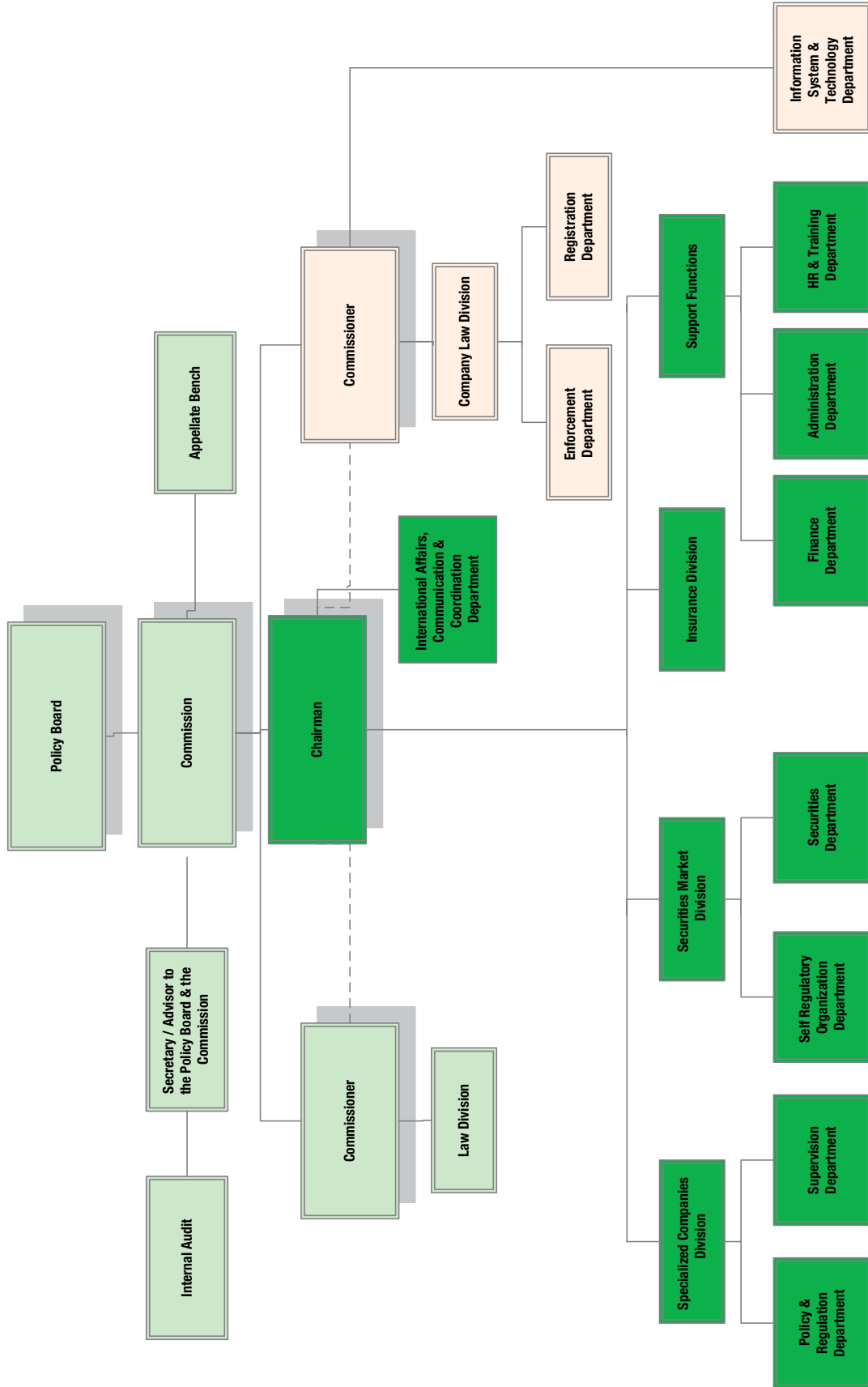




# The Organization



# ORGANIZATIONAL CHART



#### 4.1 THE SECURITIES AND EXCHANGE POLICY BOARD

The Securities and Exchange Commission of Pakistan Act, 1997 empowers the Federal Government to appoint a Securities and Exchange Policy Board (the Board) consisting of 9 members, of which 5 are from the public sector and 4 from the private sector. The ex-officio members are Secretary, Finance Division; Secretary, Law and Justice Division; Secretary, Commerce Division; Deputy Governor, State Bank of Pakistan (SBP) and the Chairman, SECP.

Mr. Salman Siddique, Finance Secretary, has been the Chairman of the Board since March 3, 2009. Mr. Munawar Hamid, a Member of the Board from the private sector, resigned on April 12, 2010. As regards ex-officio Members of the Board, Mr. Zafar Mahmood, Secretary Commerce and Mr. Muhammad Masood Chishti, Secretary Law and Justice Division, on transfer of their predecessors, became ex-officio Members of the Board on December 5, 2009 and June 11, 2010 respectively.

As of June 30, 2010 the Policy Board consisted of the following members:



**Mr. Salman Siddique**  
Finance Secretary,  
Chairman  
Securities and Exchange  
Policy Board



**Mr. Salman Ali Shaikh**  
Chairman, SECP



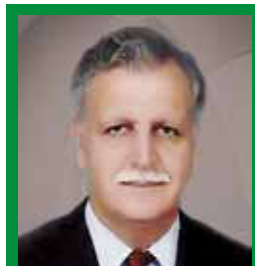
**Mr. Zafar Mahmood**  
Secretary,  
Commerce Division



**Mr. Muhammad Masood  
Chishti**  
Secretary, Law, Justice and  
Parliamentary Affairs



**Mr. Yaseen Anwar**  
Deputy Governor,  
State Bank of Pakistan



**Mr. Anwar Saifullah Khan**  
Businessman / MPA,  
Khyber Pakhtoonkhawa



**Mr. Faisal Bari**  
Head of Economics Department,  
Lahore University of Management  
Sciences

#### 4.2 Policy Board Meetings

Five meetings of the Policy Board were held during the period under review. During these meetings, the following major issues came under discussion and appropriate decisions were taken thereof:

- Submission of Annual Report of the SECP along with its Annual Accounts for the financial year ended June 30, 2009
- Approval of the draft Securities and Exchange Commission of Pakistan Bill 2010
- Levy of transaction fee on the NCEL
- Increase in annual supervision fee of insurance companies
- Briefing on the performance of the capital market
- Briefing on income tax dispute with the FBR
- Approval of the budget for the FY for 2010-11
- Revision of pay scales of employees serving on old term and conditions of the SECP
- Grant of bonuses, salary increase and compensation review for the year 2010
- Approval of amendments to the SECP's Service Manual
- Approval of amendments to the HR Handbook

THE COMMISSION



**Mr. Salman Ali Shaikh**  
Chairman, SECP

**Mr. S. Tariq Asaf Husain**  
Commissioner, Law Division



**Mr. Tahir Mahmood**  
Commissioner, Company Law  
Division and Information System &  
Technology Department

**Mr. Abdul Rehman Qureshi**  
Advisor/Secretary to the Commission



EXECUTIVE DIRECTORS

**Mr. Javed K. Siddiqui**  
ED, Finance



**Mr. Nazir Ahmed Shaheen**  
ED, Registration



**Mr. Arshad J. Minhas**  
ED, Information System &  
Technology



**Mr. Akif Saeed**  
ED, Securities Market



**Ms. Nasreen Rashid**  
ED, Insurance



**Mr. Shahid Nasim**  
ED, Specialized Companies  
(Karachi)

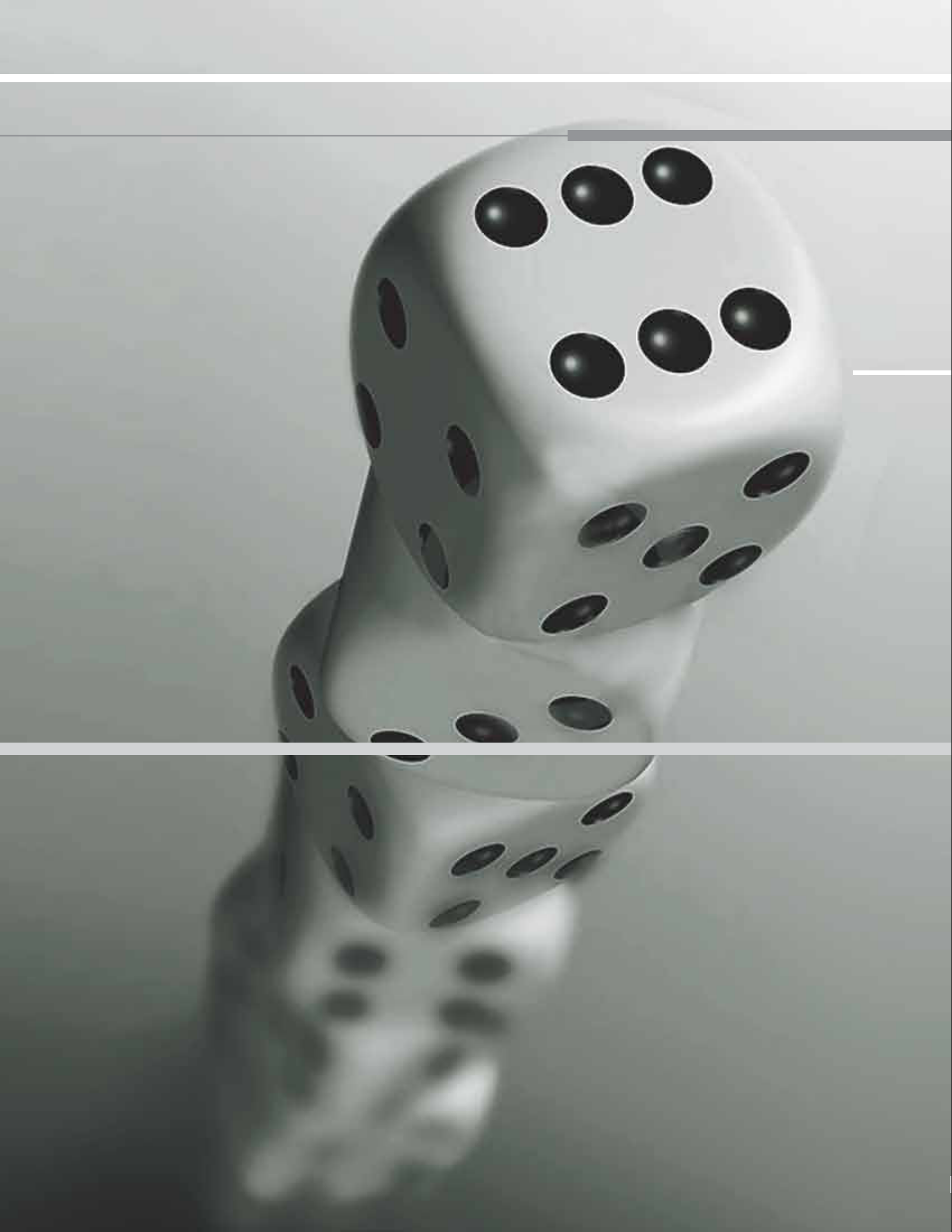


**Mr. Muhammad Asif Jalal Bhatti**  
ED, Specialized Companies  
(Islamabad)



**Mr. Muhammad Ashraf Tiwana**  
ED, Law





Key

Achievements

## **5.1 INTERNATIONAL AFFAIRS, COMMUNICATION AND COORDINATION**

### **5.1.1 Multilateral Cooperation- IOSCO MMoU**

The SECP became signatory to Appendix B of the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMoU) on December 14, 2009. The SECP listing on Appendix B indicates the organization's commitment towards bringing its laws and systems in compliance with international standards. The IOSCO MMoU is an international benchmark for mutual assistance, cooperation and information sharing for securities enforcement purposes amongst 114 IOSCO member jurisdictions. The SECP is currently in process of gaining accession to Appendix A of the MMoU and is committed to address the areas of non-compliance identified during the IOSCO MMoU Verification Team's comprehensive assessment of the SECP's application to the IOSCO MMoU.

### **5.1.2 Bilateral Cooperation**

The SECP is actively involved in the promotion of cooperation with counterpart regulatory bodies at the international level. Cooperative arrangements have been established through signing the Memorandum of Understandings (MoU) with several foreign counterpart regulatory bodies concerning cooperation and information sharing. The SECP signed a MoU for exchange of information and cooperation with the Securities and Exchange Organization Iran on October 3, 2009.

### **5.1.3 IOSCO EMC WG3**

The SECP was elected chair of the IOSCO's Working Group 3 (WG 3) for the 'Regulation of Market Intermediaries' in October 2002, a title it currently shares with the Financial Supervisory Services (FSS) Korea. The WG3 completed its mandate on "Guidance to emerging market regulators on Minimum Entry Requirements and Continuous Risk Based Supervision of Market Intermediaries". The final report on the mandate was approved at the IOSCO EMC plenary meeting in November 2009, and was posted on the IOSCO website on December 21, 2009.

On completion of the previous mandate WG3 adopted a new mandate to develop 'Guidance for the Efficient Regulation of Conflict of Interests Facing Market Intermediaries' which was approved by the IOSCO EMC during its Annual Conference in November 2009. A project team comprising of the chairs of WG3 (SECP, FSS Korea), the Central Bank of Uruguay and the Financial Supervisory Commission of Taiwan was constituted to carry out the mandate. The mandate is in line with the IOSCO core principle 31 that requires market intermediaries to establish an internal function that delivers compliance with standards for internal organization and operational conduct.

In collaboration with the FSS Korea, a survey questionnaire was developed to obtain feedback on the existing practices prevailing in the EMC member jurisdictions. The report being prepared by the International Affairs, Communication and Coordination Department (IACCD) of the SECP is based on desk research and analysis of the response to the questionnaire provided by 23 EMC jurisdictions. The report will identify the problems faced by EMC member jurisdictions in regulating market intermediaries and provide a set of guidelines which can be used in order to alleviate the problems posed by conflicts of interest. The WG3 is in the process of drafting the report and submitting the same to the IOSCO members for feedback. The WG3 will finalize the report and present for approval by the EMC by October 2010 at the IOSCO EMC annual conference.

### **5.1.4 Activities at International Forum-IOSCO**

The SECP continued to play an active role in the activities of the IOSCO and participated and contributed in various surveys that were undertaken. The SECP participated in the survey undertaken by the EMC task force on the current financial crisis. The report relating to the questionnaire addresses the key regulatory and supervisory challenges facing EMC securities regulators and provides recommendations to meet these challenges.

The SECP, being a member of the task force on corporate bond markets also participated in the survey questionnaire prepared by the EMC task force on the development of corporate bond markets. The task force in collaboration with the World Bank was constituted by the IOSCO EMC Advisory Board to identify the ingredients of success in developing bond markets, which could be considered by policy-makers of emerging markets. The questionnaire highlighted the structure, nature and regulatory framework of corporate bond markets in the EMC jurisdictions in order to benchmark practices prevailing in emerging markets to those prevailing in the developed markets.

The SECP also participated in a survey conducted by the EMC Working Group 1 on Disclosure and Accounting relating to implementation of the International Financial Reporting Standards (IFRS) and IFRS for SME's, questionnaire from the IOSCO Standing Committee 5

relating to Suspension of Redemption, survey on practices relating to Securitization and Securitized Debt Markets in Emerging Market Countries from the IOSCO EMC task force on securitization and a questionnaire on 'Effectiveness of Trading Interventions in Emerging Markets' from the IOSCO EMC WG2 on secondary market regulation. Moreover, the SECP continued its collaboration with the Islamic Financial Services Board (IFSB) and participated in a comprehensive survey on Islamic Capital Markets and Islamic Money Markets.

#### 5.1.5 Cooperation with International Regulatory Bodies

The SECP shared relevant information with foreign counterpart organizations for enforcement and securities regulation on a regular basis. Recent cross-border information sharing has been done with the Ontario Securities Commission, Polish Financial Supervision Authority, Financial Services Authority UK, Emirates Securities and Commodities Authority, Capital Market and Financial Institution Supervisory Agency in Indonesia and the British Virgin Islands Financial Services Commission.

The IACCD initiated a proposal of collaboration with its Norwegian counterpart regulator "Finanstilsynet" under the PAK-3004 Institutional Cooperation Program. This program is a component of bilateral cooperation between the Government of Pakistan (GoP) and the Government of Norway and covers areas such as good governance, law and human resource development. Under the programme the Norwegian Agency for Development Cooperation (NORAD) provides funding support for institutional cooperation projects and facilitates development of collaboration towards sustainable partnerships between the collaborating institutions.

#### 5.1.6 IOSCO Self-Assessment

The SECP initiated the process of undergoing a self-assessment of the IOSCO objectives and principles. The IOSCO objectives and principles provide a yardstick to measure the progress of member jurisdictions towards effective regulation. The 30 principles of securities regulation are based on the three objectives of securities regulation; namely the protection of investors; ensuring that markets are fair, efficient and transparent; and the reduction of systemic risk.

The SECP formed a task force to undertake self-assessment of the IOSCO principles comprising of representatives from its different departments. The exercise is based on a detailed methodology provided by the IOSCO to conduct jurisdictional assessment of the level of implementation of the securities regulatory standards. The task force has so far completed the review of the first 13 IOSCO principles relating to regulator, self-regulation and enforcement and cooperation. The task force aims to achieve its target of self-assessment by the end of 2010 and submit an assessment report to the IOSCO.

#### 5.1.7 Corporate Governance

The SECP has always stressed the need for maintaining a high level of corporate governance standards and feels that the application of these standards has helped in improving governance and transparency in the market. It was made mandatory for all the directors of the listed companies to have certification under 'The Board Development Series' program offered by the Pakistan Institute of Corporate Governance (PICG), provided that at least one director shall be required to have such certification by June 30, 2011 and thereafter, every following year minimum one director on the Board shall acquire the said certification.

The Code of Corporate Governance (CCG) is currently being revised taking into account concerns of the market participants and international best practices. The PICG was tasked with reviewing the CCG 2002 and for the purpose the PICG formed a task force comprising of different market participants. The recommendations submitted by the PICG to the SECP are being reviewed by a SECP committee.

The SECP also initiated the promotion of Corporate Social Responsibility (CSR) in the corporate sector. It has issued the Companies (Corporate Social Responsibility) General Order, 2009 to prescribe disclosure of CSR activities undertaken by the companies during each financial year.

#### 5.1.8 Task Force on Financial Inclusion

The Asian Development Bank (ADB) organized a workshop in Bangkok on 'Strengthening Financial Regulation and Supervision in Pakistan' in October 2009. The workshop discussed the functional approach to regulation and supervision in Australia, Canada and the UK and the relevance of these approaches to the Pakistani context. The delegates headed by the Chairman, SECP and the Governor, SBP attended the workshop. This workshop was followed by a tour to Australia to look at the prudential and market conduct supervision models. The SECP and SBP officers visited different regulatory bodies to get a better understanding of the roles and responsibilities of these regulators and their coordination with each other. Detailed discussions were held on regulatory and operational strategies, human resource management and market development. Consequently, a joint SECP-SBP task force for financial inclusion was formed.



### 5.1.9 World Bank Assistance for Capacity Building of the SECP

Under the Institutional Development Fund (IDF), the World Bank (the Bank) approved a grant of US\$454,000 for the SECP in November 2005. At the SECP's request, the closing date of the grant was extended by one year to September 28, 2009.

Under the grant, the consultants in the areas of Information Technology (IT) audit to examine the controls and IT governance practices currently in place at the SECP and to suggest ways for their improvement (two local consultants), raising institutional capacity for 'Credit Rating Agencies' (an international consultant), and developing courses syllabus, curriculum and question bank for Institute of Capital Market's (ICM) examinations/certifications (a local consultant), completed their assignments.

The state-of-the-art IT equipment for the ICM and the SECP was purchased. The audit of all expenses incurred under the grant for the FY 2008-09 was conducted and the report was submitted to the Bank, which was rated satisfactory. A completion report for the grant was submitted to the Bank, which was incorporated into its final report of the grant.

### 5.1.10 ADB Second Generation of the Capital Market Reforms Program TA-4956 Pak

The Program is an assistance package of the ADB to the GoP for capital market reforms through a loan of US\$400 million to the GoP and a Technical Assistance (TA) grant of US\$1million to the SECP and the Privatization Commission to support the implementation of the program. The ADB extended the TA closing date by six months till September 30, 2010.

#### Consultancies Executed under the TA

A number of international and local consultants were hired under the TA for the development of various areas under the regulatory ambit of the SECP in line with best international practices. The consultants are working in the following areas:

- Pension regulations for establishment of a unified supervisory and regulatory framework for occupational saving schemes for companies
- Harmonization of the regulatory framework governing capital markets in Pakistan for ensuring a rationalized regulatory framework. The assignment is to be completed by September 30, 2010
- Development of investigation/inspection manual for the SECP enforcement actions encompassing procedures for adjudication proceedings. The assignment is to be completed by September 30, 2010
- Valuation methodology of corporate bonds and provisioning criteria for non-performing debt Securities for Collective Investment Schemes. A complete working model using the parameters of the local environment is to be prepared by September 30, 2010
- Assistance to the ICM to improve public awareness of the Pakistan capital markets, strengthen program offering, develop a forum for business policy roundtables and procure books.

### 5.1.11 Anti-Money Laundering Regime in Pakistan

In order to prevent Modarabas from engaging in money laundering activities, the SECP on September 9, 2009 issued a circular, imposing conditions on the conduct of Modarabas business. It adequately addressed the requirements for a comprehensive Customer Due Diligence/Know Your Customer (CDD/KYC) policy and specified minimum requirements for account opening, identification of documents, verification of documents, risk analysis, record retention period and ongoing due diligence.

The SECP contributed in the revision process of the Anti-Money Laundering (AML) Ordinance. The revised law was promulgated as an Ordinance in November 2009 and later passed by the Parliament in March 2010. The AML Act addressed the concerns raised by the Asia Pacific Group (APG) and Financial Action Task Force (FATF). The SECP disseminated the AMLO, 2009, AML Act 2010, obligations of financial institutions there under and the threshold for filing of Currency Transaction Report (CTR) with the Financial Monitoring Unit (FMU) to its regulatees.

The SECP revamped the Central Depository Company (CDC) Sub-account Opening Forms keeping in view the shortcomings of the Standardized Account Opening form (SAOF) regarding KYC. A new SAOF has been introduced for opening of all CDC sub-accounts, which contain improved KYC requirements including verification of the particulars of the main applicant by the bank where main applicant is maintaining his account. In addition, physical presence of customers at the time of account opening has also been made mandatory.

#### a. Mutual Evaluation

The final draft of the Mutual Evaluation Report on Pakistan Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) regime was discussed, amended and adopted at the APG annual meeting held in Brisbane, Australia. The SECP was part of the Pakistan delegation in the plenary and actively defended the country's position on the relevant areas.

**b. Regional Review Group**

Pakistan was ranked non-compliant and partially compliant in 14 core/key FATF recommendations in the adopted mutual evaluation report, resulting in its referral to the FATF's targeted review by the Regional Review Group (RRG) under the International Cooperation Review Group (ICRG) review process. The RRG conducted an offsite review through assessment of the progress made by Pakistan in the selected referred areas since the mutual evaluation. The SECP provided detailed response about the progress made by it in the areas under its regulatory ambit. The SECP, along with other stakeholders, actively participated in the discussions held with the RRG via video conference, for explaining country's position and answering the queries raised by the RRG. As a result of these efforts the RRG accepted Pakistan's view point in most of the recommendations and upgraded their ranking from 'non-compliant' to 'compliant' in its final report. The RRG also suggested the future action plan for Pakistan to address certain strategic AML/CFT deficiencies that still exist in Pakistan's AML/CFT regime. The SECP has initiated its efforts to meet the targets highlighted in the suggested action plan.

**c. United Nations Security Council Circulars**

On the recommendation of the APG in the mutual evaluation report, the Ministry of Foreign Affairs started forwarding the SROs (Government Directives) issued from time to time to the SECP, regarding freezing of funds and other resources of individuals and entities included in the UN 1267 Committee's Consolidated List. The SECP is regularly disseminating the SROs to the relevant entities under its regulatory ambit for taking necessary actions to freeze the funds of the nature mentioned in said SROs. The regulated entities are also advised to regularly visit the list appearing on the UN Security Council (UNSC) website for taking necessary action for freezing of funds against the entities/individuals listed therein.

**5.2 APPELLATE BENCH**

Orders passed either by a Commissioner or an officer, to whom the powers of the Commission have been delegated, are appealable under section 33 of the SECP Act, 1997 to the SECP Appellate Bench comprising of two Commissioners.

Seventy-two appeals were filed against orders passed by the SECP, out of which 70 were disposed of by the Appellate Bench.

**5.3 CORPORATE SECTOR****5.3.1 eServices Project**

A number of activities were undertaken to facilitate companies in the eServices regime. These include:

- a. Electronic Inspection of Records:** The facility for electronic inspection of records was provided at the Company Registration Offices (CROs) to facilitate the public in inspecting the records/documents submitted by the companies. This facility is presently available for documents filed online; however, efforts are being made to include manually filed documents.
- b. Foreign Companies' Module:** Foreign companies' module has been introduced, which enables the promoters to register foreign companies, and file their returns online.
- c. Filing of circular under section 86 Module:** Module for filing of Circular under section 86 of the Companies Ordinance, 1984 (the Ordinance) was implemented.
- d. Filing of Annual and Quarterly Accounts Module:** Module for filing of annual and quarterly accounts was developed and made functional.
- e. Miscellaneous Items with or without Challan Modules:** Miscellaneous items with or without challan modules for the processes not developed in eServices were deployed.
- f. Entry of Multiple Forms:** Process for simultaneous entry of multiple forms of Form A (annual return) and Form 29 (particulars of directors and officers, etc.), was enabled to facilitate the filers.
- g. Frequently Asked Questions:** Frequently Asked Questions (FAQs) were placed on the SECP website to facilitate external users.
- h. Standard Operating Procedures:** Standard Operating Procedures (SOPs) for payment process, availability of company name, offline and online company incorporation and filing of statutory returns were developed.

- i. **Awareness Campaign:** Post-launch seminars were held in Karachi, Lahore, Islamabad, Rawalpindi and Sialkot in collaboration with chambers, tax bar associations, and Institute of Cost and Management Accountants of Pakistan (ICMAP) for raising awareness on eServices. Workshops for economic journalists were also held in Karachi and Islamabad.
- j. **Scanning and Archiving:** The scanning of physical record of companies maintained at the CRO in Peshawar was completed.

### 5.3.2 Development of Legal Framework

**5.3.2.1 Promulgation of the Companies (Corporate Social Responsibility) General Order, 2009:** The Companies (Corporate Social Responsibility) General Order, 2009 was issued to prescribe narrative and monetary disclosures of CSR activities undertaken by the companies through their directors' report to the shareholders annexed to the annual audited accounts. The Order is applicable to all public companies from July 1, 2009, and entails disclosure of all the charitable and philanthropic activities carried out by them during each financial year.

**5.3.2.2 Deferral of the Companies Cost Accounting Records (General Order), 2008:** Considering the reservations of manufacturing, production and processing of fertilizer, thermal energy, petroleum refining, natural gas and polyester fibre sectors, the applicability of the Companies Cost Accounting Records (General Order), 2008 was deferred to be effective from the financial year commencing on or after July 1, 2010.

**5.3.2.3 Amendments to the Group Companies Registration Regulations, 2008:** The SECP promulgated the Group Companies Registration Regulations, 2008 on December 31, 2008 to provide a regulatory framework for the formation of group companies. A few provisions of the said regulations were found to have jurisdictional overlap with those under the regulatory purview of the Federal Board of Revenue (FBR). The same were amended on September 7, 2009, to remove the anomaly.

**5.3.2.4 Amendment to the Companies (Invitation and Acceptance of Deposits) Rules, 1987:** With the approval of the Federal Government, the SECP withdrew earlier amendments to the Companies (Invitation and Acceptance of Deposits) Rules, 1987 (the Deposit Rules) as being impracticable. The SECP had faced major impediments to enforce the Deposit Rules owing to the 'advances' in the real estate sector. These advances are actually pre-payment and not 'deposit'. Besides, the subject of housing and real estate development falls within the provincial legislative jurisdiction.

### 5.3.3 Regulatory Actions

**5.3.3.1 Granting of licenses to Associations not-for-Profit:** Twenty-two licenses were issued to associations not-for-profit under section 42 of the Ordinance. The SECP ensures quick disposal of applications seeking licences to associations not-for-profit.

**5.3.3.2 Amalgamations and Mergers of Companies:** In response to the SECP's oral and written representations, the courts approved amalgamation of Orix Investment Bank Pakistan Limited into Orix Leasing Pakistan Limited and Glaxo Smithkline Pharmaceuticals (Pvt.) Limited into Glaxo Smithkline Pakistan Limited.

**5.3.3.3 Approvals and Permissions:** Under the Ordinance, 72,805 applications seeking regulatory approvals were received and after due consideration necessary approvals were granted by the Commission or the Registrar (Table 1).

#### 5.3.3.4 Capital Issues:

- a. **Issues of shares other than rights:** The approval to issue 284,850,000 million shares @ Rs. 10 each other than rights to the existing shareholders was allowed to a company.
- b. **Issue of shares with varied rights and privileges:** A company was allowed to issue 43,500,000 million class B right shares, @ Rs. 5 each. The discount of 50% was allowed to increase the liquidity of the company.

### 5.3.4 Monitoring and Enforcement

**5.3.4.1 Investigations into Affairs of Companies:** The SECP processed 5 applications under section 263 of the Ordinance for investigation of affairs of the companies that were allegedly not being managed in accordance with the law.

**5.3.4.2 Inspection of Books of Accounts and other Books and Papers of Companies:** Two applications were processed under section 231 of the Ordinance for inspection of books of accounts and other books and papers of the companies. An order was issued in one case.

**5.3.4.3 Adjudication of Cases:** The Registrar of Companies and the CROs adjudicated 1,143 cases of violation of various provisions of the Ordinance and punitive actions were taken against errant companies.

**5.3.4.4 Dissolution of Companies:** The SECP disposed of 316 cases of dissolution of companies. Of these, 30 companies wound up voluntarily and 286 companies were struck off the register under section 439 of the Ordinance. The dissolved companies had a cumulative paid-up capital of Rs. 796 million.

**5.3.4.5 Protection of the Stakeholders' Interest:** The SECP played a proactive role in collaboration with other regulators and law enforcement agencies to protect the interests of stakeholders. The partners of a top money changer company were arrested on charges for illegally transferring billions of rupees abroad. A six-member committee comprising of the representatives of the FIA, SBP, ECAP and the SECP was formed to monitor/supervise the claim settlement procedure and to make payments to the affectees. Rs. 20 million were paid to the affectees.

In another case, a private limited company was alleged for illegal foreign exchange business and transfer of funds. A committee comprising of the representatives of the FIA, SBP, ECAP and SECP scrutinized the claims and the company was made to pay Rs. 42 million to the affectees.

Ninety-nine complaints were received from different stakeholders. Of these, 78 were disposed of while 21 were in process at the close of the year (Table 2).

**5.3.4.6 Disposal of Appeals:** The SECP also received 51 appeals under the Ordinance. Of these, 41 appeals were disposed of while 10 appeals are pending (Table 3).

### 5.3.5 Developmental Activities

**5.3.5.1 Consultation with the World Bank:** The World Bank Doing Business Report 2010 revealed significant improvements in 'Starting a Business' indicator, which inter alia takes into account the procedure of registration of a company. The country's ranking improved by 17 points from 80<sup>th</sup> in 2009 to 63<sup>rd</sup> in 2010. The improvement seems to be mainly attributed to launch of eServices by the SECP.

The Bank along with Economic Reforms Unit (ERU), Finance Division, GoP also carried out a Sub-National Doing Business (SNDB) study for improving business environment across the country. A Right of Reply (ROR) Mission comprising of the Bank/USAID officials from Washington and Pakistan, and ERU officers, visited Pakistan from 7<sup>th</sup> to 19<sup>th</sup> August, 2009. The ROR mission held consultative meetings with the relevant officers to get feedback on current procedures in registration process and future plans. The SNDB report was released, indicating that the company registration process has become faster after introduction of eServices.

**5.3.5.2 Representation in the Corporate Registers Forum:** Being the charter member of Corporate Registers Forum (CRF), an international organization for administrators of corporate and securities registers, the SECP regularly interacts with the registrars of other jurisdictions through the discussion forum and participates in global surveys on various matters.

**5.3.5.3 Data Sharing:** An arrangement has been made with the SBP for provision of Credit Information Bureau (CIB) reports via e-mail to the SECP designated officers.

**5.3.5.4 Measures to Promote Corporate Compliance:** The SECP facilitated companies on the due dates of filing of annual returns and annual accounts by keeping the CROs open on Saturdays and launching an extensive media campaign.

As part of the SECP-SBP joint advertising campaign, public warnings were published on fraudulent business activities by companies, non-corporate entities and individuals. In addition, the SECP issued public warnings on unauthorised activities in case of specific companies and published advertisements on re-launching of Companies Regularization Scheme and compliance issues.

The Sindh High Court directed the SECP to compile and provide to the Secretary Finance, GoP, a report containing the names of all companies who have not appointed Legal Advisors in terms of the Companies (Appointment of Legal Advisors) Act, 1974. A list of such companies was therefore, placed on the SECP website and advertisement and press release in nation wide newspapers were published advising the companies to ensure compliance.

It was observed that various foreign companies including Non-Government Organizations (NGOs) after establishing their place of business in Pakistan neglected to register their documents with the SECP though they got registered with the Economic Affairs Division (EAD). A meeting of the SECP with the EAD was held and it was decided that such companies would also be registered with the SECP under the Ordinance.

Activation Cell was formed at the Registration Department and the CROs to activate dormant/ defaulter companies. The task force formed there under has been assigned to activate at least 25% of the inactive companies.

### 5.3.6 Facilitation Measures

**5.3.6.1 Extension of Companies Regularization Scheme (CRS):** In view of the response of the corporate sector, the Companies Regularization Scheme initially launched for 45 days was extended for one month up to July 31, 2009. The scheme enabled filing of overdue returns on payment of only normal filing fee and provided complete waiver of additional late filing fee and penalties. The scheme was applicable on all types of companies other than listed companies. The scheme received an overwhelming response from the corporate sector and a total of 4,290 companies availed this opportunity as on July 31, 2009 and filed 18,106 returns.

**5.3.6.2 Help Desk at the Faisalabad Chamber of Commerce and Industry:** A help desk was set up at the Faisalabad Chamber of Commerce and Industry for liaison with business community to encourage corporatization and compliance.

**5.3.6.3 Promoters' Guide:** The promoters' guide was translated in Persian to facilitate foreign companies and investors. The Commercial Counsellor at the Embassy of Pakistan in Iran, contributed by providing the translated guide. The promoters' guide in English was also reviewed to amend in line with eServices.

**5.3.6.4 Appointment of Statutory Auditors and Ancillary Matters Guide:** A guide explaining the procedure for appointment of statutory auditors and ancillary matters was developed and placed on the SECP's website.

**5.3.6.5 Change of Company Name Guide:** A guide explaining the Change of Company Name process was developed and placed on the SECP website.

**5.3.6.6 Attendance of Directors of Listed and Unlisted Public Companies in the Board Meetings through Tele/ Video Conferencing:** In order to curtail the unnecessary expenditure of the companies, the requirement to secure the tele/video recording of the proceedings of the board meetings was removed vide the SECP's Circular No. 6 of 2010.

**5.3.6.7 Meetings with Corporate Consultants and Company Secretaries:** In-house meetings with corporate consultants/intermediaries were held at the CROs to obtain feedback for improvement in the working of the CROs. Meetings with company secretaries of prominent listed companies were also held at the CROs. Practical demonstration of eServices was presented to discuss their problems.

## 5.4 ENFORCEMENT OF THE CORPORATE SECTOR

The Chairman, SECP enhanced the mandate of Enforcement Department (EnfD) by giving the additional task of monitoring and enforcement of unlisted companies, private limited companies having paid-up capital exceeding Rs. 7.5 million and companies registered under sections 42 and 43 of the Ordinance including foreign companies.

### 5.4.1 Administrative Actions

In order to encourage timely flow of information to stakeholders, 7 companies were permitted to place their quarterly accounts on their websites and 3 companies were allowed to change their web addresses. Currently, 252 companies have placed the quarterly accounts on their websites. The appointment of 63 cost auditors was approved under the Companies (Audit of Cost Accounts) Rules, 1998 in respect of sugar, cement, polyester and fertilizer industries.

The extension in time for holding of Annual General Meetings (AGMs) was sanctioned to 29 listed companies. In addition, 5 companies were allowed to hold their AGMs in towns away from their registered offices. Six companies were exempted from attaching consolidated financial statements under section 237 of the Ordinance.

Two companies were allowed to extend loans to their directors for acquisition of land, house and hiring/leasing of living quarters under section 195 of the Ordinance. In addition, 2 applications for the appointment of sole distributor of a company were approved under section 206 of the Ordinance.

A number of companies sought the SECP approval to raise capital through issuance of ordinary shares to strategic investors without the offer of right shares, preference shares and for relaxation of requirements of the Companies (Issue of Capital) Rules, 1996 (the "Rules"). Sixteen companies were allowed to raise Rs. 44 billion. These applications were dealt in the following way:

**5.4.1.1 Issue of Preference Shares:** Three companies applied for issuance of preference shares to existing shareholders and to strategic investors. Two companies were allowed to issue preference shares amounting to Rs. 7 billion. Upon their request, 2 companies were issued clarification on applicability of section 87 of the Ordinance on their plans for issuance of convertible preference shares.

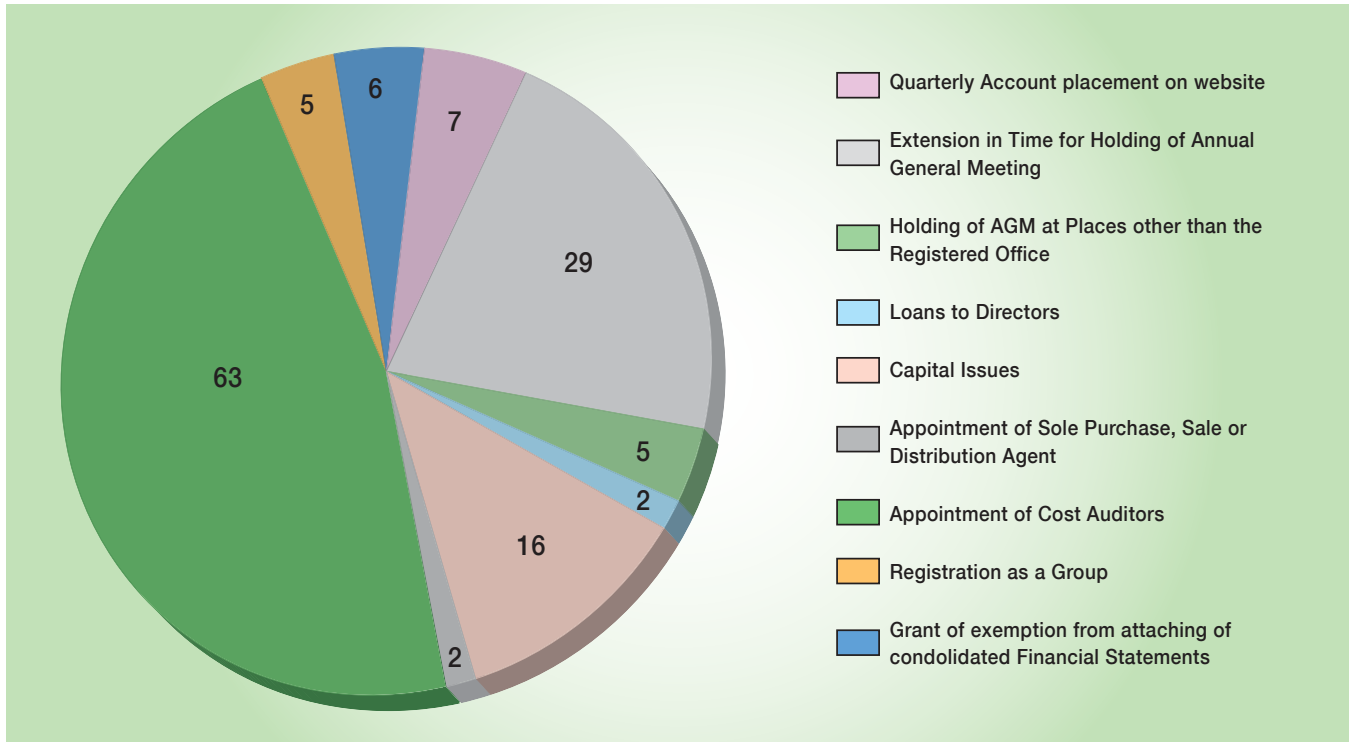
**5.4.1.2 Issue of shares otherwise than right:** In all, 10 cases of issue of shares otherwise than right were dealt with, out of which 7 companies were allowed to raise equity of Rs. 5 billion by issuance of shares to its existing shareholders, 1 company was allowed to issue 110 million shares at Rs. 10 each alongwith 90 million shares at Rs. 10 each as green show option for its initial public offer, as otherwise than right. Three applications were refused due to insufficient information.

**5.4.1.3 Issue of shares at discount and relaxation of rules:** Four companies were relaxed from the requirements of Rule 5 of the Companies Issue of Capital Rules 1996, enabling them to issue shares to existing shareholders, as right offer. Moreover, after the SBP issued No-objection Certificate (NOC) and considering the circumstances of the case and the relevant law, 2 banks were allowed to issue shares at a discount and were granted relaxation from the requirements of Rule 5 (v), raising capital amounting to Rs. 10 billion. Further, 4 companies were relaxed from the requirements of Rule 5, enabling them to issue shares to existing shareholders, as right offer. However, an application for relaxation of Rule 5 was not approved owing to deficient and inadequate rationale.

### 5.4.2 Registration as a Group

The SECP issued certificate of registration to 5 companies as a group. One of the groups also applied for change of composition which was duly approved.

### Administrative Actions: Types of Sanctions



#### 5.4.3 Monitoring and Enforcement Actions

The SECP ensures efficient monitoring of companies with respect to compliance with relevant laws and regulations and adequate conformity with IFRS and Accounting and Financial Reporting Standards for Medium Sized Enterprises (MSEs) and Small Sized Enterprises (SSEs) issued by the ICAP. The Enforcement Department oversees financial information to provide adequate disclosure about the companies' financial condition and business practices to help investors make informed decisions. The review and analysis of financial statements paves the way for transparency and accountability.

#### Breakup of Monitoring and Enforcement Actions – 2009-10

Monitoring and Enforcement Actions	Public Listed Companies	Other than listed companies	Total
Examination of Accounts	373	469	842
Observation letters	201	422	623
Show Cause Notices	269	60	329
Warning letters	46	33	79
Orders	192	5	197
Directions issued	3	1	4
Examination of notices of AGM/EOGM	495	-	495
Directions for holding of AGM	20	-	20

#### 5.4.4 Inspections and Investigations

The SECP inspects companies to verify the maintenance of appropriate books of accounts as required under the law and detect fraudulent practices. The inspection of 9 companies, including an association not-for-profit, was initiated on account of non-provision of record regarding sale of machinery, loan from sponsors and employees, inter-corporate financing, advances against purchase of property, disposal of fixed assets, payment of interim dividend, right issues, non-filing of quarterly accounts and misappropriation of donors' funds. Consequently, proceedings under various provisions of the Ordinance were initiated against such companies.

An inspection in the matter of sale of machinery of the company to associated undertaking at a price below market value without obtaining valuation report by the directors was concluded. The same coupled with misstatement in financial statements and contraventions of certain provisions of the law were duly agreed by the directors of the company and consequently a fine of Rs. 1,100,000 was imposed.

Another inspection in the matter of advance issued by a company to its associated company for trading in real-estate business and concealment of material information from its shareholders was concluded on admittance by the company. A penalty of Rs. 3 million was imposed.

A thorough investigation into the affairs of 4 companies was initiated to detect fraudulent practices and to reduce the chances of non-detection of malpractices in future. The report of investigation carried out in the affairs of a company suffering substantial losses revealed that the company contravened various provisions of the law, including misstatement, non-maintenance of proper books and non-compliance with Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002.

An aggregate penalty of Rs. 7.5 million was imposed on the directors of the company. Another investigation against a food company is currently being carried out on the grounds of unusual increase in trade receivables and creation of charge on the receivables against the loans from the financial institutions. The examination of record and third party confirmation from the customers established that the company had fudged the financial statements.

In an investigation against a textile company, the information related to the current liabilities and cash book was initially concealed, however third-party confirmations were obtained to verify issues regarding the fake purchases and liabilities. A penalty of Rs. 4 million was imposed on directors of the company under the provisions of the Ordinance.

#### 5.4.5 Actions against Auditors

Examination of accounts revealed that in certain cases auditors failed to discharge their responsibilities as their reports failed to bring out material facts about the affairs of companies or they expressed unqualified or inappropriate audit opinion. Six audit firms were penalized on account of the fact they failed to comply with the provisions of the Ordinance and International Standards on Auditing (ISA). Warnings were issued to 2 auditors while proceedings in 3 cases are being finalized.

#### 5.4.6 Irregularities in Provident Fund

The proceedings against 16 companies were initiated for non-compliance with the requirements of the Ordinance to deposit the employees' and employers' contribution to provident fund in a separate account and prescribing the instruments in which these funds may be invested. The chief executive, trustees and directors of 4 companies were penalized while a warning was issued to a company. The proceedings against 11 companies are in process.

#### 5.4.7 Irregularities in Utilization of Amount of Security Deposits received from Dealers

The proceedings against 5 companies for non-compliance of section 226 of the Ordinance were initiated and 3 were concluded during the year. The chief executive and directors of 2 companies were penalized for non-compliance while a warning was issued to a company.

#### Nature-wise Breakup of Actions Taken 2009-10

Nature of Violations	SCNs*	Warnings	Orders	No. of Fines	Penalties Imposed
Companies Ordinance	311	71	184	135	70,920,000
Takeover Ordinance	13	5	7	7	6,400,000
Cost Audit Rules	5	3	6	5	45,000
<b>Total</b>	<b>329</b>	<b>79</b>	<b>197</b>	<b>147</b>	<b>77,365,000</b>

\* Show Cause Notices

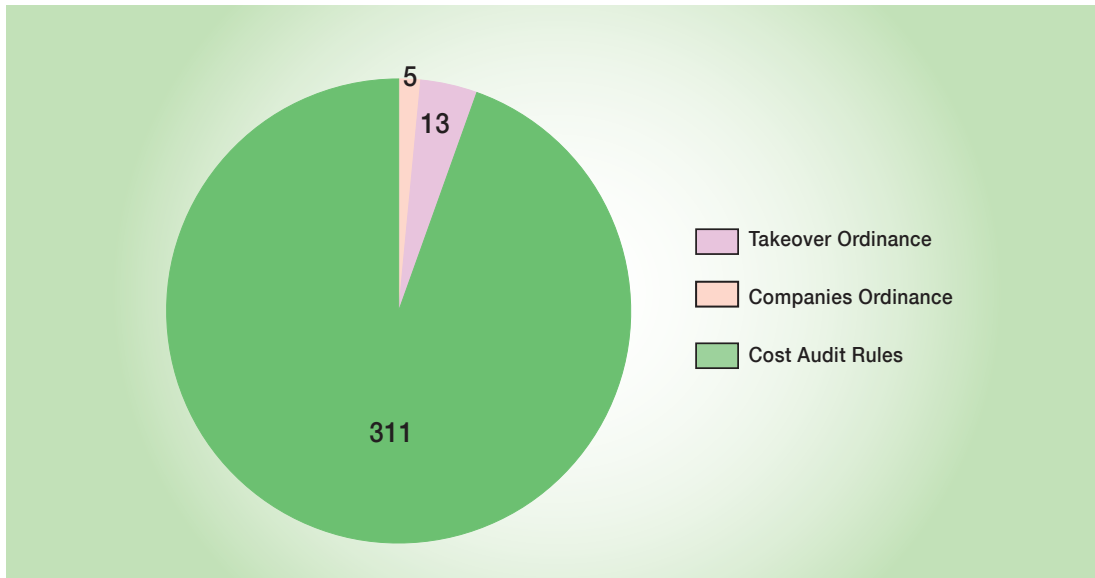
#### 5.4.8 Inter-Corporate Financing

The SECP is also responsible to identify complex and unlawful inter-corporate financing in violation of section 208 of the Ordinance. Necessary steps were taken to discourage misuse of company funds, unauthorized investments by companies in associated undertakings, non-receipt of trade debt and non-charging of any interest on the amount advanced to the associated companies. Sixty-one cases



of 32 listed and 29 unlisted companies were adjudicated and the proceedings in 27 cases were completed. The directors of 21 companies were fined and 6 were warned for their professional misconduct. The proceedings in 33 cases are being finalized.

**Administrative actions: Nature of breaches**



**5.4.9 Making of False/Incorrect Statements in Documents:** The proceedings were started in 37 cases of false/incorrect statements made by companies and 21 such cases were concluded and directors of 18 companies were penalized under section 492 of the Ordinance. Warnings were issued to 2 companies and one of them made adequate amendments to ensure complete disclosure.

**5.4.10 Consolidated Financial Statements:** The proceedings were initiated against 2 listed and 5 unlisted companies, failing to comply with section 237 of the Ordinance. The directors of a company were fined, while the cases of the remaining companies are in process.

**5.4.11 Surplus Arising out of Revaluation of Fixed Assets:** The proceedings were initiated against the companies that failed to treat the surplus on revaluation of fixed assets as per requirements of section 235 of the Ordinance. Ten such cases were identified and the directors were penalized in 4 cases.

**5.4.12 Improper Issue, Circulation or Publication of Balance Sheet or Profit-and-Loss Account:** The proceedings were started against 9 companies for improper issue, circulation or publication of balance sheet or profit-and-loss account as required under section 244 of the Ordinance. Penalties were imposed in 4 cases while 1 case is being finalized. Four companies were directed to ensure strict compliance of laws and regulations in future.

**5.4.13 Register of Members:** The proceedings were carried out against 2 companies that failed to maintain the register of members. The directors of a company were penalized while those of the other were warned.

**5.4.14 Non-circulation of Quarterly Accounts:** Fifty-two proceedings were initiated against the companies for non-circulation of quarterly accounts. Twenty-five proceedings were concluded wherein directors of 17 companies were penalized for non-compliance and 8 were warned. The Enforcement Department's efforts resulted in 79% compliance by the listed companies in case of circulation of quarterly accounts.

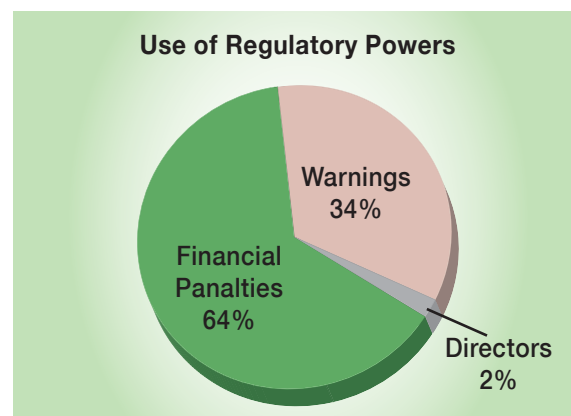
**5.4.15 Non-holding of AGM:** The proceedings against 17 listed companies were initiated on account of late and non-holding of AGM. The directors of 7 companies were penalized while those of 1 company were warned. Nine cases are being finalized.

**5.4.16 Non-publication of Notices of EOGM and AGM in Newspapers:** Most of the listed companies published their notices of Extraordinary General Meeting (EOGM) and AGM in the newspapers as required by the law. The violations by 2 companies were identified where 1 company failed to publish its AGM notice in the papers and the other failed to submit its AGM notice to the National Investment Trust. Both companies were warned for their defaults and directed to abide by the law. Twenty listed companies were directed by the SECP to hold overdue AGM.

**5.4.17 Penalty for Default in Complying with the Directions of the Commission for Holding the AGM:** The proceedings were initiated against directors of 4 companies failing to comply with the SECP's direction under section 170 of the Ordinance to hold overdue AGM. Companies were penalized in 2 cases.

**5.4.18 Non-disclosure of Information in Case of Special Business:** During the review of notices of special business, 20 instances of non-compliance with section 160 of the Ordinance were found wherein vital information was either deficient or missing in notices of AGM/EOGM. All of the companies were directed to circulate relevant information to the shareholders by way of an addendum. Furthermore, proceedings against the directors of 6 companies were initiated for not disclosing the material facts along with the notice of AGM/EOGM. Warnings were issued to 3 companies while 2 cases are being finalized.

**5.4.19 Powers of Directors:** In order to improve corporate practices and to protect the investors' interests, 18 possible defaults by the directors were prosecuted. The violations of the law related to disposal or leasing out of assets, advances to associates, commission paid to trading agent without Board of Directors (BOD) approval and payments made to or on behalf of directors without the approval of shareholders. The directors of 8 companies were penalized while warning was issued to 4 companies. Proceedings against 6 companies are being finalized.



**5.4.20 Non-Holding of Election of Directors within Prescribed Period:** The proceedings against directors of 3 companies were initiated for non-holding of directors' election and incomplete BOD. A company was penalized while another case is being processed.

**5.4.21 Ineligibility of Certain Persons to Become Director of a Listed Company:** The SECP takes strict actions to ensure that all company directors are legally eligible for the position. Four directors were penalized on this count.

**5.4.22 Meetings of BOD and its Quorum:** The quorum for a meeting of directors of a listed company shall not be less than one-third of their number or 4, whichever is greater and the directors of a public company are required to meet at least quarterly. In this regard, directors of 2 companies were penalized while proceedings against 2 are in process.

**5.4.23 Filing of Resolution and Minutes of General and Directors Meetings:** A warning was issued to a listed company for not forwarding the copy of special resolution and minutes of EOGM to its members while penalty was imposed on a company for not maintaining the minutes of general meetings and meetings of directors at the registered office. A listed company was also fined for not maintaining the register of directors' shareholdings.

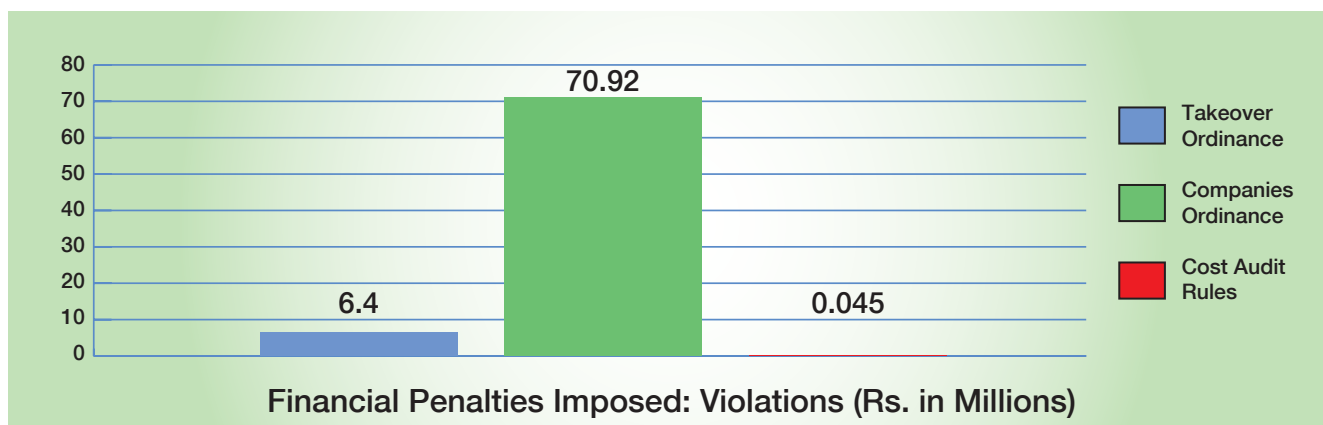
**5.4.24 Disclosure of Interest by Director and Participation or Voting in Proceedings of Directors:** The proceedings against directors of 9 companies were started for not disclosing their interest at a meeting of directors, thus violating section 214 of the Ordinance. Two companies were warned while 6 cases are in process. A warning was issued to a director for participating and voting in a meeting wherein an agreement of his interest was discussed.

**5.4.25 Non-circulation of Increase in Chief Executive's Remuneration in the Directors' Report:** The directors of 10 companies were found non-compliant with the requirements of the law. The director of a company was penalized and the directors of 4 companies were warned to ensure future compliance. Five cases are being processed.

**5.4.26 Ultra Vires Business:** The directors or officers of any company are not allowed to carry out any business or transaction ultra vires to the company. A case against chief executive and finance manager on suspicion of transferring company's fund to personal trading account is being processed.

**5.4.27 Qualifications of Company Secretary and Appointment of Independent Share Registrar:** Thirty-four possible violations of the law pertaining to the qualifications for the company secretary and appointment of an independent share registrar were observed. The chief executives and directors of 6 companies were penalized and warnings were issued to 9 companies.

**5.4.28 Non-Compliance with Directives of the SECP:** The proceedings against 3 companies that failed to comply with the SECP orders were initiated and 2 companies were penalized.



**5.4.29 Submission of Additional Statements of Accounts and Reports on Directive of the SECP:** The proceedings against 13 companies were initiated for non-compliance with the SECP directives. The directors and secretaries of 6 companies were penalized, 2 companies and their directors were warned to ensure future compliance and proceedings in 5 cases are being finalized.

**5.4.30 Dividend to be Paid Only Out of Profits:** A penalty of Rs. 1 million was imposed on a loss-making company for declaring dividend otherwise than out of profits.

**5.4.31 Transfer of Shares:** A complaint was received from a shareholder of a company against non-transfer of shares. An order was issued to the company to issue shares to the shareholder but it did not comply. Subsequently, penalty was imposed on the company for non-compliance of the order.

**5.4.32 Issue of Bonus and Right Shares:** The proceedings for violation of law on issue of bonus and right shares were initiated. The directors of 5 companies were penalized for non-compliance while 2 cases are being processed.

**5.4.33 Actions under Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002:** The public announcements of intention/offer by various acquirers under the Takeover Ordinance were made in 6 cases. The takeover of 2 listed companies was affected and the remaining 4 are being processed. Eleven instances of non-compliance with the provisions of the Takeover Ordinance were identified. Proceedings of 7 cases were concluded and penalty was imposed, whereas, 4 cases are in process.

**5.4.34 Late Submission of Applications for Appointment of Cost Auditors and Cost Audit Reports:** The directors of 3 companies were penalized for non-filing and late submission of cost audit reports and warnings were issued to 2 companies to ensure strict compliance in future. Two cases are being processed.

**5.4.35 Non-provision of Information in the Cost Audit Report required under the Companies (Audit of Cost Accounts) Rules, 1998:** The proceedings against 3 companies and a cost auditor were initiated for not providing complete and proper information in the cost audit report. Two companies were penalized for non-compliance and a warning was issued to a company and a cost auditor.

**5.4.36 Winding-up of Companies:** In 6 instances, the companies defaulted in holding 2 consecutive AGMs or suspended business for more than one year. The registrars concerned had sought sanction of the Commission for filing of winding up petition against them in the respective High Courts. In 2 cases, relevant registrars were authorized to file the petitions while proceedings against 4 companies are being finalized. A warning was issued to a company that failed to mention on its documents that it is being wound up and to disclose its mode of winding up.

#### 5.4.37 Investors' Grievances

The shareholders and the stakeholders are encouraged to voice their concerns and complaints in case of possible violation or contravention by the companies; 678 complaints were handled out of which 650 were resolved. These complaints mainly related to non-receipt of dividend warrants, non-encashment of dividend warrants, delay/non-transfer of shares, issue of duplicate shares, non-receipt of annual/interim accounts, wrongful deduction of zakat, non-holding of AGM and non-circulation of notice of meeting etc.

#### Complaints Status 2009-10

In progress at start of the period	55
Received during the period	625
In progress at the end of the period	30
Total complaints resolved during the period	650

#### 5.4.38 Prosecution Cases

A company misrepresented in its documents submitted to the Central Depository Company (CDC) of Pakistan Limited that its paid-up capital was Rs. 98.6 million, divided into Rs. 59.86 million shares of Rs. 10 each. However, the records filed with the SECP and the Karachi Stock Exchange (KSE) depicted that the actual paid-up capital is Rs. 48.6 million only, divided into 4.86 million ordinary shares of Rs. 10 each. The SECP feared that fake shares were in circulation in the market, exposing the public to serious risks.

The inspection of books of accounts and books and papers of the company was ordered under section 231 of the Ordinance. The company refused to cooperate with the appointed inspectors despite SECP's proceedings under section 495 of the Ordinance for non-compliance with SECP's/Court's directives. Consequently, case against the directors of the company was filed before the Sindh High Court under sections 232 and 495 (2) of the Ordinance. Taking cognizance of the offences committed by the company, the High Court ordered winding up of the company on November 2, 2009 and nazir of the Court was appointed as the liquidator.

#### 5.4.39 Corporate Survey

In order to devise a balanced regulatory approach, the EnFD in collaboration with the Securities Market Division (SMD), conducted a survey entitled 'Listing/Delisting Compliance and Corporate Enforcement Regime in Pakistan—A Perspective of Regulated Companies'. The survey was developed to:

- have overall perspective of regulated companies on corporate compliance and regulatory regime;
- identify deterrence factors in the listing/de-listing process and compliance;
- identify problem areas regarding enforcement of corporate laws, regulations and code of corporate governance by the SECP.

The survey questionnaire was placed on the SECP website and also disseminated among all listed and unlisted companies with paid-up capital threshold to achieve the desired results. Based on responses from 179 listed and 87 non-listed companies, the survey results were compiled and a report was prepared. Most of the companies were satisfied with the SECP regulatory measures and policies.

On the basis of survey findings the SECP has taken following measures to facilitate the investors and to raise the stakeholders' confidence:

- the unlisted companies with paid-up capital of Rs. 7.5 million and above were brought under the enforcement purview;
- recommendations were made for tax credit/benefits for the listed companies vis-à-vis unlisted companies;
- procedures for listing of companies were simplified by adopting a collaborative approach, avoiding duplication of documentation and minimizing turnaround time for approvals, without compromising the efficacy and quality of the listing/delisting procedures.

#### 5.4.40 Amendments to the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulation 2008

In a move to revive the national economy, facilitate rehabilitation of sick units and to create an investment friendly climate, the SECP made the following amendments to the takeover regulations:

- a) lowered the mandatory offer size from 90% of the voting shares of the target company to range between 62.5% to 85% of the voting shares, depending upon the existing shareholding of the acquirer in the target company and size of the share purchase agreement;
- b) further clarify the price mechanism in case of a public announcement of offer;
- c) allow tendering of physical shares to the manager to the offer; and
- d) credit rating of commercial bank, providing bank guarantee for the purposes of Takeover Ordinance, has been changed from A and AA.

### 5.5 SECURITIES MARKET

#### 5.5.1 Market Overview

##### 5.5.1.1 Stock Market

The advent of FY2010 was marked positively at the KSE consequent to the promising economic outlook for Pakistan. The KSE-100 index after witnessing a turbulent FY2009 following global recession along with various other factors posted considerable gains. The KSE-100 index picked up momentum mainly owing to build-up of foreign exchange reserves, reduced rate of inflation in the first quarter of FY 2010 and net inflow of foreign investment.

The benchmark index manifested its strength by a robust start; the KSE-100 index geared up from year's low of 7,270.72 points and touched 9,845.74 points by October 15, 2009. The tangible evidence of economic growth in the country contributed significantly to the index growth. However, the KSE-100 index faced a sluggish trend later resulting in meager decline in index values. The stock market remained dull and range-bound due to numerous factors including instability in the exchange rates, rising circular debts among various government entities, rumors regarding the implementation of capital gains tax, unavailability of a leverage product in the stock market, etc., which arrested the positive movement of the market.

However, during the second half of the FY2010, KSE-100 index outperformed and emerged among well performing exchanges, internationally. The KSE-100 index crossed benchmark of 10,000 points in March, 2010. Upward trend in the index was also reflected in the

improved market capitalization, which stood at year' high of Rs. 3,024.98 billion on April 19, 2010. However, the positive trend of index could not be sustained by the end of the fiscal year.

Irrespective of the numerous negative factors hampering the robust index growth, the KSE-100 index stood at 9,721.61 points as of June 30, 2010, increased by 33.71% on year on year basis reflecting the overall improved outlook of capital markets. The market capitalization stood at Rs. 2,732.373 billion (US\$32.30 billion). The salient factor motivating the stock market sentiments was increase in foreign investment with a net inflow of US\$431.9 million from July 2009 to March 2010. This is considered a large increase due to the negative foreign portfolio investment in the last financial year.

#### 5.5.1.2 Commodity Market

The trading volumes at National Commodity Exchange Limited (NCEL) showed an exponential rise. The total traded value of contracts climbed by 518% to Rs. 63.34 billion compared to last years Rs. 10.25 billion. The number of contracts traded also increased to 314,670 from 24,571 traded in the FY 2008-09 representing a growth of 1181%. In addition, the membership base of NCEL also showed a healthy growth with addition of 15 new brokers being registered with the SECP, under the Commodity Exchange and Futures Contracts Rules, 2005.

### 5.5.2 Development of Laws and Regulations

#### 5.5.2.1 Amendments to the Regulatory Framework of the Stock Exchanges

- a. **Investors' Protection Fund Regulations, Regulations Governing Members Default Management and Regulations Governing Risk Management (RMS):** The RMS Regulations were amended to provide for implementation of the Client-Level Margining Regime; introduction of Concentration Margins in place of special margins on leverage products; changes in methodology for determination of exposure in the ready market to enhance liquidity and application of slab-based liquidity margins. The Regulations governing Members Default Management and Regulations governing Investors' Protection Fund (IPF) were amended to provide for increase in the amount of contribution from the IPF in case of default by a member.
- b. **Regulations Governing Deliverable Futures Contract and Regulations Governing Cash-Settled Futures Contract:** The Regulations governing Deliverable Futures Contract (DFC) were amended to provide for revised threshold for blank sale on UIN basis including introduction of member-wise blank sale limit; abolishment of uptick rule for blank sale and revised concentration margins on member and client wise slabs. Moreover, 7 days Cash-Settled Futures Contracts were introduced by amending the Regulations governing Cash-Settled Futures.
- c. **Amendments to the General Regulations:** The General Regulations were amended to streamline and consolidate procedures for hearing Cases of Alleged non-compliances and violations of different regulations of the exchange by its respective members. The amendments also included the set-up of a database of delinquent clients of the brokers; increase in the amount of contribution from IPF in case of a default by a member, dissemination of information in relation to administrative and enforcement actions by the exchanges against its members to other capital market entities including the SECP and the public.
- d. **Karachi Automated Trading System Regulations and Regulations Governing Members' Office(s)/Branch Office(s):** As a means of business continuity planning, amendments were approved in Karachi Automated Trading System Regulations (KATS) and Regulations governing Members' Office(s)/Branch Office(s) to provide for mandatory installation and maintenance of one disaster recovery terminal outside the exchange by every member for avoiding disruption of business in case of any disaster.

**5.5.2.2 Amendments to the Regulatory Framework of the National Clearing Company of Pakistan Limited:** In order to streamline the operations of the National Clearing Company of Pakistan Limited (NCCPL), the NCCPL Regulations 2003 dealing with provisions for enabling investors to have a direct access through Universal Information System (UIS) for monitoring of trading activities executed through (UIN) were amended. The NCCPL regulations were also amended to provide for Institutional Delivery System (IDS) functionality in the provisional market and for enabling foreign custodian banks to join the clearing and settlement net of NCCPL. By obtaining the status of a Custodian Clearing Members, foreign custodian banks are now able to affirm and settle trades executed on behalf of their clients directly through the IDS functionality.

**5.5.2.3 Amendments to the Regulatory Framework of the Central Depository Company of Pakistan Limited:** In order to improve the operating efficiency of the CDC, its regulatory framework was amended. Restrictions have been imposed on street name securities,

transfer of securities through free delivery in the Central Depository System (CDS) and prolonged parking of shares in the CDC main account. The amended regulations also provide for induction of unpaid letter of rights into CDS in dematerialized form, regulatory action against non-compliance of registrar/transfer agents reconciliation report and extension in the period of obtaining list of beneficial owners by the issuer from the CDC to facilitate the issuers. The amendments also broadened the communication mode for sending of notice and document to the investor-account holders.

**5.5.2.4 Amendments to the Regulatory Framework of the National Commodity Exchange Limited:** The NCEL general regulations were amended to make it mandatory for all existing and new NCEL members to register with the SECP as brokers within a specified timeline. Moreover, the provisions on the Settlement Guarantee Fund (SGF), maintained by the exchange, were amended. In order to align the risk management measures of NCEL with the corresponding contributions in SGF, the condition to maintain a minimum balance of Rs. 100 million in the SGF was removed. This will ensure smooth operation of the fund leading to a more effective risk management regime at NCEL.

**5.5.2.5 Amendments to the Companies (Issue of Capital) Rules 1996:** The Companies (Issue of Capital) Rules 1996 (CI Rules) were promulgated in 1996. It was observed that the criteria laid down in the existing CI Rules were stringent and hindered the raising of capital by the companies from the capital market. At the request of companies, the SECP allowed relaxations from time to time. Moreover, with introduction of the book building process, certain clauses that apply when the company proposes to offer shares on a premium, becomes redundant as under the book building mechanism the price of the share offered is determined by the market forces. The CI Rules were therefore, accordingly amended and forwarded to the Ministry of Finance for approval.

**5.5.2.6 Amendments to the Listing Regulations of the Stock Exchanges:** In order to remove anomalies and to bring efficiency in the book-building process for issue of shares, amendments were made in the Listing Regulations of the stock exchanges. The amendments pertain to bidding procedure/bidding form acceptance procedure during the book-building process. In consultation with the stock exchanges, the SECP also rationalized the documents submitted by the issuers at the time of application for listing of a company.

**5.5.2.7 Amendments to the Regulations Governing Over-the-Counter Market:** The regulations governing Over-the-Counter market were amended to facilitate the issue and listing of debt securities. Now the companies can list their debt securities issued to qualified institutional buyers (QIBs).

### **5.5.3 Development of New Products / Systems**

**5.5.3.1 Bond Automated Trading System:** A Bond Automated Trading System (BATS) was introduced with requisite regulatory framework to provide transparent and efficient price discovery for debt market securities at the stock exchanges through an automated trading platform.

**5.5.3.2 Client-Level Margining Regime:** In order to mitigate systemic risk and to ensure segregation of clients' assets from brokers' assets, 'client level margin system' was introduced. This system ensures that all margin requirements against Value at Risks (VaRs) and special margins of each UIN would only be fulfilled from respective UIN-wise securities deposit.

**5.5.3.3 Secondary Market for Qualified Institutional Buyers:** In consultation with the stock exchanges, the SECP devised a regulatory framework, allowing companies to list their debt securities issued through private placements on the exchange under Regulations governing Over-the-Counter Market. Such securities will be traded at BATS by QIBs.

**5.5.3.4 NCEL Contracts:** A variety of commodity futures contracts was approved for listing at the NCEL. The standardized contract specifications were designed to meet the market requirements keeping in view similar type of contracts available in the global markets. In the precious metals segment, new silver contract was launched and contracts for gold with varying sizes were listed at the NCEL to meet the needs of small investors. The Crude Oil Futures contract was introduced; making it closely aligned with the internationally listed crude

oil futures contracts. It is aimed at fulfilling the hedging requirements of the industry. The agricultural futures contract in the form of rice contract with additional option of delivery was introduced for the benefit of the agricultural sector.

#### 5.5.4 Issue of Share Capital

Eight companies offered shares to the public as compared to 4 last year. New capital of Rs. 39.753 billion was listed in FY2010 as compared to Rs. 3.311 billion in FY2009. Similarly, 3 companies issued Term Finance Certificates (TFCs) to the public. TFCs of Rs. 8 billion were listed during FY2010 as compared to Rs. 10.1 billion in FY2009. Five fresh equity issues were offered through which 283.3 million ordinary shares amounting to Rs. 3,087.9 million were offered to the general public. Four of these issues were oversubscribed, while 1 was undersubscribed.

**5.5.4.1 Redeemable Capital:** Three companies made public offer of TFCs involving an aggregate amount of Rs. 8 billion of which Rs. 6.125 billion was through private placement and Rs. 1.875 billion was from the public. All these TFC issues were undersubscribed. Out of Rs. 12.25 billion raised since 1995 through listed TFCs, Rs. 69.086 billion was outstanding as on June 30, 2010.

**5.5.4.2 Employees Stock Option Scheme:** The SECP approved JDW Sugar Mills Limited's employee stock option scheme.

#### 5.5.5 Registration of Brokers and Agents

The total number of brokerage houses registered with the SECP stood at 299 on June 30, 2010, as compared to 321 at the end of the last financial year. Ninety-two percent of brokers are corporate and the rest are working as individual brokerage house. The status-wise detail of registered brokers is given below:

Details	Corporate Brokers	Individual Brokers	Total Brokers
As of 30-06-2009	293	28	321
Cancel/Expire	28	6	34
Addition	11	1	12
As of 30-06-2010	276	23	299

Fifty-two percent of the total registered brokers were from the KSE as compared to 30% from the Lahore Stock Exchange (LSE) and 18% from the Islamabad Stock Exchange (ISE). The stock exchange-wise categorization of corporate and individual brokers is as follows:

Stock Exchange	Corporate Brokers	Individuals	Total Brokers
KSE	148	8	156
LSE	76	14	90
ISE	52	1	53
Total	276	23	299

The number of registered agents as of June 30, 2010 was 502 on the three stock exchanges. An LSE member was fined Rs. 1.5 million for violating section 5A of the Securities and Exchange Ordinance (SEO), 1969.

#### 5.5.6 Monitoring and Inspection

##### 5.5.6.1 Monitoring and Surveillance

In order to foster a fair and transparent market and to ensure the compliance of prevalent regulatory framework, the Monitoring and Surveillance Wing (MSW) took an assertive and dedicated approach to identify any misappropriation or potential abuses in the stock markets. The SECP focused on the detection of sophisticated schemes for market abuse, price manipulation, insider trading along with brokers' operational malpractices to safeguard investors' interests.



In 17 violations of securities law, orders imposing penalties on the members of the stock exchanges and other stakeholders were issued. Warning letters were issued to 49 KSE members and 7 LSE members for possible violations. A warning was also issued to a bank for non-compliance of the securities laws. The summary of the enforcement actions taken is presented below:

<b>Orders</b>	
<b>Violations</b>	<b>No of Cases</b>
Blank Sales	10
Insider Trading	2
Violation of KSE Regulation	1
Price Manipulation	1
Wash Trades	3
<b>Total</b>	<b>17</b>
<b>Warning Letters</b>	
<b>Violation</b>	<b>No of Cases</b>
Blank Sales	26
Circular trading	1
Cross Trades	1
Deleted Orders	10
Inter Exchange Trades	2
Price Manipulation	4
Wash Trades	13
<b>TOTAL</b>	<b>57</b>

#### 5.5.6.2 Beneficial Ownership

The provisions of section 224 of the Ordinance require the beneficial owners to tender the amount of gain to the issuer company and failing that to the SECP. The SECP received 2004 returns of beneficial ownership under section 222 of the Ordinance for examination.

##### a. Recovery of Tenderable Gain

Seven cases of tenderable gain were brought forward, while 19 new cases were detected and processed. Five cases of Rs. 179,364,669 were finalized. The position of tenderable gain cases as of 30 June 2010 is summarized below:

<b>Status</b>	<b>Number of cases</b>
*Orders passed	5
Gain tendered to the Commission	5
Gain tendered in favor of the issuers companies	3
Filed suits against the proceedings	3
Transferred to Enforcement Department in pursuance of court order	2
Show cause notices issued	4
Proceeding dropped	3
Under process	1

*\*The beneficial owners have filed appeals before the Appellate Bench of the Commission*

##### b. Revision of Application

A revision application for recovery of tenderable gain was filed by a beneficial owner against the order of the SMD Executive Director before the SMD Commissioner. The application was dismissed. Later, the said beneficial owner filed an appeal before the SECP appellate bench.

### c. Filing of Returns of Beneficial Ownership and Annual Return on Form-A

The beneficial owners of listed companies and the listed companies have to file their returns of beneficial ownership and annual return on Forms 31/32 and Form-A respectively. It was, however, noticed that some of the beneficial owners/listed companies were not observing the given timeframe. Through 2 separate notices, they were instructed in September 2009 to file their overdue returns by October 31 and ensure timely compliance in future. Twenty-one letters were issued, warning beneficial owners and companies to be careful in the future. The guidelines were developed to keep uniformity and consistency in disposal of cases of late filing of the returns.

#### 5.5.6.3 Compliance

The compliance of relevant rules and regulations and effective monitoring is essential to strengthen the market oversight and enforcement. The compliance function was being performed in isolation by respective wings/departments of the SECP and the KSE to a limited extent. The SECP established an independent Compliance Wing to ensure a comprehensive compliance of all relevant rules and regulations.

a. Compliance Strategy: The compliance was to be achieved through these strategies:

- Reporting
- Inspection
- Enforcement

A comprehensive database of all the rules and regulations applicable to the stock exchange was prepared in the form of a checklist. The database was further reclassified keeping in view the responsibilities of apex and frontline regulator and tentative reporting frequency. Subsequently, compliance assignment was broadly divided into following categories:

- Compliance by the SECP
- Compliance by the Exchanges
- Compliance through the Brokers/Members
- Compliance through Listed Companies

**5.5.6.4 Review of Existing Rules and Regulations:** Owing to fundamental changes in trading mechanism, certain clauses of rules and regulations were found redundant. It necessitated a thorough review of the rules and regulations for possible amendment, which is in progress.

**5.5.6.5 Onsite Inspection:** A need was felt for an inspection manual for onsite inspection of the exchange/brokers to supplement the compliance function. The draft inspection policy is being reviewed and the inspection manual will be prepared subsequently.

#### 5.5.7 Regulatory Actions

**5.5.7.1 Actions under Section 18A of the Securities and Exchange Ordinance, 1969:** Twenty cases of submission of 59 fictitious or multiple applications for subscription of shares of companies in violation of section 18A of the ordinance were reported in 6 public offerings. A total of 2,247 orders in respect of 2,307 applications that include 2,248 previous year cases and 59 current year cases were passed. After proven as fictitious/multiple, the subscription money of Rs. 51.477 million belonging to 2,211 applications was confiscated.

**5.5.7.2 Investor Complaints:** The Investor Complaint Wing issued 4 show cause notices to brokers regarding investors' complaints and non-provision of information to the SECP. Six orders were passed to get investors' grievances redressed.

**5.5.7.3 Enquiry against Five Members of the KSE:** In order to pursue the agenda for fair market practices, transparency and investor confidence in the stock market and ensure strict compliance to the rules and regulations, registration of 5 members of the KSE was suspended due to unresolved investor's complaints. The suspended 5 members were ClikTrade Limited, Capital One Limited, Eastern Capital Limited, MKA Securities Limited and Prudential Securities Limited. Subsequently, to ascertain the quantum of these complaints and other related issues, enquiries were initiated against these brokerage houses under section 21 of the SEO, 1969 by joint team comprising officers from SECP, KSE and CDC. The enquiry reports have been submitted by the team, on the basis of which criminal complaints were filed in the Session Court against Capital One Limited and ClikTrade Limited. Subsequent to the closure of the review period, a criminal complaint was also filed in the matter of Eastern Capital Limited. Moreover, the criminal complaints in the matter of remaining 2 brokerage houses are being finalized.

## **5.5.8 Developmental Activities**

**5.5.8.1 Fit and Proper Criteria for Directors on the Boards of the Stock and Commodity Exchanges, CDC and NCCPL:** In order to ensure that the BODs of the self-regulatory organizations comprise of professionals with the highest standards of integrity and honesty and to promote business ethics and inculcate practices of good corporate governance, a fit and proper criteria for directors on the boards of the stock and commodity exchanges, the CDC and the NCCPL was introduced. It provides for a comprehensive way of judging the prospective individuals for directorship of the said entities including professional, academic and ethical aspects.

**5.5.8.2 Policy for Dissemination of Material Information to the Stock Exchanges:** A comprehensive policy for 'Dissemination of Material Information to the Stock Exchanges' and a policy for 'Ordering Suspension of Trading in the Shares of Companies' were formulated to achieve transparency and better enforcement of the regulatory framework of the exchanges on the regulatees.

**5.5.8.3 Broad Basing of NCEL Shareholding:** As a major developmental activity for the NCEL, broad basing of its ownership structure was achieved. Offer of 200% Rights Issue was made by NCEL in accordance with the scheme of broad basing to include financial institutions. In addition, the National Bank of Pakistan (NBP) acquired Rs. 60 million worth of shares in the NCEL thereby largely achieving the scheme of broad basing by diluting the concentrated shareholding and inclusion of financial institution in the shareholding structure.

**5.5.8.4 Market Surveillance Suite:** In order to strengthen the monitoring and surveillance of the stock market, MSW has deployed an in-house surveillance facility termed as Market Surveillance Suite (MSS). The implementation of the software constituted input in the structural design, detailed testing and error identification accompanied by the review of the application features and reports. The software, along with the provision of real-time and historical data also facilitates the detection of market manipulation, price distortion and other market abusive activities.

**5.5.8.5 Amendments to the Share Subscription Form:** In order to facilitate the shareholders/initial public offering (IPO) investors and to encourage payment of dividend through direct credit in shareholder's bank account, a separate clause under the head 'Dividend Mandate' was incorporated in the share subscription form. It provides an option to the members of listed companies to receive their cash dividend direct in their bank accounts instead of dividend warrant.

**5.5.8.6 Data Regarding Privately Placed Debt Instruments:** In pursuance of the SECP's Circular No 27 of December 5, 2008, information/data regarding issuance of Privately Placed (PP) instruments of redeemable capital (e.g., PPTFCs, PP Sukuk and commercial papers etc.) is also being maintained along-with-their redemption statuses. The same information along with IPO-related data has been made available to investors, the public and researchers through the SECP website.

**5.5.8.7 Rationalization of the Cost of Issue of Corporate Bonds:** The Sindh Government was requested to lower the rate of stamp duty and make it in line with those applicable in Punjab and Islamabad. The Sindh Government has accordingly brought down the stamp duty to 0.05% on issue of TFCs and 0.02% on issue of commercial papers.

## 5.6 SPECIALIZED COMPANIES

### 5.6.1 Mutual Funds

The FY 2008-09 posed serious challenges to the mutual fund industry due to the crisis that ripped through the domestic and global financial markets. The issues that surfaced during the crisis included difficulty in fair price discovery of debt securities, disparate provisioning treatment against defaulted corporate bonds by fund managers, cross-matching investments between funds and financial institutions, and mismatch of asset profile and investment style with open-end structure of funds. Though a number of remedial measures such as improved methodology for valuation of debt securities, categorization of funds, and other investors' protection measures were taken by the SECP, the industry was severely plagued by the crisis. As a result, size of the mutual funds industry remained stagnant from July 2009 to June 2010, showing a marginal increase of 4.4% to Rs. 238 billion in June 2010. However, asset management companies continued to offer new funds as witnessed by a surge in the total number of mutual funds which stood at 127 in June 2010 as compared to 101 in June 2009. In the aftermath of the crisis encountered by the industry in late 2008 and to cater the subdued risk appetite and restore the investors' confidence, the fund managers focused more on introducing money market and capital protected funds during the year under review.

The categorization of mutual funds was implemented by the asset management companies in accordance with the criteria prescribed by the SECP. Appropriate categories assigned to the funds by the asset management companies aim to facilitate the investors to better understand the risk and return profile of a fund and assist in making informed decisions. The categorization of mutual funds is one of the key confidence-building measures introduced by the SECP.

In order to provide a breathing space to Asset Management Companies (AMCs) affected by the liquidity crisis in particular and economic crisis in general, the timeline for meeting prescribed minimum equity requirement was extended by one year to June 30, 2011. The SECP, with the consent of the majority unit holders and trustees of certain problematic funds, facilitated transfer of their management rights to sound industry players.

Time relaxation was given to AMCs to achieve regulatory compliance and to adjust excess exposures of mutual funds without adversely affecting interests of the unit holders. This also assisted in aligning portfolios in accordance with the categorization of mutual funds.

Subsequent to the introduction of revised sector classification by the KSE, mutual funds facing difficulties in achieving compliance with the 25% sector-wise limit were allowed enhanced sector limits. This enabled them to better align exposure limits with the index weight of each sector. Likewise, per party exposure limits for equity funds were also increased to enable the AMCs better match return of the funds with respective benchmarks.

Dormant debt securities market coupled with liquidity crunch had significantly dried out trading of debt securities held by Collective Investment Schemes. Fair valuation of debt securities is still an issue in the Pakistani debt market. The SECP believes that a holistic solution is necessary in this regard, therefore, an independent consultant was hired to find a long-term and sustainable solution to this problem. The consultant is taking into consideration the views of both the mutual fund industry as well as the Mutual Fund Association of Pakistan (MUFAP) while proposing the solutions.

In accordance with international best practices, minimum requirements for Non-banking Finance Companies (NBFCs) to undertake portfolio management services were prescribed. The NBFCs are now required to execute a written Portfolio Management Agreement and prepare periodic Investment Policy Statement of clients to better understand their needs and circumstances.

The SECP specified mandatory certification requirements for the AMCs' sales agents to equip them with requisite knowledge and skills and to minimize any abuse of mis-selling. Now AMCs need to have at least 2 or 20% of their employees (whichever is higher) undertaking activities related to sales of mutual funds, to earn the Mutual Fund Sales Agents certification from the ICM by June 30, 2011.

In order to streamline the submission of information and to facilitate the NBFCs, the SECP introduced an online Returns Submission System in January 2010.

In order to avoid potential conflict of interest and to ensure independence of trustee, the SECP barred trustees from investing in those open-end schemes for which they were offering trusteeship services. Those trustees who had already invested in open-end schemes were required to redeem their investments from such schemes by June 30, 2010.

In order to further improve the valuation methodology of debt securities and to ensure true and fair determination of their prices, MUFAP was given the discretion to apply maximum mark-up of up to 500bps to calculate yield of any specific debt security. This was done after taking various potential credit risk factors into account.

### 5.6.2 Investment Banks

The growth of investment banks suffered as they were unable to compete with the conventional banking sector owing to low capitalization, restricted avenues for resource mobilization, limited outreach and comparatively high cost of funds. In addition, investment banks failed to tap into non-fund-based revenue generating areas such as investment advisory, advisory for mergers and acquisition, syndication, discounting and custodial services, which could have helped them in developing a niche market for themselves.

In order to encourage investment banks towards non-fee-based financial services and to take a more active role in capital market, the SECP, in April 2010, amended the regulatory framework. Hence investment banks were allowed to undertake brokerage business from their own platform instead of forming a separate company. This strategic shift is expected to promote corporate brokerage houses culture and consequently will also contribute to address the corporate governance issues in the brokerage industry.

### 5.6.3 Leasing

The leasing sector underwent structural changes, the most visible of which was the merger of three leasing companies with investment and commercial banks. In the wake of the severity of challenges faced by the leasing sector, a number of leasing companies focused their attention on consolidating their operations, tightening of credit and enhancing risk-management mechanisms. In addition, the leasing sector continued focus on its niche market; SMEs also ensured their survivability as there still remains a large gap between the demand of the SME sector and availability of formal financing to the SMEs.

### 5.6.4 Enforcement Actions

Being the regulator for the Non-Banking Finance (NBF) sector, the SECP is fully committed to its development as an alternative to the conventional banking system. In the larger interest of the NBF sector participants, a number of enforcement proceedings were initiated which included imposition of monetary penalties, initiation of criminal proceedings against the concerned individuals, initiation of winding-up proceedings against NBFCs, removal of NBFCs' management and appointment of administrators, etc.

### 5.6.5 Developmental Activities

The following activities were undertaken to facilitate the NBF sector:

- To provide operational flexibility, the validity period of licenses issued to NBFCs has been enhanced from one year to three years.
- Investment banks have been allowed to undertake brokerage business from their platform without forming a separate subsidiary which is subject to prior permission on certain terms and conditions.
- NBFCs were allowed further eligible securities in addition to the government securities, for the purpose of maintaining the 15% liquidity reserve requirement.
- The timeline for meeting prescribed minimum equity requirement was extended till June 2011. The application of classification and provisioning criteria as provided in Schedule XI of the NBFC and Notified Entities (NE) Regulations, 2008 has also been deferred for 2 years till June 2012.

### 5.6.6 Modarabas

The financial crises of 2008 and 2009 did not affect Modarabas to the extent it crippled many of their counterparts in the NBF sector. Despite the financial and economic crises in the country, Modarabas continued performing and recording profits. The aggregate paid-up fund of Modarabas was Rs. 8,440 million per unaudited financial statements of Modarabas as of June 30, 2010. The total assets of Modaraba sector stood at Rs. 24,554 million compared to Rs. 26,626 million in the corresponding year. However, the total equity of the modaraba sector was Rs. 10,900 million which shows decrease of Rs. 434 million as compared with Rs. 11,334 million in 2008-09. Despite recession, 18 out of 26 Modarabas declared cash dividend to their certificate holders as on June 30, 2010, ranging from 1% to 76%.

The modaraba sector performed better than its peers but the market values did not adequately reflect the achieved result. The major reason for the understated values was the lackluster market sentiment and preconceived notions about the modaraba sector. Substantial marketing and communication effort on the part of the Modaraba Association is required to change this perception. The SECP granted extension in the time for floatation of 3 modarabas.

In order to improve the operational activities, relaxations from the applicability of certain Prudential Regulations for Modarabas with appropriate risk management criteria were granted to 3 modaraba companies on the recommendations of the BOD of the respective modaraba companies. Six circulars were issued containing various directions regarding filing of online returns, clarification on applicability of IFAS-II and a new set of guidelines to combat the money laundering issues by modarabas. The key statistics for the sector are given in Table 4.

### 5.6.7 Enforcement Actions

Three show-cause notices were issued to modaraba companies and their CEOs/directors under sections 19, 20, 21, 23, 32 of the Modaraba Ordinance, 1980 mainly for the violations of the modaraba regulatory framework.

In the cases of 6 Modarabas, orders under section 32 of the Modaraba Ordinance, 1980 were passed by the Registrar Modarabas' and penalties imposed on the chief executive and directors of the modaraba companies for violations of the Modaraba Ordinance, the Modaraba Rules, the Prudential Regulations, prospectuses, non-compliance of International Accounting Standards and non-observance of the CCG. The Modarabas Registrar issued an Order on July 3, 2009 under section 19 of the Modaraba Ordinance to cancel the registration of a defunct modaraba company, which was registered in 1994 but failed to float any modaraba.

### 5.6.8 Pensions

Due diligence as per the laid out requirements was carried out in respect of an applicant asset management company, which had applied for registration as Pension Fund Manager under the Voluntary Pension System (VPS) Rules, 2005. On compliance with all requirements, the certificate of registration was issued on July 29, 2009 to the company.

Applications for authorization of 2 pension funds were received. The constitutive documents of the funds were cleared on fulfillment with all the laid down formalities subsequent to which the 2 pension funds, one conventional-Retirement Saving Fund and one Sharia-compliant Islamic Retirement Savings Fund, have been launched since May 2010 for public participation.

The investment and allocation policy of the pension funds was revised after extensive consultations with the industry. The revised policy allows flexibility to pension fund managers while ensuring to safeguard interests of the participants. Some of the features of the revised policy are as follows:

- specifies limits separately for conventional and Sharia-compliant pension funds;
- forbids investment in securities rated BBB or below;
- permits deposits with commercial banks rated AA and above, up to 25% of net assets of money market sub-funds;
- explicitly stipulates obligations of Pension Fund Managers;
- brings down the portfolio duration of debt sub-funds from 10 to 5 years;
- allows changing the allocation of balance in the pension fund twice a year whereas earlier policy allowed change on an annual basis.

Weighted average return of the pension funds was calculated in compliance with the requirement of the VPS Rules, 2005. The rules specify a benchmark to gauge performance of pension fund managers. Regulatory liaison was initiated with the pension fund managers whose pension funds had performed below the benchmark.

The comparative performance of pension funds since inception was published in the newspapers. The idea was to educate the public in comparing the performance and making informed judgment. The comparison included the fee structure and rate of return of pension funds over the period.

The VPS Rules, 2005 allow a participant to purchase an income draw down plan from the pension fund manager on achieving retirement age. Two such plans were scrutinized and approved. These plans offer a systematic withdrawal of money to a participant from his pension account while allowing him to earn profit on the balance outstanding in his account.

The advertisements in the print and electronic media were examined and approved after ensuring that the fund managers convey factual position to the public for making investment/disinvestment decision when campaigning for further participation.

A number of meetings were held with representatives of the Pension Fund Managers. Matters relating to amendments to the VPS Rules, 2005 as well as removal of anomalies in tax treatment of pension funds at contribution, income generation and payment stage vis-à-vis other post-employment benefit schemes were deliberated. Meetings with the FBR officials were also held to clarify the need to address tax disparities in the two classes of retirement benefit arrangements.

A ADB sponsored foreign consultant was engaged for devising regulatory framework for post-employment benefit schemes. The consultant was hesitant to come over to Pakistan on account of security concerns. As such, views were exchanged in respect of 4 reports prepared by him, namely inception report; first interim report, second interim report and third interim report via electronic mail. For discussion on the draft reports and first draft of the law, the consultant finally came over to Pakistan for discussion with stakeholders in the second half of the fiscal year. The Specialized Companies Division (SCD) organized, coordinated and participated in the meetings of the consultant with the FBR, Ministry of Finance and the Ministry of Labour.

The SECP is a member of the International Organization of Pension Supervisors (IOPS), which draws members from pension regulators. The SECP's compliance with international best practices in the private pension supervision, as stated in the Principles of Private Pension Supervision designed by the IOPS was examined and the SECP was found compliant with the principles in terms of governance, powers, risk orientation, transparency, confidentiality, etc.

### **5.6.9 Real Estate Investment Trusts (REITs)**

The Real Estate Investment Trusts (REITs) Regulations 2008 allowed 2 types of REIT schemes, i.e., Developmental REITs and Rental REITs and prescribed a minimum fund size of Rs. 5 billion. For improving the REIT regulations in line with the market needs and to improve market conduct, the SECP proposed certain amendments to the REIT Regulations and sought public opinion. The amendments to the REIT Regulations 2008 were notified on June 16, 2010.

The significant amendments included reduction in the fund size of a REIT from Rs. 5 billion to Rs. 2 billion and the reduction in capital requirements for REIT Management Company (RMC) from Rs. 500 million to Rs. 200 million. The reduction in fund size and capital requirements will address the issue of capital constraints and would enable even medium size projects to qualify for REITs.

In addition, issuance of units against real estate and developmental REIT scheme on multiple sites were allowed to enhance operational flexibility. The cap on holding of units in a REIT by a single investor was enhanced for government institutions. Private investors will also benefit from government owned properties forming part of a REIT scheme as these properties have clear title and usually generate consistent cash flows. A new concept of hybrid REIT was incorporated to introduce a composite product promising rental income as well as capital gain. This will permit the RMC's to build properties for sale and retain/acquire a few properties for rental purposes.

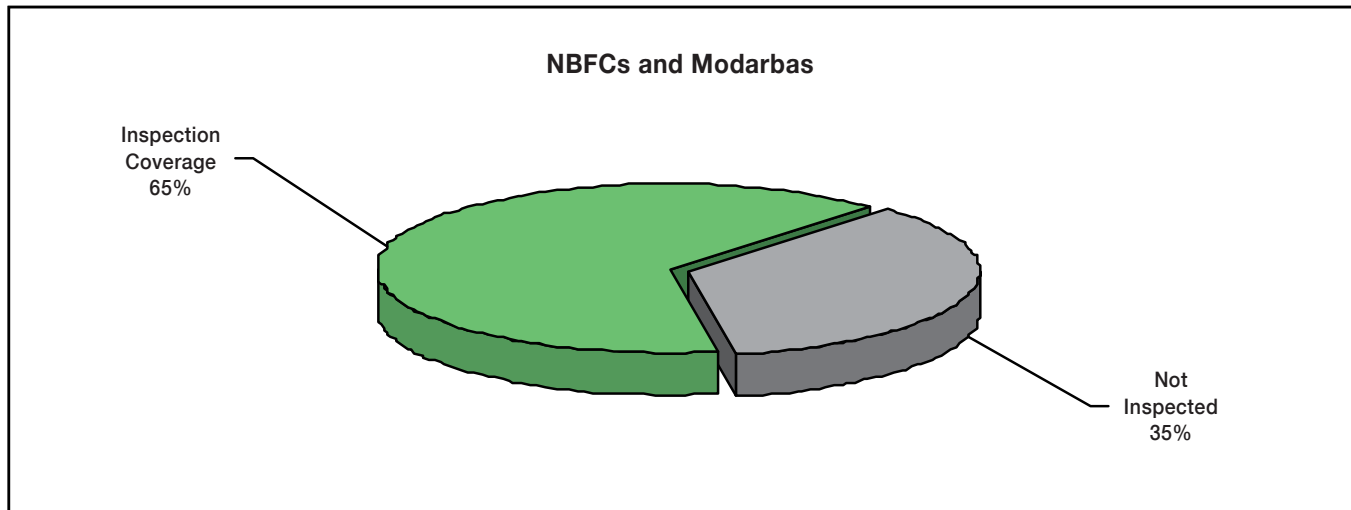
The amendments were made to open up the real estate market to small investors who do not have enough capital, expertise or time to take advantage of profits and gains in the real estate sector. REIT being a formal structure allows raising money from the general public, through the issuance of securities listed on the stock exchanges, to be invested in real estate opportunities. Two RMCs are presently operational and the SECP is scrutinizing the REIT Schemes proposed by the RMCs.

### **5.6.10 Supervision of NBF Sector**

Apart from routine offsite examinations, the following major activities were undertaken:

- For the facilitation of the stakeholders, an online return submission system was put in place whereby all NBFCs/modaraba's submit their monthly returns. The system is secure and password-protected and all information collected forms a large database. Various reports are generated which are used for different kinds of analysis and management decisions.
- Onsite inspections were proposed by identifying high-risk entities on the basis of offsite examinations.
- The business plans submitted by the problematic and sick entities for revival/rehabilitation are also reviewed and examined
- A review of the NBF and modaraba sectors is conducted to identify entities for onsite inspection, primarily on the basis of risk and the time since the last inspection. The review also takes into account the reports developed through offsite surveillance and policy regulation. The entities' latest position is also reviewed on a quarterly basis.
- Onsite inspections of more than 65% of the overall NBF sector including 19 AMCs having cumulative net assets worth Rs. 191 billion, 1 investment bank with balance sheet footing of Rs. 8 billion, 6 leasing companies with cumulative balance sheet footing of Rs. 10 billion and 5 modarabas with cumulative balance sheet footing of Rs. 1.8 billion, were conducted.

## Inspection coverage of NBFCs and modarabas



## 5.7 INSURANCE

### 5.7.1 Capping of Illustrative Return of Life Insurance Companies

With a view to curbing the tendency of illustrating unrealistic and excessively optimistic rates of return by life insurance companies to boost their sales, the SECP capped the maximum illustrative return. Unrealistic and high rates of return were not sustainable in the prevailing scenario of falling yields on corporate and government bonds in which the insurance companies usually invest their funds. In order to check this practice and make the projections more realistic, the SECP took the decision to cap the maximum illustrative return for all marketing illustrations at 8% in the year 2005. Later in the year 2006, the three scenarios for the rate of return assumptions were prescribed as 6%, 8% and 10%. The SECP, however, reviews the projected return from time to time based on the movement in interest rates and other investment options.

The SECP also framed comprehensive guidelines to enhance transparency, provide better understanding of the product to prospective policyholders, and enable them to make an informed decision. These guidelines are intended to pave the way towards bringing consistency and standardization of investment returns resulting in enhanced confidence of the policyholders.

The three scenarios for the rate of return assumptions are 8%, 10%, and 12% effective from January 1, 2010. All new products launched by life insurers and family takaful operators are now following these guidelines. For new policies of existing products, the illustrations have been modified to fall in line with these guidelines. While there was no restriction on the sale of these products during the transition period, insurers were advised to modify the illustrations as early as possible, but not later than March 31, 2010.

### 5.7.2 Review and Amendments to the Minimum Solvency Requirements

While enhancing the risk management measures of the insurance industry, the need was felt to revise the solvency requirements and also frame provisions on the investments of insurance companies. A committee of experts was formed by the SECP to review the existing solvency provisions laid down in the Insurance Ordinance, 2000, (IO) and the Rules, as well as the existing practices of both the life and non-life insurers with respect to the investments.

The committee submitted its recommendations on the investment of funds; valuation basis for assets and liabilities; allocation of investments and criteria for admissibility of assets and solvency alongwith reporting on solvency by insurers, as part of the regulatory accounting returns. The SECP considered the recommendations and it was decided that the draft amendments to the Securities and Exchange Commission (Insurance) Rules, 2002 be approved for publication in the official gazette for eliciting public opinion, in exercise of the powers conferred under sub-section (2) of Section 167 of the IO, read with notification No S.R.O. 708 (I)/2009. After a detailed review of the comments received by the committee, the Solvency Rules were in the final stages of approval by the SECP and would be sent for notification shortly.



### **5.7.3 Guidelines for Bancassurance**

Bancassurance is one of the fastest growing, non-traditional and emerging distribution channels for insurance products. Since Bancassurance has evolved as an important distribution channel for insurance business, particularly life insurance products, the extensive bank branch network can be effectively leveraged for extending the insurance outreach thereby increasing the insurance penetration in the country. It is therefore, important that Bancassurance is developed in a systematic and orderly manner to efficiently distribute and deliver insurance products and services to the consumers.

In consultation with all stakeholders, in particular the Pakistan Banks Association, the SECP has issued a set of guidelines to increase transparency and ensure the protection of the policyholders' interest. These guidelines are intended to provide a framework for the insurance companies and their Bancassurance partners to adopt a standardized approach.

### **5.7.4 Annual Supervision Fee**

The SECP also issued a notification vide S.R.O.1123(I)/2009 in December 2009, requiring every insurer registered under the Insurance Ordinance, 2000, to pay the SECP by January 15, every year, an annual supervision fee of Rs. 1.50 per thousand in the first year and Rs. 2 per thousand, from the second year of this notification, on gross direct premium written in Pakistan during the whole calendar year, subject to a maximum limit of Rs. 50 million.

### **5.7.5 Compliance with the AML Act 2010**

The procedure and manner for furnishing information by insurance companies and takaful operators to the FMU, under the AML Act, 2010 were advised through various circulars and guidelines. The compliance is being verified through onsite as well as offsite inspections of the insurance companies and intermediaries.

### **5.7.6 Transfer of Supervisory Powers to the SECP**

One of the significant achievements for the Insurance Division (ID) was the notification of July 27, 2009 vide S.R.O.708 (I)/2009, in which the Commerce Ministry conferred its powers and functions under section 167(2) of the IO, to the SECP. This will ensure an effective and centralized supervision of the insurance industry along with the consolidation of regulatory framework.

### **5.7.7 Onsite Inspections**

In order to reinforce its monitoring and regulatory effectiveness within the insurance industry, the SECP started to conduct regular onsite inspections of the insurance and takaful companies. This is an ongoing exercise for which a yearlong calendar has been planned and eventually all insurance and takaful companies will undergo the inspection process.

### **5.7.8 Offsite and Onsite Inspections, Enforcement Actions and Appeals Disposal**

A total of 46 show cause notices were served for the non-compliance of the IO and relevant rules. The onsite inspections of 5 companies were conducted, which revealed certain non-compliances and violations of relevant laws and regulations. Trading of shares of 3 listed insurance companies was suspended due to non-compliances of the various provisions of the IO.

The proceedings of winding-up against 2 insurance companies were initiated, due to non-compliance with the law as specified under section 305 of the Ordinance.

The public notices were published in prominent English and Urdu newspapers to inform the public about the ceased companies as well the ones undergoing winding-up procedures. The offsite inspection of the entire insurance industry for the year in review was conducted and appropriate actions were taken to address the non-compliances.

In all, 147 complaints of policyholders were referred to the ID out of which 140 cases were disposed of.

A total of 13 appeals were pending with the ID, including the 4 from previous fiscal year. Out of which 10 appeals were heard with orders passed while 3 appeals were adjourned.

## 5.8 SUPPORT FUNCTIONS

### 5.8.1 LAW DIVISION

The Law Division manages the legal affairs of the SECP and provides necessary legal support to the operational divisions in performing their functions and duties. It is further divided into three wings:

**5.8.1.1 Advisory Wing:** The primary responsibility of the Advisory Wing is to provide legal interpretation and advice to the SECP and its departments in administration of laws. Its assignments included: (i) close assistance to the departments in carrying out inspections, investigations and other enforcement actions, (ii) advice and assistance in developing and improving the existing regulatory framework in consultation and co-operation of the foreign donor agencies like ADB and the World Bank, (iii) advice on procedural and substantive laws pertaining to self-regulatory organizations and other professional intermediaries, (iv) availability of legal and quasi-legal forums for the provision of relief to investors, (v) advice on scope of laws and available course of action on insider trading, market manipulation and other fraudulent acts prohibited in securities laws, (vi) scope and applicability of takeovers law, (vii) ambit of the SECP power to delegate its authority, and (viii) suitability of sanctions to be imposed by the SECP in the discharge of their regulatory duties.

**5.8.1.2 Litigation Wing:** The Litigation Wing managed about 620 cases filed by or against the SECP that are pending in various courts throughout the country. Most of these cases emanate from regulatory actions taken by the operational divisions and in some instances inter-party disputes. A total of 197 new cases were filed during the year and 69 cases were disposed of. Additionally, a number of criminal complaints were filed by the SECP against the managements of various companies in respect of violations of the laws administered by the SECP, involving, (i) market manipulation, (ii) insider trading, and (iii) other fraudulent activities. Other cases handled by the wing included: (i) winding up petitions filed by the SECP, (ii) mergers and amalgamations, (iii) petitions under section 290 of the Ordinance, (iv) investor complaints, (v) service matters and (vi) Human Right Commission cases before the Supreme Court of Pakistan.

**5.8.1.3 Legislation Wing:** The Legislation Wing formulates drafts and vets all legislative instruments including primary and secondary legislations, notifications, circulars, directives, orders, etc. pertaining to the SECP functions and duties. It examined and provided views and comments on the following laws referred to the SECP by the Federal Government and other agencies: (i) draft Netting of Financial Contracts Act; (ii) draft Arbitration Act, 2009, and (iii) draft Mutual Legal Assistance Act. It worked very closely to develop and finalize the draft Corporate Rehabilitation Act. It formulated, drafted and examined the following subsidiary legislations: (i) draft Securities (Leverage Markets and Pledging) Rules, (ii) draft Associations Not-for-Profit (Licensing and Corporate Governance) Regulations, 2009, (iii) draft Companies (Investment in Associated Companies and Undertakings) Regulations, (iv) Companies (Issue of Capital) Rules 1996, and (v) the Fit and Proper Criteria for the management of insurance companies.

### 5.8.2 FINANCE DEPARTMENT

The Finance Department is responsible for all matters relating to the functions of accounting, financial reporting, treasury management, payment processing and budgeting. Multi-user accounting software is being used for the maintenance of books of accounts and a sound accounting system is in place. It works within a transparent and effective internal control system. Moreover, policies and procedures are well defined, regularly reviewed, improved and consistently followed. Annual accounts are prepared under the framework of IFRS and audited by a leading firm of chartered accountants. It has two wings that perform the following functions:

**5.8.2.1 Finance Wing:** It is responsible for managing payment processes for authorized transactions while ensuring adherence to the established policies and procedures. It also manages profitable and secure investment of surplus funds in accordance with approved policies and liaises with banks to ensure that the banking arrangements are adequate.

**5.8.2.2 Accounts Wing:** It is entrusted with all accounting functions and responsible for preparation of budget and its approval by the SECP Policy Board as provided in the SECP Act. It also exercises budgetary controls and monitors actual expenditure against budgeted limits. It disseminates monthly Management Information Reports to the Commission and all divisions, highlighting division-wise financial results. It is also responsible for maintaining proper books of accounts of the SECP. It also ensures that financial statements are prepared in accordance with the IFRS, and the audited financial statements are made available for the approval of the Commission within one month of financial year's closing.

### **5.8.3 HUMAN RESOURCE AND TRAINING DEPARTMENT**

The FY 2009-10 was a challenging year for the Human Resources and Training Department (HR&T). A number of initiatives were taken to achieve the SECP objectives and its employees' expectations. A few of them are as follows:

#### **5.8.3.1 Career Progression Mechanism for Employees Serving on OTC**

The career progression mechanism was introduced with a view to opening avenues for growth to the employees working on Old Terms and Conditions (OTC) and to maximize their potential by assigning them mainstream/operational jobs in the relevant functions. Performance-based salary package and offer for conversion to the management cadre on New Terms and Conditions (NTC) of employment was given to and accepted by 24 officers/staff who were previously working on OTC. The employees have appreciated this initiative and it has greatly increased their motivation.

HR&T further improved and revised the promotion policy implemented last year for providing more defined career path to the officers/staff cadre employees. Employees' suggestions and aspirations were taken into consideration in the new policy. The policy provides the promotion mechanism for employees from the lowest grades of office attendants to the officers.

#### **5.8.3.2 Promotions of Employees**

- a. Management Cadre: In continuation of the promotion/potential assessment policy introduced in FY 2006-07 and implemented subsequently, a total of 48 officers were promoted.
- b. Officers and Staff Cadre: The implementation of revised promotion policy for officers/staff cadre was started right after its approval and as many as 5 officers/support staff and 9 office attendants and drivers were promoted.

#### **5.8.3.3 Revamping of Medical Policy**

The medical policy was revamped to provide a comprehensive/defined medical cover for 4 dread diseases, i.e., cancer, hepatitis B and C, tuberculosis and renal failure. Consequently, overall expenses on medical have increased manifold.

#### **5.8.3.4 Training Programs-Foreign-Local/In-House**

Sixteen employees attended 15 foreign trainings/seminars, whereas 33 employees participated in 19 local trainings/seminars/workshops pertaining to their relevant areas. Besides, 2 in-house training interventions of 2-3 hours duration were conducted, which were attended by 43 employees. This was done to increase learning at workplace.

#### **5.8.3.5 Medical Camps**

Four medical camps were organized during the year for employees and their families. Various pharmaceutical companies visited SECP head office and conducted 2-3 hour sessions on different diseases. All patients diagnosed with deranged levels were also provided with post medical follow-up.

#### **5.8.3.6 Cricket Tournament**

An intra-SECP cricket tournament was organized to encourage informal communication among employees. These matches were also a source of healthy entertainment and relaxation after hectic work schedules.

#### **5.8.3.7 Induction of Junior Executives and other Hiring**

Thirty-six new resources including 30 junior executives joined SECP. The primary objective of junior executives' induction is to groom young talent.

#### 5.8.4 ADMINISTRATION DEPARTMENT

The following short-term plans were implemented by the Administration Department based on the philosophy 'to exceed the expectations of its internal customers.'

- Organized a training workshop on 'Defensive Driving Skills' through Islamabad Traffic Police Training Cell for officers, staff as well as all drivers of the SECP.
- Bringing day-to-day complaints related to allied services down to nil level through personalized service and strong follow-up on a daily basis.
- The setting up of a reception desk at ground floor of the building for proper handling of visitors and improvements in indoor/outdoor security.
- Issuance of new improved parking tokens and erection of a manual barrier for observing safety of cars parked outside the NIC building.
- Daily checklists were introduced to ensure high cleaning standards.
- Comprehensive checklists were introduced for equipment installed at the head office to improve efficiency and to cut repair and maintenance costs.
- The introduction of improved 'Ticket Authorization Form' for air ticket and hotel booking requests.
- A new vendor was hired to ensure quality indoor plants with improved services.

#### 5.8.5 INFORMATION SYSTEM AND TECHNOLOGY DEPARTMENT

##### 5.8.5.1 Specialized Companies Return Submission and Analysis Modules

The Specialized Companies Return Submission System (SCRS) was indigenously developed and successfully installed. The SCRS is being used for the submission and consolidation of the financial data submitted by NBFCs and supports a rapid and reliable submission of information by the companies. NBFC official can analyze and report the financial data submitted through SCRS by using Specialized Companies Return Analysis (SCRA). This system automatically generates alerts, online reminders, email notifications, and new announcements to NBFCs. It also takes care of annual renewal of licenses and monitors the legal cases.

This system has enabled the SECP to establish and maintain a stronger vigilance on the specialized entities such as modarabas, leasing companies and mutual funds etc. Its use has helped in the effective enforcement of the SECP's regulatory functions.

##### 5.8.5.2 eSInsurance Surveyors System

The objective of eSInsurance System is to establish and maintain end-to-end communication with insurance companies and to facilitate their online requests for issuing and renewal of licenses and Associated Surveying Officers. The eSInsurance Surveyors System is currently been developed. The eSInsurance Surveyors System aims at automating the:

- licensing of Insurance Surveyor Companies;
- renewal of Insurance Surveyor Companies;
- licensing of Authorized Surveying Officer; and
- renewal of Authorized Surveying Officer.

##### 5.8.5.3 SECToday

SECToday is a knowledge sharing and management tool accessible to all the employees of the SECP in the form of an Intranet web-portal which enables the internal stakeholders to interact with various IT applications. It also acts as an information sharing platform having day to day news and updates along with all organization wide information.

#### **5.8.5.4 News Management System (eKnowledgebase)**

The regulatory responsibilities of the SECP put a demand on its officials to keep abreast with the latest developments taking place in various sectors of national and international economy. An advanced and revamped News Management System has been developed for the IACCD. All SECP press releases, economic magazines and other important news content can be found on eKnowledgebase.

#### **5.8.5.5 In-house Trainings**

In-house training sessions are organized on a regular basis in order to develop IT-related skills of the SECP employees. A large number of participants from different departments have attended these sessions. The participants have been taught the use off-the-shelf softwares like Microsoft Excel, MS Word, MS PowerPoint and MS Project starting from beginner to advanced levels.

#### **5.8.5.6 eServices Project**

The eServices project was launched to submit statutory documents electronically by registered companies, to reduce paperwork and to improve the SECP's business processes management. The IS&TD secured financial assistance of EGD, Ministry of IT& Telecom for this innovative and important project.

The Registration Department's various business process services have been automated and made electronically available to the corporate sector through eServices online portal. In parallel, a complete Business Process Management (BPM) suite has also been implemented, ensuring end-to-end digitalization. This BPM suite facilitates the SECP officials in the electronic decision-making process.

#### **5.8.5.7 Market Monitoring and Surveillance Solution**

A state-of-the-art market monitoring and surveillance system called 'eSurveillance' was installed. It analyzes the real-time data feeds from the three stock exchanges and generates a number of alerts and reports related to various types of market manipulations.

The availability of market information on a real-time basis through this system enables the SECP officials to measure performance and monitor stock markets' activities. It also ensures the market's fairness, efficiency and liquidity. The critical analyses functionality of the stock market is available in a separate module of this system.

### **5.8.6 INTERNAL AUDIT DEPARTMENT**

Audits of following areas/functions were conducted:

- SECP Employees Provident Fund Trust
- SECP Employees Gratuity Fund Trust
- Administration Department- Stores Section
- Verification of Leave Encashment Provision and expenses for the year ended June 30, 2009
- CRO Lahore

Internal audits of some micro/macro level systems and procedures were conducted. In this connection, the Internal Audits Department (IA) carried out the audit of payroll processing, bonus distribution and other administrative functions of the SECP.

On the directions of the Chairman, SECP in January 2010, the IA investigated fake expense claims of an employee. The investigation confirmed the charges and quantified the total amount of fake bills. The report was sent to the enquiry committee under the rules, which endorsed the investigation report and took appropriate action. As part of the whole investigation process, the IA also evaluated SECP medical policy and suggested some improvements to the medical bills processing system.

In June 2010, the IA evaluated the Draft Quality System Procedure for Internal Quality Auditing received from Registration Department. The procedure is being developed in compliance with the requirements of ISO 9001: 2008 International Standards. Changes as recommended by the IA to the draft procedure were sent to the Registration Department for their further necessary considerations.

The IA pre-audited 112 vouchers of final settlements as submitted by the Finance Department. The cases covered payments on account of pension, provident fund, gratuity and other employee severance benefits. The IA observations were communicated to the respective departments for appropriate corrective measures.

The IA representatives attended 117 procurement tender opening meetings as an independent observer. In October 2009, the department suggested improvements to the new draft procurement policy. In addition, it conducted audits of various high-value procurement cases to ensure the efficacy of procurement controls.

The IA suggested various improvements to various SECP departments. A regular follow-up was also maintained in respect of previously issued audit reports and memorandums.

Other activities conducted by the IA included:

- periodic performance reports highlighting summarized status of issued reports were submitted to the SECP;
- measures undertaken to strengthen the department practices, stretched throughout the year which mainly comprised the upgrade of operational manuals and audit practice guidelines; and
- liaison with the external auditors whenever required

## **5.9 INFORMATION RESOURCE CENTRE**

### **5.9.1 Branches of Information Resource Centre**

Information Resource Centre (IRC) has also been set up at the SECP offices in Karachi and Lahore.

### **5.9.2 Integrated Library Software**

IRC has subscribed to an Integrated Library Solutions 'Libmax' from Max Intelligence (Pvt) Ltd., Islamabad, enhancing the IRC services.

### **5.9.3 Reference and Research Services**

Research requests were received from the operational divisions that were successfully fulfilled by the IRC.



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# Future Plans



## **6.1 INTERNATIONAL AFFAIRS, COMMUNICATION AND COORDINATION**

### **6.1.1 Consultant to review Risk Management Framework**

A consultant will be hired to review and rationalize the risk management model presently in place at the stock and commodity exchanges of Pakistan.

### **6.1.2 New Projects with Donor Agencies**

New programs/grant arrangements with the ADB and the Bank will be negotiated for the following areas:

- Corporate bond/debt capital market
- Commodities market
- IPOs and new listing and on-going compliance by listed entities
- Implementation of a risk-based supervision model for market intermediaries
- Investor education program
- Regulatory structure for new derivative products

### **6.1.3 Publication of Guides**

A series of guides/booklets is intended to be published to create and enhance awareness with regards to role and functioning of the SECP, various products regulated by it and various associations within its regulatory ambit.

### **6.1.4 Awareness Seminars**

A series of awareness seminars will be organized for the students of leading educational institutions of the country, like the IBA, LUMS, NUSTS to: (i) encourage the development of a financially literate community, where investors can make informed decisions about financial products and services, (ii) raise awareness with regards to benefits of investments, and (iii) expand the size of investing population in the country.

### **6.1.5 AML / CFT Regime**

Effective implementation of the AML /CFT regime within the regulatees and to overcome the deficiencies mentioned by FATF's RRG in the areas under the SECP's regulatory ambit. Circular/directive will be finalized on CDD/KYC to strengthen the AML regime in the capital market and insurance sector.

## **6.2 APPELLATE BENCH**

In order to dispose of the pending appeals, the appellate bench registry has planned to fix 2 appeals on a weekly basis. The plan, however, can only be enforced after the appointment of the Commissioners by the Federal Government and availability of at least two appellate benches.

In collaboration with IS&TD department, the appellate bench registry will develop a database, which will provide complete information on the status of all appeals.

## 6.3 CORPORATE SECTOR

### 6.3.1 Quality Assurance

The project to obtain ISO 9001: 2008 certifications for the CROs in Karachi, Lahore and Islamabad is in progress. The certification would achieve the following objectives:

- enhance the image of the SECP in its service delivery;
- improve the quality of existing processes and services to the public; and
- increase public satisfaction through removal of deficiencies/gaps in service delivery

### 6.3.2 Development of Legal Framework

- a. **Amendments to the Companies Ordinance, 1984:** The amendments to the Ordinance will be suggested to bring it in line with the present procedure and to remove practical difficulties.
- b. **Draft Associations Not-for-Profit (Licensing and Corporate Governance) Regulations:** Draft regulations for associations' not-for-profit will be finalized which contains the regulatory framework, requirements and specifically the provisions of the CCG.
- c. **Draft Public Sector Companies (Corporate Governance) Regulations:** The regulations will be finalized to extend the provisions of the CCG to the public sector (state-owned) companies.
- d. **Amendments to the Second Schedule of the Ordinance:** The amendments to the second schedule of the Ordinance will be finalized to simplify the form of Statement in Lieu of Prospectus.
- e. **Revamping of Companies (General Provisions and Forms) Rules, 1985:** Revamping of existing Companies (General Provisions and Forms) Rules, 1985, will be undertaken mainly to remove the practical difficulties faced in eServices.
- f. **Extension of the CCG to Unlisted Public and Private Companies:** The work is in progress to explore the possibility of extending the CCG to unlisted public and large private companies.
- g. **Amendments to Single-Member Companies Rules, 2003:** The amendments to Single-Member Companies Rules, 2003 will be made to simplify the procedures for single-member companies.
- h. **Amendments to Companies (Registration Offices) Regulations, 2003:** The Companies (Registration Offices) Regulations, 2003, will be updated to customize its various provisions in line with eServices.

### 6.3.3 eServices Project

- a. **Role of e-intermediary in eServices:** A concept paper has been developed on the role of e-intermediaries in eServices, based on the framework provided under the tax law as well as the corporate models in vogue in various countries. Meetings are planned with the tax bar associations and professional consultants to obtain their feedback.
- b. **Standard Operating Procedures:** The remaining standard operating procedures for process of applications in the eServices will be developed.
- c. **Interface to link Archived Version and the Documents Attached in eServices:** In order to save time in locating any document filed by companies, both eServices and the archived interfaces will be linked.
- d. **Modules for Adjudication, Complaints and Processing of Applications under section 42:** Separate modules will be developed for the adjudication, complaints and processing of applications seeking license under section 42.
- e. **Placement of Templates:** The possibility of placement of standard templates against all the processes at issue resolution stage shall be explored.
- f. **Improvement of the Diary System:** The diary system of CRCS shall be reviewed to improve the efficiency and reporting requirements.
- g. **Filing of Forms 27, 28 and 29:** In order to facilitate online users, the procedure of filing of Form 27 (list of persons consenting to act as directors), Form 28 (consent to act as director/chief executive) and Form 29 (the particulars of directors and officers etc.) will be simplified.

#### 6.3.4 Public Facilitation

- a. **Launching of Facilitation Schemes:** The Companies Regularization Scheme (CRS) and the Companies Easy Exit Scheme (CEES) will be launched to provide an opportunity to inactive companies to either get regularized by filing their overdue returns under CRS or dissolve their companies under CEES.
- b. **Publication of Guide Booklets:** In order to raise public awareness on various statutory matters, revision of existing guides and publication of new guides is planned.
- c. **Seminars on eServices and Corporatization:** Awareness seminars on eServices and corporate legal status will be organized in different cities.
- d. **Meetings with Corporate Consultants:** Regular meetings with corporate consultants will be held at the CROs to seek suggestions for improvements and to create awareness on compliance and eServices.
- e. **Media Campaigns:** The media campaigns will be launched on annual returns filing, facilitation schemes and illegal business activities.
- f. **Standardized Memorandum of Association:** Standardized Memorandum of Association for remaining sectors shall be developed and placed on the SECP website for public facilitation.

### 6.4 ENFORCEMENT OF CORPORATE SECTOR

#### 6.4.1 Amendments to regulate Inter-Corporate Financing (Section 208 of the Ordinance)

The amendments to the Ordinance through Finance Acts of 2007 and 2008 authorized the SECP to formulate regulations for the companies that intend to make investment in the associated companies and associated undertakings under the provisions of section 208 of the Ordinance.

The regulations were approved by the SECP for publication in the official gazette to seek feedback from the public and the stakeholders. Currently, the regulations are in the final phase and after legal vetting those shall be placed for final approval by the Commission and shall become the subsidiary legislation subject to the approval and publication in the official gazette.

#### 6.4.2 Vigilant Enforcement

In order to enhance the efficiency of measures/actions in collaboration with different departments for a swift flow of information is planned. It is aimed at utilizing technological facilities for its processes and for availability of real-time information. The department, through its officers, contributes and shares invaluable experience for the development of software applications/packages.

The EnFD with the assistance of the IS&TD is establishing a comprehensive database to monitor unlisted companies.

In order to achieve the goal of optimum compliance, following parallel measures are being considered:

- trainings will be arranged to enhance the skill portfolio of the officers and staff;
- research-oriented activities need to be initiated to stay one step ahead of the corporate sector and the elements therein that have a propensity for white-collar crimes.

### 6.5 SECURITIES MARKET

#### 6.5.1 Demutualization

Important deliverables were achieved with respect to the proposed demutualization of the stock exchanges, which is expected to improve the efficiency of the exchanges by segregating its commercial and regulatory functions and to bring greater balance among interests of different stakeholders. The Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2009 was approved by the National Assembly on October 8, 2009, and will take effect after the Senate's approval.

### 6.5.2 Margin Financing, Margin Trading and Securities Lending and Borrowing and Pledging Mechanisms

After extensive consultation with the relevant stakeholders, the SECP finalized the concept paper on margin financing recommended by the Consultative Group on Capital Markets. The Securities (Margin Financing, Lending, Borrowing and Pledging) Rules, 2010 were also drafted and made available for public consultation after their vetting by the Law and Justice Division. These draft rules will not only introduce effective disclosure requirements to ensure greater transparency, but will also meet the financing needs of capital markets while providing retail investors with an easy access to financing against shares. The rules will be promulgated by the Federal Government.

### 6.5.3 Automation of Transfer of Securities into CDS against Trades/Transactions Settled through NCSS

In order to address the concerns over the adequate level of authentication and control for preventing misuse in procedures governing the movements of book-entry securities in the CDS, the SECP constituted a committee comprising representatives of the CDC, NCCPL and KSE. The committee submitted its recommendations in relation to an automated clearing and settlement process whereby securities would move directly from sellers sub-account or house account to buyers sub-account or house account at the CDC. This project will be implemented after necessary regulatory amendments and system/software changes.

### 6.5.4 Capital Adequacy and Revised Brokers' Regime

As an initiative to revamp the regulatory regime for brokers in the stock market and to introduce stringent risk-management reforms for regulation of the market intermediaries, the Consultative Group on Capital Markets submitted a comprehensive concept paper, suggesting recommendations in the following areas in line with the IOSCO Principles for market intermediaries:

- framework for margin financing in line with the international best practices;
- revised broker regime including enhanced capital adequacy requirement;
- code of conduct for brokers;
- fit and proper criteria for sponsors/directors/employees of brokerage houses, etc.

The said recommendations of the consultative group are being reviewed to further augment areas in line with international best practices and a plan for phased implementation of the same will be finalized in consultation with the relevant stakeholders.

### 6.5.5 Widening of Scrip-Level Circuit Breakers and Index-Based Trading Halts

An index-wide market halts will be introduced to bring coordinated halt in the index once either ends of the predetermined range are reached. This temporary halt will allow investors an easy exit mechanism and will give market participants a relaxation time which shall allow them to take well informed and educated investment decisions.

### 6.5.6 Enhancement of UIN Database at NCCPL

In order to curtail front-running, insider trading and other malpractices, the UIN database at NCCPL is being expanded to meet the requirement of registration of all employees/directors/associates, their spouses and other dependents, of brokerage houses.

### 6.5.7 Exchange Traded Funds

Exchange Traded Funds (ETF) are being proposed as a new investment product, representing a basket of securities that track an index such as the KSE 30 index. Realizing the potential of the said product in the domestic market and the flexibility of trading offered by it, the SECP is in process of finalizing various modalities after having detailed discussions with the exchange and other stakeholders. The regulatory framework for the launch of the product is also being finalized.

### 6.5.8 Market Making

The concept of market making will be introduced for the securities being traded on the stock exchanges with the intention to bring more liquidity to the market and reduce the risks associated with excess volatility in various scrips.

### **6.5.9 Introduction of Sector Indices**

In the light of international practices, proposal relating to commencement of trading in Stock Index Futures Contracts (SIFC) is being considered. The SIFC trading will enhance liquidity in the market as these indices will offer investment diversity to investors and an opportunity to hedge their portfolio risk against volatility in the sectors.

### **6.5.10 Products and Systems Development Initiatives for NCEL**

The introduction of new futures contracts, market makers framework to enhance liquidity in various contracts listed at the exchange and a revised Code of Conduct for Brokers of the commodity exchange are in pipeline, as a measure of expansion of the NCEL product range.

## **6.6 SPECIALIZED COMPANIES**

### **6.6.1 Mutual Funds**

#### **6.6.1.1 Enhanced Role of Trustee**

In accordance with the regulatory framework, every mutual fund is required to have an independent trustee as a key stakeholder in protecting the interests of the unit-holders. As a capacity-building measure the SECP believes that the role of trustee needs to be enhanced with inclination to play a more proactive role to better safeguard the interests of unit-holders in line with the best international practices.

#### **6.6.1.2 Empowerment of Unit Holders of Mutual Funds**

The SECP believes in empowerment of unit-holders of a fund and for the purpose, envisions that they may be provided specific powers in relation to material aspects of a fund. Such powers may include winding down of the fund or change of management company, if the unit-holders are of the view that the fund is not being managed in their best interest.

#### **6.6.1.3 Product Innovation**

In order to promote the industry, the SECP is receptive to the innovative ideas and products that offer diverse solutions to satisfy the needs of participants of the industry. For this purpose, specialized funds such as exchange-traded funds and constant money market funds are under consideration.

#### **6.6.1.4 Independence of MUFAP**

The MUFAP as a trade association of mutual funds in Pakistan has a mandate to develop the industry, which includes devising ways and means for ensuring investor protection. In order to make the association more effective in meeting its mandate, its present board structure/composition is under review. The SECP will explore ways whereby some representation on behalf of trustees and investors through independent directors is achieved.

### **6.6.2 Investment Banks and Leasing Companies**

The SCD will facilitate consolidation in the NBFC sector through mergers and acquisitions in order to enhance risk absorption capacity of investment banks. It is in the process of initiating necessary consultations with the various stakeholders for bringing further improvements to the investment banking model. The SCD will also urge the investment banking community to broaden its activities by providing non-fund financial services.

The SBP has been requested to take special measures to address the issue of liquidity and bank borrowings of NBFCs in the best interest of the financial system.

The SCD will encourage the leasing companies to issue asset-based securities to fund their long-term lease assets and would urge the stronger leasing companies to support the ones who are in financial distress by extending them secured loans.

### 6.6.3 Modaraba

#### 6.6.3.1 Amendments to the Modaraba Law

In order to strengthen the regulatory framework and to bring about operational flexibility and consistency between the financial institutions under the NBFC regime and modarabas, existing provisions of the Modaraba Ordinance, Rules and Prudential Regulations for Modarabas are proposed to be reviewed comprehensively in consultation with all the stakeholders.

#### 6.6.3.2 Introduction of the Concept of 'Trustee' and 'Annual General Meeting' of the Certificate Holders

In consultation with the Religious Board for Modarabas, the following policy issues pertaining to regulatory and operational matters of modaraba are being considered:

- examining the possibility of introduction of the concept of 'trustee' in the modaraba structure. The key objective of this move is to restore and enhance market and investors' confidence and protection of the assets of modaraba through transparency, accountability, and discipline;
- possibility to introduce the concept of holding AGM of modaraba certificate holders to discuss and approve the financial statements of modaraba; and
- possibility to adopt 'the Islamic financial accounting standard on profit-and-loss sharing on deposits' by modaraba, introduced by the ICAP

### 6.6.4 Voluntary Pension System

#### 6.6.4.1 Amendments to the VPS Rules, 2005

The VPS Rules which were notified in 2005, are under review for amendments in the wake of uncertainty experienced by the financial markets globally, in recent years. The draft of revised rules containing suitable amendments, made in consultation with industry, is expected to be formally adopted for compliance during the next year.

#### 6.6.4.2 Law on Pensions and Savings Schemes

In 2008, through an amendment to the SECP Act, 1997, the SECP's jurisdiction was extended to include promotion and regulation of post-retirement benefit schemes set up by companies and state-owned corporations. In order to regulate such schemes, a consultant was hired through the ADB to draft legislation. The draft legislation is being reviewed for further action in the context of the 18th constitutional amendment. The amendment envisages transfer of subjects relating to benefits and welfare of laborers from federal government to the provincial governments.

#### 6.6.4.3 Removal of Tax Disparities

In order to remove tax inequalities between pension funds established under the VPS Rules, 2005 and post-employment benefit schemes established by companies, interaction with the FBR will continue to bring both classes of retirement schemes on equitable footings from tax perspective.

### 6.6.5 REITs

In order to encourage the REIT schemes, the provincial and local governments will be urged to provide special concessionary rates and exemptions from duties. The ongoing stakeholder consultation will be continued in which feedback is obtained from the market players to improve the quality of regulatory mechanism.

## **6.7 INSURANCE**

### **6.7.1 Amendments to the Insurance Ordinance, 2000**

While the IO has introduced a number of laudable reforms, it has omitted a number of elements that are vital to a modern risk-based supervisory regime and lacks the depth prevalent in the laws of other jurisdictions. In addition, there are certain anomalies and discrepancies between the IO and the two set of the Insurance Rules, 2002, that need to be removed. It is also important that the SECP is delegated with the necessary punitive and civil prosecution powers, in line with the International Association of Insurance Supervisors (IAIS) principles and international best practices. The law is also silent on the provisions of AML, Bancassurance, Microinsurance, etc. With the help of an international expert, the SECP will thoroughly review the IO and rules.

### **6.7.2 Assessment and Implementation of IAIS Principles, Standards and Guidance**

The IAIS principles, standards and guidance papers represent global best practices. It has been observed that there is a clear gap between the current insurance laws in Pakistan and IAIS Principles and Standards, making it imperative to assess and implement the IAIS Principles and Standards across the industry. As a member of IAIS, the SECP is committed to bringing the local insurance industry on a par with the international best practices and standards in a phased manner.

### **6.7.3 Terrorism Pool**

The ongoing terrorist activities in our major cities have reinforced the importance and urgent need of creating a Terrorism Insurance Pool. Recognizing this fact, the SECP deliberated and initiated the project for establishing the Terrorism Pool with risk partnership among insurers, reinsurers and other stakeholders. The framing of the legal framework of the pool is in the phase of development. The pool is expected to be established by the end of 2010.

### **6.7.4 Microinsurance**

Microinsurance is a term increasingly used to refer to insurance characterized by low premium and low caps or low coverage limits. The SECP has started consultations with all stakeholders. In addition, it is studying international models and is working to bring in a comprehensive regulatory framework for microinsurance in consultation with the industry. The framework for microinsurance is likely to be in place by the end of this year. In order to increase the microinsurance penetration, a vigorous awareness campaign and training programmes for microinsurance managers, policyholders and policymakers is also required.

### **6.7.5 Review and Amendments to the Takaful Rules 2005**

The Takaful Rules 2005 are being reviewed and a new set of Takaful Rules 2010 has been formulated with stakeholders' consultation and will be issued by the end of 2010. This is attributed to the varying interpretations of Shariah and the critical need for the standardization of terms and accounting formats.

### **6.7.6 'Fit and Proper' Criteria for Management of Insurance Companies**

In order to prepare the insurance sector to face the impact of globalization and shrinking margins and also to avoid mal-administration, the insurance companies must be run by competent executives with adequate know-how. Keeping in view the importance and urgency of the matter, the SECP has developed a 'Fit and Proper' criteria for the insurance sector in line with the IO and in consultation with the Insurance Association of Pakistan. The criteria are expected to be notified by the end of this year.

## **6.8 SUPPORT FUNCTIONS**

### **6.8.1 LAW DIVISION**

The LD plans to undertake the following activities over the coming year:

- complete automation of the Advisory Wing to make it paper-free;
- to create a complete scanned database of legal advices for ease of reference;
- formulate and improve internal work processes; and
- conducting legal trainings for officers of operational departments in order to enable them to better perform their regulatory functions

**6.8.2 HUMAN RESOURCE AND TRAINING DEPARTMENT**

The HR & T envisages working on a number of plans to ensure further improvement in the areas within its domain. The following initiatives are planned:

- revamping and consolidation of human resource policies and procedures of the SECP;
- purchase of a Human Resource Management System;
- refurbishment of Performance Management System; and
- hiring of employees on the basis of availability of vacant positions and requirement of concerned functions, etc.

**6.8.3 ADMINISTRATION DEPARTMENT**

1. The preparation and implementation of Administration Manual to ensure smooth working of the department, covering travelling, procurement, store management, etc.
2. The renovation of the third floor and provision of in-house doctor's clinic, meeting-cum-training room, board room and a visitors' lounge is planned.
3. The preparation of procurement policy in line with the PPRA regulations.
4. The asset disposal and store policy will be prepared and implemented.
5. Travel desk activities will be improved by introducing paperless environment.

**6.8.4 INFORMATION SYSTEMS AND TECHNOLOGY DEPARTMENT**

The SECP 'eServices' facilities are planned to be extended to all registered companies in the following manner:

- a real-time replication is planned by establishing a metro site at the Islamabad CRO, and;
- annual third party annual surveillance audit for quality management system will be conducted to assure that the systems are in compliance with international standards

First third-party certification registration audit for Information Security Management System is planned to be conducted to assure that the systems are in compliance.

**6.8.5 INTERNAL AUDIT DEPARTMENT**

IA endeavors to promote integrity, economy, efficiency and effectiveness in the SECP's programs and operations. IA plans to undertake following activities:

- evaluation of current internal control systems through financial, operational and compliance audits and advising on control weakness;
- identification of high-risk areas within the SECP and applying rigorous audit techniques to uncover possible irregularities within the systems, and;
- ensuring strict compliance with laws, rules and regulations at the CROs to promote good governance and professionalism within the SECP.

**6.8.6 INFORMATION RESOURCE CENTRE**

The availability of e-resources on various subjects will be placed on e-knowledgebase (News Management System):

- a) orders, circulars and notifications will be available on the IRC database to facilitate the users
- b) to acquire more effective relevant bibliographic items for the SECP
- c) up-to-date and effective eServices by providing current and research-based information to all the SECP. The IRC is using the concept of Library 2.0 to facilitate the end-users.

In addition, the IRC will liaise with libraries and information centers of Iran, India, the Maldives, Australia, Bhutan and Sri Lanka.





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# Calendar of Events

## July 2009

One officer attended APG Annual Meeting in Brisbane, Australia

A visit of the SECP officers to the Sukkur Chamber of Commerce and Industry to promote corporatization and eServices

A visit of the SECP officers to the Quetta Chamber of Commerce and Industry to promote corporatization and eServices

Two officers attended a workshop on the subject of 'Insurance for Strike Riot and Civil Commotion' in Karachi

## August 2009

A meeting of the SECP officers with corporate consultants at the Sukkur CRO for better coordination and image enhancement of the SECP

Meetings with Sub-national Doing Business (SNDB) Study team of the World Bank in Islamabad, also covering Peshawar, Quetta, Lahore, Faisalabad, Multan, and Karachi through video conferencing. It was organized by the CROs, the World Bank along with Economic Reforms Unit and Finance Division

## September 2009

A visit of SECP officers to Markazi Anjuman-e-Tajiran, Balochistan to introduce/promote corporatization in small businesses

A meeting of the SECP officers with corporate consultants at the Multan CRO to improve filing compliance rate

## October 2009

One officer attended the 'Train the Trainer Strategic Implementation Planning' in Malaysia

The SECP and the RCCI organized seminar on eServices held at the Rawalpindi Chamber of Commerce and Industry

Two officers attended training on 'Managing Regulatory Pendulum-Striking a Balance' in Malaysia

## O c t o b e r 2 0 0 9

Three officers participated in the Financial Investigative Techniques Training organized by the Office of Technical Assistance, the United States Department of Treasury in Islamabad

Two officers attended the 10th Emerging Markets Program organized by the Securities Commission, Malaysia, and the Securities Industries Development Corporation (SIDC) in Kuala Lumpur, Malaysia

## N o v e m b e r 2 0 0 9

Two officers attended the AUSTRAC workshop on 'Establishing and Implementing a Risk-Based Approach' in Amman, Jordan

Two officers attended the AUSTRAC workshop on 'Developing an AML/CFT Education Campaign' in Amman, Jordan

A visit of the SECP officers to the Multan Chamber of Commerce and Industry to promote corporatization and eServices

The SECP, the Sialkot Chamber of Commerce and Industry and the Sialkot Income Tax Bar Association organized a seminar on 'e-Registration of Companies and eFiling' at the Sialkot Chamber of Commerce and Industry

A meeting of the SECP officers with the SMEDA, Quetta for provision of information/guidelines for registering companies with the SECP

A visit of the SECP officers to SMEDA's Sukkur office to promote corporatization

## D e c e m b e r 2 0 0 9

Ten officers attended training on Strengthening the AML Regime in Pakistan at the Avari Towers, Karachi

Five officers attended training on 'Building High Performance Teams' at LUMS

Three officers attended training of 'Negotiation Skills' at LUMS

A detailed presentation was made at a seminar on cost audit organized by ICAP, Islamabad

Three officers attended a conference on takaful in Karachi

A meeting of Modaraba Registrar with the Executive Committee of the Modaraba Association of Pakistan (MAP) was held to compare notes on the development of the modaraba sector

## January 2010

Twelve officers attended training on 'Strengthening the AML Regime' in Pakistan at the Avari Towers, Karachi

Five officers attended training on 'Corporate Financial Management' at LUMS

A visit of the SECP officers to NIFT's Multan office to discuss and overcome digital signature related problems

The SECP and the ICMAP organized a seminar on eServices at the ICMAP

One officer delivered presentation in the train the trainers program to strengthen AML regime in Pakistan held in collaboration with ADB and UK-DFID in Islamabad and Karachi

Fourteen officers went for an educational visit to the KSE, NCEL, CDC and NCCPL

Two officers attended a workshop on 'Risk Management' in Karachi

A new online court case database known as the Court Case Information System was introduced

## February 2010

Forty-three officers attended training on 'Strengthen the AML regime in Pakistan' at the Marriott, Islamabad

Four officers attended training on Financial Analysis Techniques Course for Analysts at the Marriott, Karachi

A presentation was made at a seminar on 'Requirements for Foreign Companies' organized by the ICAP in Islamabad

The SECP and the Income Tax Bar Association organized a seminar on eServices Project at Income Tax Bar Association

A visit of the SECP officers to the Larkana Chamber of Commerce and Industry to promote corporatization and eServices

Two officers attended training on 'Strengthen the AML Regime in Pakistan' at the Avari Towers, Karachi

## March 2010

One officer attended Law Enforcement Training Workshop at the Avari Towers, Karachi and the Marriott, Islamabad

The SECP and the Lahore Chamber of Commerce and Industry organized a representation in export management training program and briefing on company incorporation procedure and compliance

A meeting of the SECP officers with Company Secretaries of Listed companies on eServices at the CRO, Lahore

The SECP organized a journalists training workshop on eServices in Islamabad

Two officers attended training on 'Financial Derivatives' on the LUMS campus to impart a thorough understanding of the financial derivatives to the market regulators/investors

A meeting of the SECP officers with MUFAP Board of Directors on March 16, 2010 in Karachi

A meeting of the SECP officers with LAP, MAP and IBAP on March 17, 2010 in Karachi

A meeting of the Modarabas' Registrar with the MAP

Four officers attended a workshop on 'Financial Statement: Ignore or Regret' in Karachi

## April 2010

The SECP and the Lahore Bar Council organized a seminar on e-Governance regime in corporate registration and regulation at the ICMAP, Lahore

A journalists training workshop on eServices and insurance products was held in Karachi.

A meeting of the SECP officers with Company Secretaries of prominent companies on new releases of eServices at the CRO, Faisalabad

Six officers attended an international conference on political violence in Karachi

## May 2010

A meeting of the SECP officers with MUFAPs Committee on Categorization of Mutual Funds was held

A meeting of the SECP officers with Company Secretaries of Listed companies on eServices at the CRO, Lahore

## May 2010

Three officers attended a training workshop on 'Analysis of Financial Statements' in Karachi

A program on 'Effective Communication in the Business World' was held in collaboration with LUMS in Islamabad

The SECP and the Trade Development Authority of Pakistan, Ministry of Commerce Participated in WEXNET 2010, a national exhibition for women entrepreneurs and briefing on company incorporation process at EXPO Centre, Lahore

The SECP and the Lahore Chamber of Commerce and Industry arranged a representation in export management training program and briefing on company incorporation procedure and compliance

## June 2010

The SECP participated in Global Reporting Initiative (GRI) Introductory Workshop on Sustainability Reporting and briefing on the CSR activities. It was organized by the Corporate Social Responsibility Centre Pakistan (CSRCP)

The SECP and the Ministry of Industries and Production arranged a representation in workshop on development of province-wise 'National Industrial Policy' at the Faisalabad Chamber of Commerce and Industry

A meeting of the SECP officers with corporate consultants at the CRO, Multan for better coordination and image enhancement of the SECP

A meeting of the SECP officers with corporate consultants at the CRO, Faisalabad

A meeting of the SECP officers with corporate consultants at the CRO, Islamabad

A meeting of the SECP officers with corporate consultants on new releases of eServices at the CRO, Lahore

A meeting of the SECP officers with Balochistan Tax Bar Association and corporate consultants to obtain feedback on the SECP services

A meeting of the SECP officers with corporate consultants at the CRO, Peshawar

A meeting of the SECP officers with corporate consultants at the CRO, Karachi

On the launch of MAP and LAP yearbooks, a meeting of the SECP officers with MAP and LAP was held

**A.F.FERGUSON & CO.**

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**PRICEWATERHOUSECOOPERS** 

**A.F.Ferguson & Co.**  
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**INDEPENDENT AUDITORS' REPORT  
 TO THE FEDERAL GOVERNMENT OF PAKISTAN**

We have audited the accompanying financial statements of the Securities and Exchange Commission of Pakistan (the Commission), which comprise the statement of financial position as at June 30, 2010 and the statement of comprehensive income, the statement of cash flows and the statement of changes in funds for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Commission as at June 30, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants  
 Islamabad: August 18, 2010

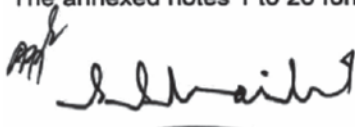
Name of the audit engagement partner: S Haider Abbas



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
STATEMENT OF FINANCIAL POSITION  
AS AT JUNE 30, 2010**

	Note	2010 Rupees in thousand	2009 Restated
Property, plant and equipment	4	272,064	324,314
Intangibles	5	18,371	16,743
Long term investments	6	568,495	577,130
Long term loans to employees	7	30,473	26,658
<b>Current assets</b>			
Advances, deposits, prepayments and other receivables	8	384,659	275,441
Short term investments - available for sale	9	2,147,294	2,675,769
Cash and bank balances	10	138,501	19,594
		2,670,454	2,970,804
<b>Current liabilities</b>			
Accrued and other liabilities	11	(461,511)	(279,114)
<b>Net current assets</b>		2,208,943	2,691,690
Provision for prior years' taxation	21	(152,201)	(899,167)
Deferred taxation	12	10,185	(16,580)
Deferred liability	13	(41,500)	(32,127)
Deferred grant	14	(1,449)	(1,665)
<b>Net assets</b>		<u>2,913,381</u>	<u>2,686,996</u>
<b>Represented by:</b>			
General reserve		800,000	800,000
Assets (land and building) acquisition reserve		2,600,000	2,600,000
Accumulated comprehensive surplus/ (deficit) of income over expenditure		(486,619)	(713,004)
		<u>2,913,381</u>	<u>2,686,996</u>
Contingencies and commitments	15		

The annexed notes 1 to 26 form an integral part of these financial statements.

  
CHAIRMAN

  
COMMISSIONER

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED JUNE 30, 2010**

	Note	2010 Rupees in thousand	2009 Restated
<b>INCOME</b>			
Fees and other recoveries	16	1,296,162	1,073,935
Other income	17	475,402	360,821
		1,771,564	1,434,756
<b>EXPENDITURE</b>			
Salaries, allowances and other benefits	18	755,473	632,797
Operating expenses	19	323,278	341,162
Depreciation and amortisation		118,984	114,008
Amortization of premium on Pakistan Investment Bonds		8,635	8,635
Bank charges		3,846	3,163
		1,210,216	1,099,765
<b>EXCESS OF INCOME OVER EXPENDITURE</b>			
Amortisation of deferred grant		561,348	334,991
		216	271
<b>SURPLUS OF INCOME OVER EXPENDITURE BEFORE TAX</b>			
		561,564	335,262
<b>TAXATION</b>			
- Current	20	210,580	63,715
- Deferred	20	(12,498)	15,105
		198,082	78,820
<b>SURPLUS OF INCOME OVER EXPENDITURE AFTER TAX FOR THE YEAR</b>			
		363,482	256,442
Provision for prior years' taxation	21	(99,353)	(911,132)
<b>SURPLUS / (DEFICIT) OF INCOME OVER EXPENDITURE AFTER TAX</b>			
		264,129	(654,690)
<b>OTHER COMPREHENSIVE SURPLUS/ (DEFICIT) OF INCOME OVER EXPENDITURE - NET OF TAX</b>			
Actuarial losses on staff retirement funds	11.1.3	(58,067)	(26,703)
Tax credit related to actuarial losses on staff retirement funds	20.1	20,323	9,346
		(37,744)	(17,357)
<b>TOTAL COMPREHENSIVE SURPLUS/ (DEFICIT) OF INCOME OVER EXPENDITURE</b>			
		226,385	(672,047)

The annexed notes 1 to 26 form an integral part of these financial statements.

*Asif*

*M. Waheed*  
CHAIRMAN

*A. Iqbal Khan*  
COMMISSIONER

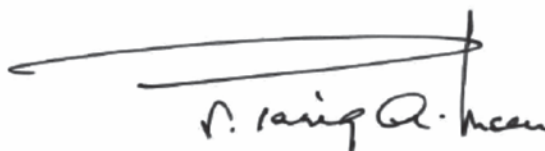
**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010**

	2010	2009
	Rupees in thousand	Restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Surplus of income over expenditure before tax	561,564	335,262
Adjustments for:		
- Depreciation and amortisation	118,984	114,008
- Amortization of premium on Pakistan Investment Bonds	8,635	8,635
- Amortisation of deferred grant	(216)	(271)
- Provision for pension	28,572	28,216
- Provision for gratuity	36,390	29,587
- Provision for leave encashment	14,385	17,076
- Interest income	(470,712)	(358,436)
- Gain on sale of property, plant and equipment	(3,554)	(787)
	<u>(267,516)</u>	<u>(161,972)</u>
Operating income before working capital changes	294,048	173,290
(Increase) / decrease in loans to employees and advances, deposits, prepayments and other receivables	(8,299)	117,365
Increase in accrued and other liabilities	139,125	33,501
	<u>424,874</u>	<u>324,156</u>
Contribution to pension fund	(39,057)	(62,526)
Contribution to gratuity fund	(40,700)	(52,739)
Leaves encashed	(5,012)	(6,690)
Tax paid	<u>(1,067,266)</u>	<u>(105,899)</u>
Net cash (used in)/ generated from operating activities	(727,161)	96,302
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditure	(77,716)	(240,792)
Proceeds from sale of property, plant and equipment	12,908	13,898
Net decrease/ (increase) in investments	537,110	(177,489)
Interest received on investments and bank deposits	373,766	265,183
Net cash generated from/ (used in) investing activities	<u>846,068</u>	<u>(139,200)</u>
Net decrease in cash and cash equivalents	118,907	(42,898)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	19,594	62,492
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>10 138,501</u>	<u>19,594</u>

The annexed notes 1 to 26 form an integral part of these financial statements.




CHAIRMAN



COMMISSIONER

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**1. LEGAL STATUS AND OPERATIONS**

Securities and Exchange Commission of Pakistan (the Commission) was established as a body corporate under the Securities and Exchange Commission of Pakistan Act, 1997 (the Act) for the beneficial regulation of capital markets, superintendence and control of corporate entities and for matters connected therewith and incidental thereto. The Commission operates through eight Company Registration Offices across the country.

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

These financial statements have been prepared under the historical cost convention in accordance with the International Financial Reporting Standards (IFRS) issued by the International Federation of Accountants (IFAC). However, the Commission is not required to comply with the requirements of IFRS.

Preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Commission's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.15.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**3.1 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any except for leasehold land and capital work in progress which are stated at cost.

Depreciation is calculated on a straight line method to write off the depreciable amount of each asset over its estimated useful life. Rates of depreciation are specified in note 4 to the financial statements. Depreciation on additions during the year is charged from the date of acquisition or the date the asset is available for use and on disposals upto the date of disposal.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any, are derecognized. Gains and losses on disposal of property, plant and equipment are included in the income currently.

**3.2 Intangibles**

Intangible assets are stated at cost less accumulated amortisation except for intangible assets under development which are stated at cost. Amortisation on intangible assets is calculated on a straight-line basis at rates specified in note 5 to the financial statements.

### 3.3 Taxation

#### *Current*

Provision for current taxation is based on taxable income at the current rate of tax after taking into account applicable tax credits, rebates and exemptions available, if any.

#### *Deferred*

Deferred tax is accounted for using the balance sheet liability method in respect of all taxable temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

### 3.4 Receivables

These are stated at cost less allowance for any uncollectible receivables.

### 3.5 Payables

These are carried at cost which is the fair value of the consideration to be paid in the future.

### 3.6 Employee benefits

#### *Defined contribution plan*

The Commission maintains an approved defined Contributory Provident Fund for its employees eligible for this benefit plan as per policies of the Commission. The Commission's contribution to defined Contributory Provident Fund @10% of basic salary is charged to the statement of comprehensive income for the year.

#### *Defined benefit plans*

The Commission operates following defined benefit plans for its eligible employees:

#### (i) Pension Fund

The Commission maintains approved funded defined pension plan for its employees eligible for this benefit plan as per policies of the Commission. Annual contributions are made to the Fund on actuarial recommendations using "Projected Unit Credit Method". The most recent actuarial valuation was conducted on June 30, 2010.

#### (ii) Gratuity Fund

The Commission maintains approved funded defined gratuity plan for its employees eligible for this benefit plan as per policies of the Commission. Annual contributions are made to the Fund on actuarial recommendations using "Projected Unit Credit Method". The most recent actuarial valuation was conducted on June 30, 2010.



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From the current year, the Commission changed its accounting policy related to recognition of actuarial gains and losses on its defined benefit plans. Previously, actuarial gains and losses in excess of the corridor limit at end of the previous reporting period were recognized over the expected average remaining working lives of employees participating in the defined benefit plans. Effective July 1, 2009, the Commission has adopted the policy under which actuarial gains/losses are recognized at higher of one-third of the cumulative actuarial gains/ losses at end of the current reporting period or 'corridor' approach as above, in the Statement of Comprehensive Income as other comprehensive income.

The Commission believes that the revised policy results in more prudent recognition of actuarial gains and losses.

This change in accounting policy has been applied retrospectively as required by IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors*. Accordingly, the corresponding figures have been restated to reflect these changes. The effect of this change on 2009 is tabulated below. Opening surplus of income over expenditure as at July 1, 2009 has been reduced by Rs 43.473 million, which is the amount of the adjustment relating to periods prior to 2009.

	Rupees in thousand
Effect on the year ended June 30, 2009	
<i>Reversal of expense (net of tax) already recognised as per previous policy</i>	9,888
<i>Expense recognised in other comprehensive income (net of tax) as per new policy</i>	(17,357)
Total effect for the year ended June 30, 2009	(7,469)
Effect for periods upto June 30, 2008	
<i>Reversal of expense (net of tax) already recognised as per previous policy</i>	10,037
<i>Expense recognised in other comprehensive income (net of tax) as per new policy</i>	(53,510)
	(43,473)
	(50,942)
Increase in retirement benefit obligation due to policy change	(78,373)
Corresponding decrease in current tax liability	27,431
	(50,942)

Had the accounting policy not changed, the total comprehensive income for the year ended June 30, 2010 would have been higher by Rs. 25.473 million.

#### *Compensated absences*

The Commission recognizes provision for compensated absences payable to employees at the time of retirement/ termination of service.

Upto the previous year, provision was determined on the basis of last drawn basic salary and accumulated leave balance at the reporting date. Effective July 1, 2009, provision is determined on the basis of actuarial recommendations using "Projected Unit Credit Method".

Had the previous method continued, the provision for compensated absences would have been higher and total comprehensive income for the year would have been lower by Rs. 2.408 million.

3.7 Deferred grant

Grant related to fixed assets are deferred and are recognized as income over the period necessary to match them with the carrying value of the related assets.

3.8 Revenue recognition

Fees and other recoveries are recognized on accrual basis.

Penalties are recognized on receipt basis.

Income on investments and bank deposits is recognized on time proportion basis.

3.9 Administered projects

The Commission is the executing/ implementing agency under various donor assisted projects. Transactions and balances relating to these projects are reported under receivable against administered projects. The summary information is presented in note 8 to these financial statements. Fixed assets acquired under these projects have been capitalised to the extent these are transferable to the Commission and are subject to the policies adopted by the Commission for such items.

3.10 Impairment

The carrying amounts of the Commission's assets are reviewed at each reporting date to determine whether there is any indication of impairment loss. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss or reversal of impairment loss is recognized in the statement of comprehensive income.

3.11 Investments

Investments with fixed or determinable payments and fixed maturity, that the Commission has the positive intent and ability to hold to maturity are classified as held to maturity investments and are carried at amortized cost, less impairment losses. Premium paid on purchase of investments is amortized using effective interest method.

Available-for-sale investments are measured at fair value.



### 3.12 Provisions

Provisions are recognized when the Commission has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount can be made.

### 3.13 Financial instruments

Financial assets and financial liabilities are recognized when the Commission becomes a party to contractual provisions of the instrument. These are initially measured at cost, which is the fair value of the consideration given or received. These financial assets and liabilities are subsequently measured at fair value and amortized cost as the case may be. The Commission derecognizes financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments.

### 3.14 Cash and cash equivalents

For the purposes of statement of cash flows, cash and cash equivalents comprise cash in hand and bank balances.

### 3.15 Use of critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### (a) Critical accounting estimates and assumptions

The Commission makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The material estimates and assumptions used to measure and classify the carrying amounts of assets and liabilities are outlined below:

- (i) Useful lives of property, plant and equipment and intangibles (notes 4 and 5)
- (ii) Provision for current and deferred taxation (note 20)
- (iii) Provision against staff retirement benefits (note 11.1 and 13)

#### (b) Critical judgments in applying the entity's accounting policies

There have been no critical judgments made by the Commission's management in applying the accounting policies that would have a significant effect on the amounts recognised in the financial statements.





#### 4. PROPERTY, PLANT AND EQUIPMENT

Statement of property, plant and equipment is as follows:

	Leasehold land	Building	Leasehold improvement	Office equipment	Other equipment	Computers	Furniture and fixtures	Vehicles	Subtotal	Capital work-in-progress	Total
Rupees in thousand											
Cost	2,053	33,974	26,762	29,414	7,830	119,916	23,320	143,922	387,191	17,099	404,290
Accumulated depreciation	-	(13,298)	(17,388)	(21,690)	(998)	(86,064)	(15,476)	(36,845)	(191,759)	-	(191,759)
Net book value as at June 30, 2008	2,053	20,676	9,374	7,724	6,832	33,852	7,844	107,077	195,432	17,099	212,531
Additions during the year	-	290	2,068	6,702	-	126,080	917	46,829	182,886	49,280	232,166
Transfers	-	-	20,152	-	-	-	-	-	20,152	(20,152)	-
Disposals	-	-	-	(1,492)	-	(5,572)	-	(19,183)	(26,247)	-	(26,247)
Cost	-	-	-	1,017	-	5,542	-	6,577	13,136	-	13,136
Depreciation	-	-	-	(475)	-	(30)	-	(12,606)	(13,111)	-	(13,111)
Net book value	-	-	-	(4,258)	(1,565)	(59,548)	(2,412)	(33,318)	(107,272)	-	(107,272)
Depreciation during the year	-	(1,710)	(4,461)	(4,258)	(1,565)	(59,548)	(2,412)	(33,318)	(107,272)	-	(107,272)
Net book value as June 30, 2009	2,053	19,256	27,133	9,693	5,267	100,354	6,349	107,982	278,087	46,227	324,314
Cost	2,053	34,264	48,982	34,624	7,830	240,424	24,237	171,568	563,982	46,227	610,209
Accumulated depreciation	-	(15,008)	(21,849)	(24,931)	(2,563)	(140,070)	(17,888)	(63,586)	(285,895)	-	(285,895)
Net book value as at June 30, 2009	2,053	19,256	27,133	9,693	5,267	100,354	6,349	107,982	278,087	46,227	324,314
Additions during the year	-	-	511	8,250	905	10,491	1,418	8,155	29,730	38,056	67,786
Transfers	-	-	2,791	-	-	-	1,907	17,617	22,315	(22,315)	-
Disposals	-	-	-	(242)	-	(642)	-	(21,949)	(22,833)	-	(22,833)
Cost	-	-	-	179	-	458	-	12,842	13,479	-	13,479
Depreciation	-	-	-	(63)	-	(184)	-	(9,107)	(9,354)	-	(9,354)
Net book value	-	-	-	(42)	-	(136)	-	(1,265)	(1,383)	-	(1,383)
Depreciation during the year	-	(1,713)	(7,229)	(5,790)	(1,720)	(57,442)	(2,550)	(34,238)	(110,682)	-	(110,682)
Net book value as June 30, 2010	2,053	17,543	23,206	12,090	4,452	53,219	7,124	90,409	210,096	61,968	272,064
Cost	2,053	34,264	52,284	42,632	8,735	250,273	27,562	175,391	593,194	61,968	655,162
Accumulated depreciation	-	(16,721)	(29,078)	(30,542)	(4,283)	(197,054)	(20,438)	(84,982)	(383,098)	-	(383,098)
Net book value as at June 30, 2010	2,053	17,543	23,206	12,090	4,452	53,219	7,124	90,409	210,096	61,968	272,064
Depreciation rate (%) per annum	-	5%	20%	30%	20%	33.33%	10%	20%	-	-	-

4.1 Cost of property, plant and equipment includes Rs. 15,800 thousand, Rs. 20,087 thousand, Rs. 99,001 thousand, Rs. 11,643 thousand and Rs. 2,381 thousand (2009 : Rs. 15,800 thousand, Rs. 16,373 thousand, Rs. 61,199 thousand, Rs. 545 thousand and Rs. 5,250 thousand) respectively in respect of fully depreciated leasehold improvements, office equipment, computers, furniture and fixtures and vehicles that were still in use at the year end.

4.2 The break-up of capital work-in-progress is as follows:

	2010	2009
Renovation of office premises	3,599	7,137
Advance against purchase of vehicles	36,914	17,635
Equipment for disaster recovery centre	21,455	21,455
	<u>61,968</u>	<u>46,227</u>

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## 5. INTANGIBLES

	Computer Software	Software under development	Total
	Rupees in thousand		
Cost	14,679	4,600	19,279
Accumulated amortisation	(4,426)	-	(4,426)
Net book value as at June 30, 2008	10,253	4,600	14,853
Additions during the year	8,626	-	8,626
Transfers	4,600	(4,600)	-
Amortisation during the year	(6,736)	-	(6,736)
Net book value as at June 30, 2009	16,743	-	16,743
Cost	27,905	-	27,905
Accumulated amortisation	(11,162)	-	(11,162)
Net book value as at June 30, 2009	16,743	-	16,743
Additions during the year	9,930	-	9,930
Transfers	-	-	-
Amortisation during the year	(8,302)	-	(8,302)
Net book value as at June 30, 2010	18,371	-	18,371
Cost	37,835	-	37,835
Accumulated amortisation	(19,464)	-	(19,464)
Net book value as at June 30, 2010	18,371	-	18,371
Amortisation rate (%) per annum	33.33%		

## 6. LONG TERM INVESTMENTS

		2010	2009
		Rupees in thousand	
Held to maturity			
Pakistan Investment Bonds	6.1	258,495	267,130
Regular Income Certificates	6.2	300,000	300,000
		558,495	567,130
Available for sale			
Investment in Pakistan Institute of Capital Markets	6.3	10,000	10,000
		568,495	577,130
6.1 Pakistan Investment Bonds			
Face value		235,000	235,000
Unamortized premium		23,495	32,130
		258,495	267,130

These represent investment in ten year Pakistan Investment Bonds (PIBs) having face value of Rs. 235 million. Profit is receivable semi-annually at the rates ranging between 9% to 12% per annum. Fair value of these PIBs at the year end was Rs. 226.403 million (2009: Rs. 227.987 million).

## 6.2 Regular Income Certificates

These represent investment in Regular Income Certificates under National Savings Scheme. These carry mark up at the rate of 13.6% per annum and is receivable on monthly basis. These investments will mature in 2014.

## 6.3 Investment in Pakistan Institute of Capital Markets

The Commission is one of the subscribers of the Pakistan Institute of Capital Markets. This represents subscription of 2,000 shares @ Rs. 5,000 each.

7. LONG TERM LOANS TO EMPLOYEES	2010	2009
	Rupees in thousand	
Long term loans to employees - considered good	50,042	33,153
Less: current portion of long term loans	<u>(19,569)</u>	<u>(6,495)</u>
	<u>30,473</u>	<u>26,658</u>

These represent loans given to employees for various purposes as per their employment terms. These are secured against employees' retirement benefits. These loans are interest free. Principal amount of loan is recoverable on monthly basis.

8. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES	2010	2009
	Rupees in thousand	
		Restated
Current portion of long term loans to employees - considered good	19,569	6,495
Short term loans to employees - secured, considered good - note 8.1	8,933	9,614
Advances	2,054	1,415
Deposits	2,731	2,726
Prepayments	7,524	8,567
Advance tax - net	97,417	80,994
Fee receivable - considered good	2,851	3,145
Receivable against administered projects - considered good - note 8.2	(894)	4,402
Mark up receivable on long term investments	23,752	23,803
Mark up receivable on short term investments	218,281	129,646
Mark up receivable on loans to employees	967	1,240
Other receivables - considered good	1,474	3,394
	<u>384,659</u>	<u>275,441</u>

8.1 These represent interest-free house rent advance and miscellaneous loans given to employees recoverable/ adjustable on a monthly basis.

8.2 Receivable against administered projects - considered good

Transactions and balances against administered projects are as follows:

	Anti Money Laundering	Capacity Building	Supporting Capital Market Reforms	Total
	note 8.2.1	note 8.2.2	note 8.2.3	
	Rupees in thousand			
Expenditure in excess/ (short) of receipts at beginning of the year	4,428	(26)	-	4,402
Expenditure during the year	-	3,087	1,269	4,356
Receipts during the year	(4,428)	(3,075)	(2,149)	(9,652)
Expenditure in excess/ (short) of receipts at end of the year	<u>-</u>	<u>(14)</u>	<u>(880)</u>	<u>(894)</u>

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## 8.2.1 Technical Assistance for Banking Sector reforms Project - Anti Money Laundering

The World Bank provided funding for Technical Assistance for Banking Sector reforms (TABS) project to the State Bank of Pakistan (SBP) under Development Credit Agreement. SBP is the executing agency for the said program which commenced in July 2002. One of the components of the program, Anti Money Laundering/ Financial Fraud, has been assigned to the Commission. An amount of US\$ 350,000 (approximately equivalent to Rs. 23,800,000) has been allocated for this component whereas a sum of Rs. 9,941,626 had been expended upto completion of the project in June, 2009.

## 8.2.2 Capacity Building of the Commission

A grant of US \$ 454,000 (approximately equivalent to Rs. 30,872,000) was funded by the World Bank under Institutional Development Fund to strengthen the Commission's abilities to build a facilitative and cohesive legal framework and develop independent and high quality professional service providers. The Commission has contributed US \$ 25,000 (approximately equivalent to Rs. 2,032,500) in cash and provided support, mainly in terms of office space, research support, key personnel and other logistic support to the project. A sum of Rs. 18,670,163 has been expended upto completion of the project in September 2009.

Further, Asian Development Bank (ADB) provided support of Rs. 415,000 for funding a study-team visit to Australia for the purpose of strengthening financial regulation and supervision in Pakistan.

## 8.2.3 Supporting Capital Market Reforms Program

Asian Development Bank approved funding of US \$ 1,340,000 (approximately equivalent to Rs. 113,900,000) for supporting the Second Generation of Capital Market Reforms Program to strengthen corporate governance of capital markets to protect investors and improve market transparency, and to support the Government's privatization strategy through the stock exchange. A sum of Rs. 1,269,031 has been expended upto June 30, 2010.

		2010	2009
		Rupees in thousand	
9.	SHORT TERM INVESTMENTS - AVAILABLE FOR SALE		
	Special Savings Account - National Savings Scheme	9.1	2,094,302
	Investment in 3-months Term Depository Receipts (TDRs)	9.2	52,992
		<u>2,147,294</u>	<u>2,675,769</u>
9.1	These represent investment in special saving account under National Savings Scheme. These carry mark up at the rate of 11.6% to 15.4% (2009: 13% to 14.4%) per annum. Mark-up is receivable after every 6 months and in case mark-up is not withdrawn it automatically stands reinvested and the corresponding markup rate applied on principal for future periods is enhanced to reflect this reinvestment. Maturity period of this investment is three years.		
9.2	These represent investment in 3-month TDRs, carrying mark-up at the rate of 11.50%, and maturing in July, 2010.		
10.	CASH AND BANK BALANCES	2010	2009
		Rupees in thousand	
	Cash in hand	603	656
	Cash at bank - in savings accounts	137,898	18,938
		<u>138,501</u>	<u>19,594</u>

		2010	2009
		Rupees in thousand	
			Restated
11.	<b>ACCRUED AND OTHER LIABILITIES</b>		
	Accrued expenses	56,697	59,939
	Bonus payable	89,106	5,398
	Accounts payable	1,251	8,279
	Withholding tax payable	1,419	557
	Payable to staff retirement funds	11.1	164,422
	Unearned income	11.2	121,150
	Provident fund payable		70,967
	Other liabilities		33
		<u>77,616</u>	<u>10,716</u>
		<u>461,511</u>	<u>279,114</u>
11.1	Payable to staff retirement funds		
	Pension fund	117,624	92,145
	Gratuity fund	46,798	29,005
		<u>164,422</u>	<u>121,150</u>
11.1.1	<i>The amount recognised in the statement of financial position is as follows:</i>		
		Rupees in thousand	
		Restated	
		Rupees in thousand	
		2010	2009
			Restated
		Rupees in thousand	
	Net present value of defined benefit obligation	306,820	190,390
	Fair value of plan assets	(108,908)	(68,157)
	Deficit in the fund	197,912	122,233
	Net unrecognised actuarial losses	(71,929)	(30,088)
	Non-vested past service cost	(8,359)	-
	Net liability recognised in the balance sheet	<u>117,624</u>	<u>92,145</u>
11.1.2	<i>The amount charged to comprehensive surplus/ (deficit) of income over expenditure is as follows:</i>		
	Current service cost	8,501	10,990
	Past service cost (for employees' opted out of the scheme)	4,180	-
	Interest cost	24,751	25,501
	Expected return on plan assets	(8,860)	(8,275)
		<u>28,572</u>	<u>28,216</u>
11.1.3	<i>The amount charged to other comprehensive surplus/ (deficit) of income over expenditure is as follows:</i>		
	Actuarial loss recognized	35,964	15,044
	Cumulative losses recognized in other comprehensive income	110,988	75,024
11.1.4	<i>Return on plan assets</i>		
	Actual return on plan assets	10,947	6,492
		<u>10,469</u>	<u>4,977</u>

The expected return on plan assets is based on the market expectations and depend upon the asset portfolio of the Fund, at the beginning of the year.

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	Pension fund		Gratuity fund	
	2010	2009	2010	2009
	Rupees in thousand			
<b>11.1.5 Changes in present value of defined benefit obligation</b>				
Opening balance of the defined benefit obligation	190,390	231,831	133,817	91,305
Current service cost	8,501	10,990	28,743	23,222
Interest cost	24,751	25,501	19,901	10,044
Non-vested past service cost	8,359	-	-	-
Vested past service cost	4,180	-	-	-
Benefits paid	(24,719)	(85,311)	(15,168)	(9,409)
Amount received from Government of Pakistan	14,989	8,762	-	-
Actuarial (gain) /loss	80,369	(1,383)	31,169	18,655
Closing balance of the defined benefit obligation	<u>306,820</u>	<u>190,390</u>	<u>198,462</u>	<u>133,817</u>

**11.1.6 Changes in fair value of plan assets**

Opening balance of fair value of plan assets	68,157	75,230	81,494	33,444
Expected return on plan assets	8,860	8,275	12,254	3,679
Contributions to the fund	39,057	62,526	40,700	52,739
Benefits paid	(24,719)	(85,311)	(15,168)	(9,409)
Amount received from Government of Pakistan	14,989	8,762	-	-
Actuarial gain / (loss)	2,564	(1,325)	(11,821)	1,041
Closing balance of fair value of plan assets	<u>108,908</u>	<u>68,157</u>	<u>107,459</u>	<u>81,494</u>

The Commission expects to contribute Rs. 64,734 thousand (2009: Rs 35,430 thousand) and Rs. 63,046 thousand (2009: Rs. 42,325 thousand) to its defined benefit pension and gratuity plans respectively during the next financial year.

**11.1.7 Break-up of category of assets**

	Pension fund		Gratuity fund	
	2010	2009	2010	2009
	Rupees in thousand			
Pakistan Investment Bonds	25,950	25,851	6,535	6,514
Special Savings Certificates	71,869	41,891	71,880	47,403
Bank accounts	11,089	415	29,044	27,577
	<u>108,908</u>	<u>68,157</u>	<u>107,459</u>	<u>81,494</u>



11.1.8 *Principal actuarial assumptions*

Actuarial valuation is carried out annually. Latest actuarial valuation was carried out as at June 30, 2010 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:

	Pension fund		Gratuity fund	
	2010	2009	2010	2009
Valuation discount rate - per annum	14%	13%	14%	13%
Salary increase rate - per annum	14%	13%	14%	13%
Expected return on plan assets - per annum	14%	13%	14%	13%

11.1.9 *Disclosure for current and previous four annual periods for pension and gratuity plans*

	2010	2009	2008	2007	2006
	----- Rupees in thousand -----				
Present value of the defined benefit obligations	505,282	324,207	323,136	217,625	149,821
Fair value of plan assets	(216,367)	(144,707)	(108,674)	(122,242)	(85,913)
Deficit in the plans	<u>288,915</u>	<u>179,500</u>	<u>214,462</u>	<u>95,383</u>	<u>63,908</u>
Experience adjustments on plan liabilities	<u>111,538</u>	<u>17,272</u>	<u>24,231</u>	<u>44,814</u>	
Experience adjustments on plan assets	<u>(9,257)</u>	<u>(284)</u>	<u>(24,993)</u>	<u>(6,037)</u>	

11.2 Unearned income

This represents amount received in advance from companies for various transactions under the Companies Ordinance, 1984 and NBFC and Notified Entities Regulations, 2008.

12. DEFERRED TAXATION

The net balance of deferred taxation is in respect of the following temporary differences:

	2010	2009
	Rupees in thousand	
- Accelerated depreciation and amortisation	23,420	7,628
- Profit on short term investments accrued not received	(27,502)	(24,208)
- Staff retirement benefit funds	14,267	-
	<u>10,185</u>	<u>(16,580)</u>



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## 13. DEFERRED LIABILITY

This represents the Commission's liability towards employees' compensated absences which is payable at the time of separation of eligible employees.

	2010	2009
	Rupees in thousand	
Obligation at beginning of the year	32,127	21,741
Expense for the year	14,385	17,076
Leaves encashed during the year	(5,012)	(6,690)
Obligation at end of the year	<u>41,500</u>	<u>32,127</u>

*Principal actuarial assumptions*

Latest actuarial valuation was carried out as at June 30, 2010 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:

	2010	2009
Valuation discount rate - per annum	14%	-
Salary increase rate - per annum	14%	-

## 14. DEFERRED GRANT

	2010	2009
	Rupees in thousand	
Opening balance	1,665	1,936
Less: Amortisation for the year	216	271
	<u>1,449</u>	<u>1,665</u>

This represents grant related to assets received from dissolved Corporate Law Authority, re-appropriation of funds by Government of Pakistan and technical assistance from Asian Development Bank. The deferred grant is amortised to the extent of the depreciation for the year on related assets.

## 15. CONTINGENCIES AND COMMITMENTS

## 15.1 Contingencies

- (i) Certain parties filed suits against the Commission in respect of claims for damages. These include claims of Rs. 2,000 million, Rs. 206 million, Rs. 100 million and Rs. 1,000 million filed by Investec Securities, Al Mal Securities, Biznas.Com Pakistan (Pvt) Limited, and Nadeem Ahmed Khan respectively. Based on legal advise, the Commission is confident of a favourable outcome of these cases and that there will be no financial impact of these cases.
- (ii) Further, the Commission has been made party in various legal cases. The Commission believes that the outcome of these cases would not result in any financial exposure to the Commission.

## 15.2 Commitments

Aggregate commitments for contracted capital expenditure at end of the year amounted to Rs. 39.223 million. (2009: Rs. 7.068 million).



	2010	2009
	Rupees in thousand	
<b>16. FEES AND OTHER RECOVERIES</b>		
Fees under the Companies Ordinance, 1984	800,596	507,127
Fees under the Modaraba Ordinance, 1980	3,661	2,335
Fees under the Insurance Ordinance, 2000	121,797	68,559
Fees on transactions executed at stock exchanges and other fees	84,104	104,937
Brokers' registration fees	5,562	3,187
Fee from Non Banking Finance Companies	280,442	387,790
	<u>1,296,162</u>	<u>1,073,935</u>
<b>17. OTHER INCOME</b>		
Income on bank deposits	4,637	4,062
Income on investments	465,938	354,374
Interest on loans to employees	137	1,050
Gain on sale of property, plant and equipment	3,554	787
Miscellaneous	1,136	548
	<u>475,402</u>	<u>360,821</u>
<b>18. SALARIES, ALLOWANCES AND OTHER BENEFITS</b>		
Salaries	277,560	223,770
House rent allowance	165,059	133,048
Medical allowance	39,159	29,534
Conveyance allowance	10,010	8,885
Utilities	27,469	22,132
Other allowance	132,318	122,975
Pension	28,572	28,216
Provident fund contribution	24,551	17,574
Gratuity	36,390	29,587
Leave encashment and allowance	14,385	17,076
	<u>755,473</u>	<u>632,797</u>
<b>19. OPERATING EXPENSES</b>		
Repairs and maintenance	44,709	65,849
Travelling and conveyance	38,464	56,051
Telephone, postage and courier	29,347	32,434
Utilities	14,606	13,703
Rent and rates	80,833	56,044
Printing and stationery	12,247	26,351
Legal and professional charges	11,009	32,371
Fees and subscription	4,367	4,885
Human resource development	3,606	15,585
Seminars and conference	124	377
Inspection cost	2	1,050
Insurance	7,461	6,350
Advertisement	3,003	15,410
Entertainment	394	876
Audit fee	215	190
Receivable against administered projects written off	-	762
Others	72,891	12,874
	<u>323,278</u>	<u>341,162</u>

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	2010	2009
	Rupees in thousand	
	Restated	
20. TAXATION		
Current tax		
- current year	205,024	78,020
- prior years	5,556	(14,305)
	210,580	63,715
Deferred tax		
- current year	(8,477)	39,322
- prior years	(4,021)	(24,217)
	(12,498)	15,105
	198,082	78,820
20.1 Tax on items relating to other comprehensive surplus/ (deficit) of income over expenditure		
Current tax credit on staff retirement funds - current year	(6,056)	(9,346)
Deferred tax credit on staff retirement funds - current year	(14,267)	-
	(20,323)	(9,346)
20.2 The relationship between the tax expense and total comprehensive surplus of income over expenditure is as follows:		
	2010	2009
	Rupees in thousand	
Surplus of income over expenditure	561,564	335,262
Actuarial losses on staff retirement funds	(58,067)	(26,703)
Total comprehensive surplus of income over expenditure before tax	503,497	308,559
Applicable tax @ 35%	176,224	107,996
Tax expense for the year	176,224	107,996

## 21. PROVISION FOR PRIOR YEARS' TAXATION

Net income tax demands in respect of tax years 2003 to 2007 amounting to Rs. 880.637 million were raised in prior years against which provision amounting to Rs 911.132 million (including default surcharge of Rs. 18.530 million) had been accounted for upto June 30, 2009.

The Commission's contention is that it has been brought under the tax net effective July 1, 2007 consequent to the insertion of sub-section (4) to section 49 of the Income Tax Ordinance, 2001 through Finance Act, 2007 and as such is not liable to pay income tax for the years prior to 2008. Based on this contention, the Commission appealed to the Commissioner Inland Revenue (Appeals) - CIR (A) against the tax demands. The CIR (A) rejected the appeals for the years 2004-2007, however, demand for tax year 2003 amounting to Rs. 34.318 million was set aside by the CIR (A). The Commission contested the demands for the remaining years in the Appellate Tribunal Inland Revenue (ATIR) which rejected the appeals of the Commission. This decision of the ATIR was challenged in Lahore High Court Rawalpindi Bench which has admitted the appeal for regular hearing and in the interim, granted a stay order for recovery of demands by FBR.

Subsequently, pursuant to the demands made by Ministry of Finance for making payment of disputed tax amounting to Rs. 846.319 million, the Commission in its emergent meeting held on June 30, 2010, resolved that the payment as demanded by Ministry of Finance may be made and in the event final decision of the case pending with Lahore High Court Rawalpindi bench is in Commission's favour, such payments be adjusted from future taxes. Based on this decision, Rs. 846.319 million was paid on June 30, 2010. During the current year, additional provision of Rs. 99.353 million in respect of default surcharge and penalty has been recorded in these financial statements.

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22. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

22.1 Interest rate risk exposure

The Commission's exposure to interest rate risk on its financial assets and liabilities are summarized as follows:

	Interest bearing		Non interest bearing	Total
	Due within one year	Due after one year		
June 30, 2010				
<i>Financial assets</i>				
Long term investments	-	558,495	10,000	568,495
Long term loans to employees	-	-	30,473	30,473
Advances and other receivables	-	-	384,659	384,659
Short term investments	2,147,294	-	-	2,147,294
Cash and bank balances	137,898	-	603	138,501
<b>Total</b>	<b>2,285,192</b>	<b>558,495</b>	<b>425,735</b>	<b>3,269,422</b>
<i>Financial liabilities</i>				
Accrued and other liabilities	-	-	390,544	390,544
<b>Total</b>	<b>-</b>	<b>-</b>	<b>390,544</b>	<b>390,544</b>
<b>Excess of financial assets over financial liabilities</b>	<b>2,285,192</b>	<b>558,495</b>	<b>35,191</b>	<b>2,878,878</b>
June 30, 2009				
Financial assets	2,696,709	581,403	284,060	3,562,172
Financial liabilities	-	-	206,072	206,072
<b>Excess of financial assets over financial liabilities</b>	<b>2,696,709</b>	<b>581,403</b>	<b>77,988</b>	<b>3,356,100</b>

22.2 Credit risk

The Commission believes that it is not exposed to major concentration of credit risk.

22.3 Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. The Commission believes that it is not materially exposed to foreign exchange risk.

22.4 Fair value of financial assets

The carrying amount of all financial instruments reflected in the financial statements approximate their fair value except for long-term investments as stated in note 6.

23. FUND MANAGEMENT

Policy board monitors the Commission's performance along with funds required for sustainable operations of the Commission. There were no changes to the Commission's approach to the fund management during the year. The Commission is not subject to externally imposed fund requirements.

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## 24. RELATED PARTY TRANSACTIONS

The Commission deals with several state-controlled entities, directly or indirectly controlled by the Government of Pakistan through its government authorities, agencies, affiliates and other organisations. Transactions with these state-controlled entities are not very significant.

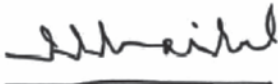
In addition to above, key management personnel and employee benefit plans are related parties of the Commission. Transactions with key management personnel have been carried out in normal course of business in accordance with their employment terms. Transactions and balances relating to employee benefit plans have been disclosed in respective notes to the financial statements.

## 25. CORRESPONDING FIGURES

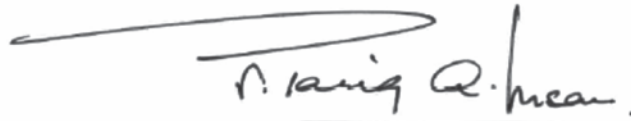
Corresponding figures have been re-arranged, where necessary, for the purpose of comparison.

## 26. AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue by the Commission on  
18 AUG 2010.



CHAIRMAN



COMMISSIONER

## Statistics



## 8.2 STATISTICS

### 8.2.1 CORPORATE SECTOR

TABLE 1

Sr. #	Relevant Section of the Ordinance.	Nature of Approval / Permission Sought	Cases Disposed (No.)
1	Section 21	Amendment to memorandum & articles of association	305
2	Section 37	Availability of name	9,309
3	Section 39	Change of name	229
4	Section 42	Grant of license to associations not for profit	53
5	Section 44	Conversion of public companies into private companies	8
6	Section 84	Issue of share at discount	4
7	Section 86	Further issue of capital	1,159
8	Proviso of Sub-section (1) of Section 86	Issue of shares other than right	2
9	Section 90 & Rule 5 of the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000	Issue of shares having different kinds and/or classes of share capital	5
10	Sections 121, 129, 132, 131	Registration, modification, satisfaction of charge & condoning of delay in submission of particulars of charge	6,726
11	Section 146	Commencement of business certificate	10
12	Sections 158	Extension in period for holding of AGM s by non-listed public and private companies	162
13	Section 159 (7)	Holding of an EOGM at a shorter notice	19
14	Section 170	Calling of overdue meetings	25
15	Section 231	Inspection of books of account and other books & paper	2
16	Section 233	Preparation of first accounts exceeding 12 months	10
17	Section 234 (5)	Exemption from disclosure requirements	2
18	Section 234 A	Appointment of inspector for conduct of special audit	2
19	Section 237	Exemption for Consolidation of Accounts	3
20	Section 238	Change of financial year	2
21	Section 252	Appointment of auditors	1,065
22	Section 258	Approval of appointment of cost auditor	53
23	Section 439(9)	Restoration of name of company to the register of companies	5
24	Section 466(6)	Issue of certified copies of documents	39,496
25	Regulation 18 of the Companies (Registration Offices) Regulations, 2003	Inspection of records maintained with the CROs	13,641
26	Regulation 4 of the Group Companies Registration Regulations, 2008	Registration of Group Companies	5

Sr. #	Relevant Section of the Ordinance.	Nature of Approval / Permission Sought	Cases Disposed (No.)
27	Regulation 8 of the Group Companies Registration Regulations, 2008	Designation of Group Companies	5
28	Rule 9 of Single Member Companies Rules 2003	Conversion of private to single-member company	3
29		Miscellaneous (minor activities, providing information to different agencies and shareholders, etc.)	671
<b>TOTAL</b>			<b>72,981</b>

TABLE 2

Sr. #	Nature of complaint	Received	Disposed	Pending
1	Non-payment of dividend	2	2	0
2	Mismanagement of companies	13	9	4
3	Non-receipt of balance sheets	3	3	0
4	Non-receipt of notices	4	4	0
5	Non-registration of transfer of shares	4	4	0
6	Non-holding of AGM	1	1	0
7	Non-receipt of dividend warrant	1	1	0
8	Misappropriation	1	1	0
9	Misapplication of funds	2	2	0
10	Improper election of directors	4	4	0
11	Miscellaneous	198	191	7
<b>TOTAL</b>		<b>233</b>	<b>222</b>	<b>11</b>

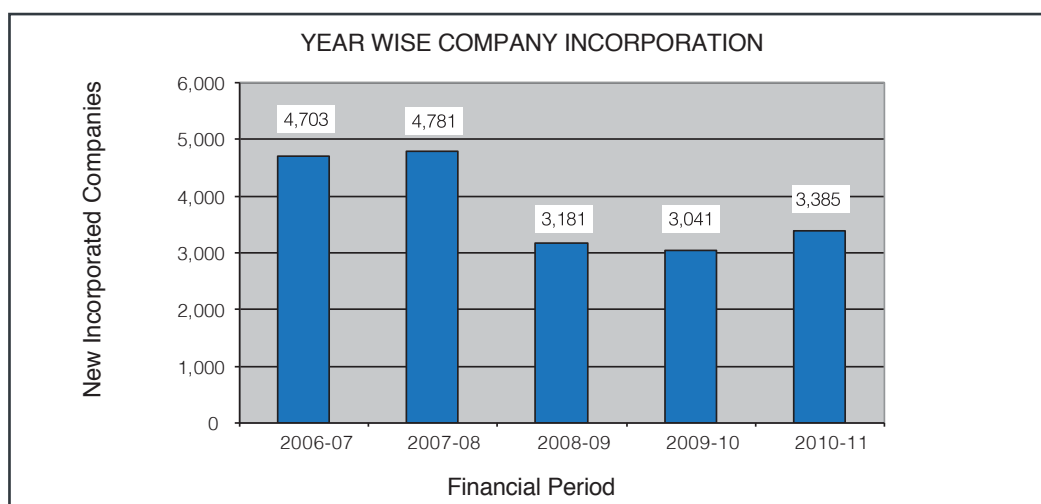
TABLE 3

Sr. #	Relevant section of the Ordinance	Nature of appeal	Received	Disposed	Pending
1	Section 37	Appeal against refusal of company name	23	16	7
2	Section 78 A	Appeal against refusal for registration of transfer	1	1	0
3	Section 468	Appeal against refusal to accept any document	2	2	0
4	Section 477	Appeal and revision application against order passed under section 476 (1)	8	8	2
5	Section 484	Revision and review of any order passed other than Section 476	3	3	0
<b>TOTAL</b>			<b>37</b>	<b>28</b>	<b>9</b>

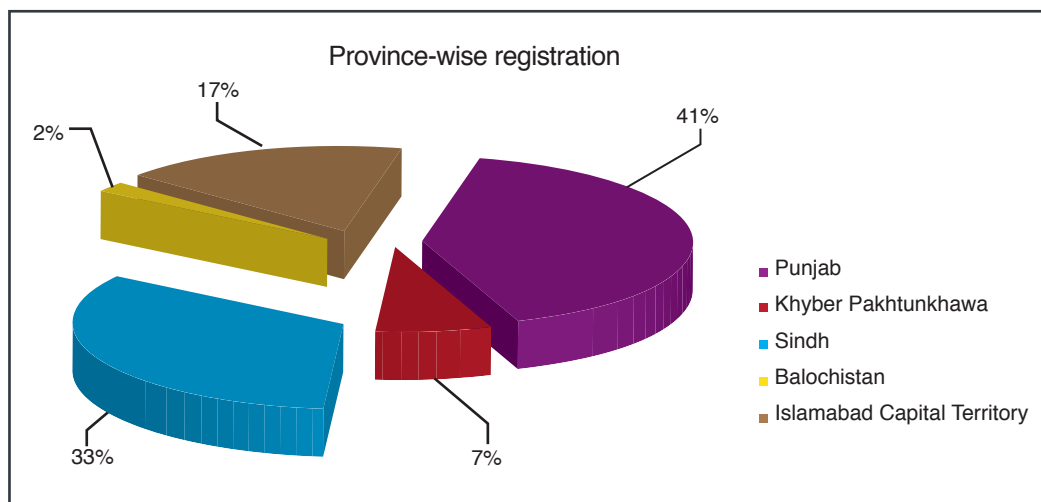
TABLE 4 NUMBER &amp; TYPE OF COMPANIES

(Registered under the Companies Ordinance, 1984)

Type of companies	Newly incorporated companies for the financial year ending on June 30, 2011	Total companies as on June 30, 2011
<b>Companies limited by shares:</b>		
Public listed (only those that are registered under the Ordinance)		648
Public unlisted	32	2,207
Private	3,056	53,750
SMCs	214	1,225
<b>Total companies limited by shares</b>	<b>3,302</b>	<b>57,830</b>
Companies limited by guarantee u/s 43	4	73
Not-for-profit associations u/s 42	57	713
Foreign companies	22	798
Unlimited companies	-	3
<b>Total Companies</b>	<b>3,385</b>	<b>59,417</b>



## Province-wise total registered companies





**TABLE 5: CAPITALIZATION BREAKDOWN AS ON 30-06-2011**

Paid-up capital (Rs)	Listed companies	Unlisted public companies	Private companies	SMCs	Total	Per-centage
Up to 100,000	5	408	21,395	742	22,550	39.00%
100,001 to 500,000	0	322	8,128	179	8,629	14.92%
500,001 to 1,000,000	1	87	5,454	131	5,673	9.81%
1,000,001 to 10,000,000	33	331	14,335	120	14,819	25.62%
10,000,001 to 100,000,000	218	612	3,758	49	4,637	8.02%
100,000,001 to 500,000,000	230	298	578	3	1,109	1.92%
500,000,001 to 1,000,000,000	59	61	61	1	182	0.31%
1,000,000,001 and above	102	88	41	0	231	0.40%
<b>TOTAL</b>	<b>648</b>	<b>2,207</b>	<b>53,750</b>	<b>1,225</b>	<b>*57,830</b>	

\* Figure does not include 1587 companies not having share capital (i.e. foreign companies, not for profit associations u/s 42, companies limited by guarantee u/s 43 and trade organizations)

**TABLE 6: SECTOR-WISE DISTRIBUTION**

Sectors	Total Companies as on June 30, 2011		Newly Incorporated Companies for the financial year ended on June 30, 2011		Further issue of capital cases for the financial year ended on June 30, 2011	
	Num ber	Paid-up Capital (Rs)	Num ber	Paid-up Capital (Rs)	Num ber	Paid-up Capital (Rs)
Auto and Allied	699	16,962,271,352	56	832,921,700	22	639,121,590
Broadcasting & Telecasting	379	3,243,913,286	66	232,044,848	5	105,664,300
Cables & Electric Goods	657	25,145,406,752	37	40,010,920	18	4,582,041,230
Carpets and Rugs	83	544,817,348	2	200,000	0	0
Cement	109	76,469,703,626	1	299,158,304	5	11,322,941,360
Chemical	1,546	105,372,963,106	71	233,072,360	46	6,596,206,280
Pharmaceutical	1,161	18,196,363,231	77	130,549,720	36	817,463,250
Communications	2,394	334,752,665,370	149	194,323,390	28	4,964,714,440
Construction	2,751	24,374,514,342	205	273,608,650	18	2,351,009,850
Corporate Agricultural Farming	962	18,160,474,006	92	273,334,440	35	3,762,596,098
Education	743	1,965,438,298	96	205,585,110	12	540,206,400
Engineering	1,846	15,808,300,256	86	318,551,330	26	644,069,640
Finance and Banking	1,059	510,280,361,242	16	11,192,309,020	54	36,714,234,730
Food and Beverages	2,291	50,169,836,419	96	160,635,800	37	11,353,627,220
Footware	65	401,634,548	5	2,166,000	0	0
Fuel and Energy	1,114	139,827,020,394	61	154,675,310	21	12,619,048,370
Ginning	344	2,661,403,518	4	20,060,300	2	30,000,000
Glass and Ceramics	309	6,258,172,534	6	2,000,000	2	1,314,176,030
Healthcare	458	5,890,171,852	36	85,512,920	17	188,025,800

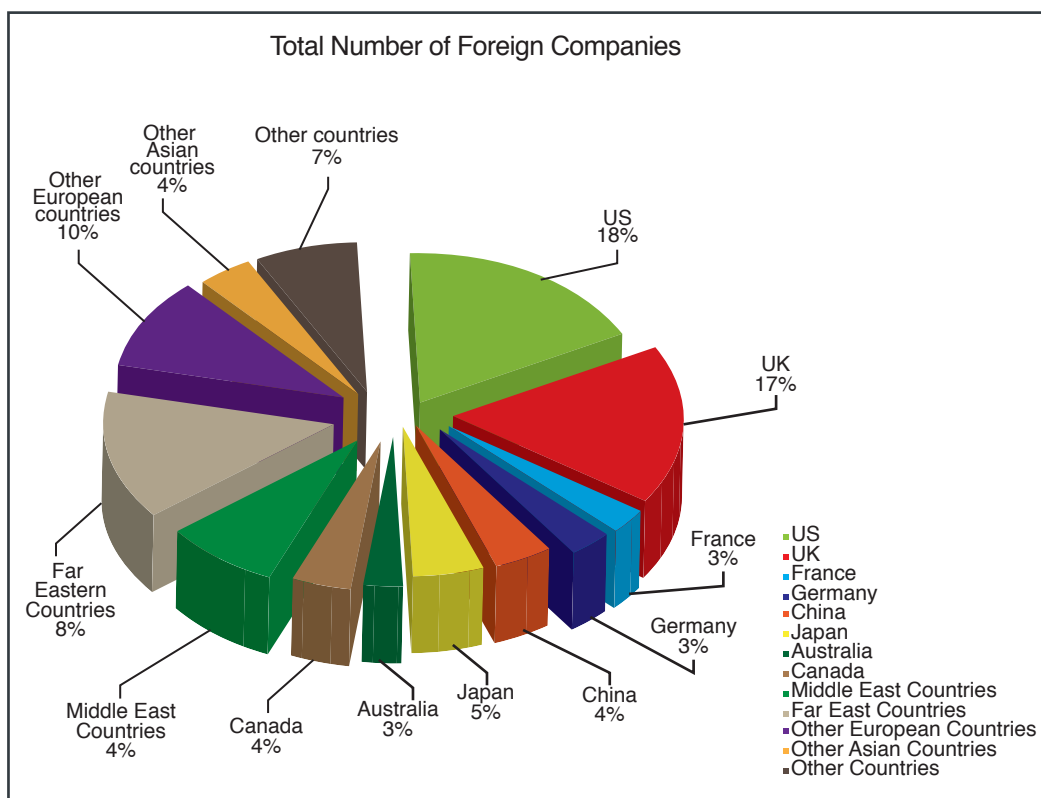
Sectors	Total Companies as on June 30, 2011		Newly Incorporated Companies for the financial year ended on June 30, 2011		Further issue of capital cases for the financial year ended on June 30, 2011	
	Number	Paid-up Capital (Rs)	Number	Paid-up Capital (Rs)	Number	Paid-up Capital (Rs)
Information Technology	2,382	12,717,672,555	209	144,015,950	17	117,087,448
Insurance	358	27,078,656,294	10	11,520,000	23	2,718,636,319
Jute	21	1,270,883,560	-	0	0	0
Leather and Tanneries	411	4,060,830,380	3	650,000	9	239,461,200
Lodging	463	7,333,565,652	14	21,410,200	4	402,899,000
Mining and Quarrying	488	2,617,541,912	31	291,402,300	8	1,206,399,970
Paper and Board	1,088	21,478,531,635	63	197,722,450	28	382,466,943
Power Generation	612	167,051,576,652	66	224,765,920	56	73,841,510,705
Real Estate Development	1,199	39,999,687,497	29	14,050,000	21	4,980,645,970
Services	6,721	20,837,067,651	495	329,539,110	91	2,055,428,820
Sport Goods	178	920,586,318	8	1,541,000	3	57,045,000
Steel and Allied	471	15,560,967,912	24	744,527,208	13	1,382,200,000
Sugar and Allied	171	22,839,444,918	9	1,301,488,300	4	110,160,170
Synthetic and Rayon	196	6,367,705,060	10	178,212,000	13	379,374,800
Textile	4,752	149,312,400,113	112	867,244,082	82	10,137,959,665
Tobacco	91	3,669,379,338	3	1,200,000	0	0
Tourism	5,723	20,226,089,154	217	694,807,030	197	632,352,100
Trading	6,886	43,588,370,104	508	1,403,953,492	75	2,402,072,570
Transport	1,236	46,862,198,982	113	130,419,460	26	7,527,575,920
Vanaspati and Allied	423	11,652,286,882	10	38,370,000	9	805,799,500
Wood & Wood Products	222	1,105,860,504	9	8,260,400	5	182,000,000
Miscellaneous	6,355	75,708,892,773	280	644,204,076	91	14,174,666,770
<b>TOTAL</b>	<b>59,417</b>	<b>2,058,745,627,326</b>	<b>3,385</b>	<b>21,900,023,100</b>	<b>1,159</b>	<b>222,280,889,458</b>

TABLE 7: NON-PROFIT ASSOCIATIONS

Object	Newly Incorporated associations for the year ended on June 30, 2011	No of associations as on June 30, 2011
Commerce	10	226
Art	2	9
Science	2	16
Religion	0	9
Sports	0	26
Social services	34	255
Charity	3	63
Others	10	182
<b>TOTAL</b>	<b>61</b>	<b>786</b>

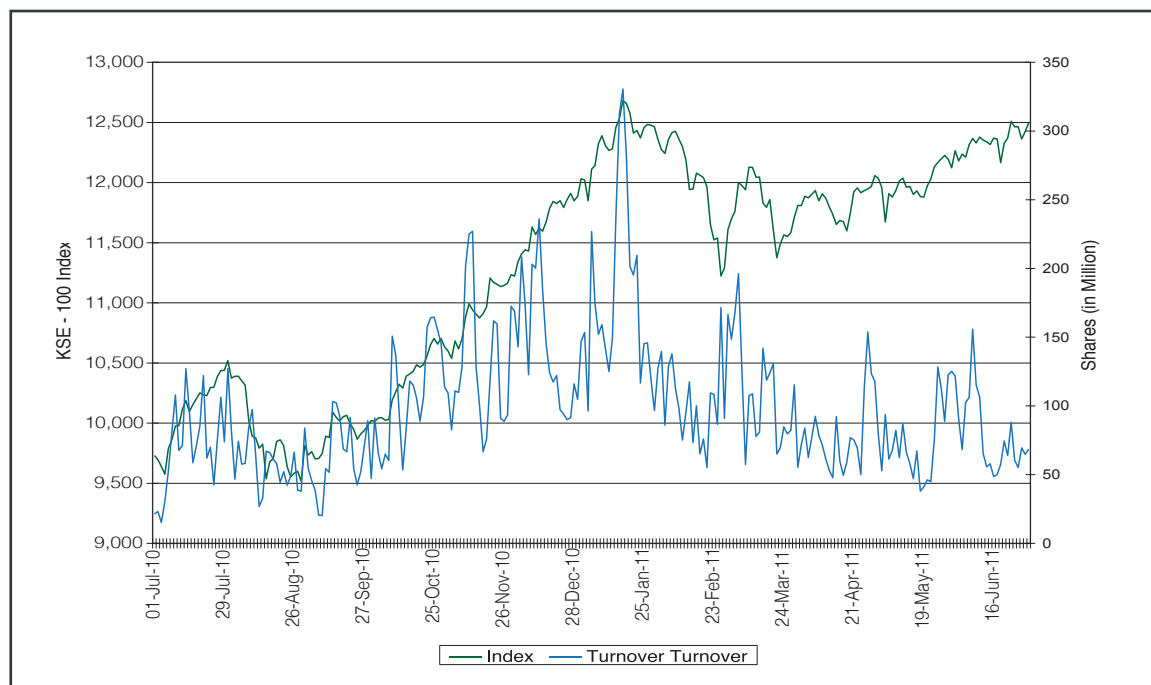
TABLE 8: FOREIGN COMPANIES

Country	Newly incorporated companies for the year ended on June 30, 2011	Number of companies as on June 30, 2011
US	4	154
UK	4	132
France	-	24
Germany	-	22
China	1	33
Japan	1	36
Australia	-	20
Canada	1	29
Middle Eastern countries	4	63
Far Eastern countries	5	114
Other European countries	1	81
Other Asian countries	1	34
Other countries	-	56
<b>TOTAL</b>	<b>22</b>	<b>798</b>

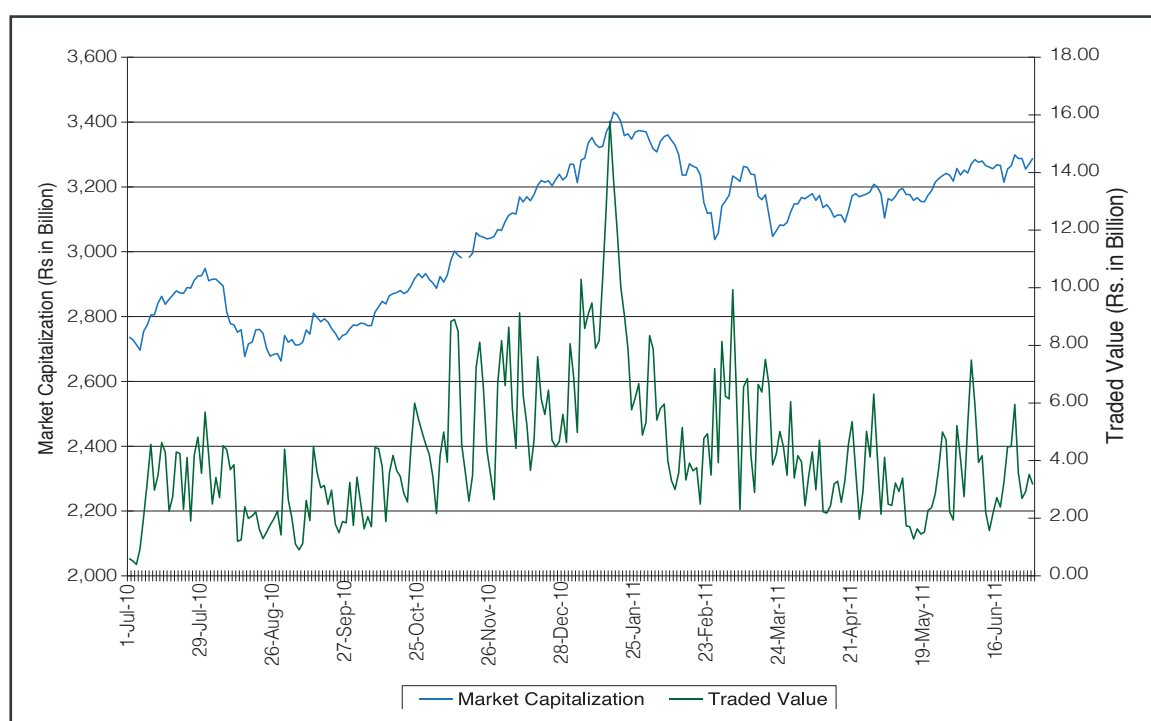


## 8.2.2 SECURITIES MARKET

### 8.2.2.1 KSE – 100 Index and daily turnover



### 8.2.2.2 KSE – Market capitalization and daily traded value



8.2.2.3 Issue of capital

8.2.2.3.1 Equity

*(Rs in million where applicable)*

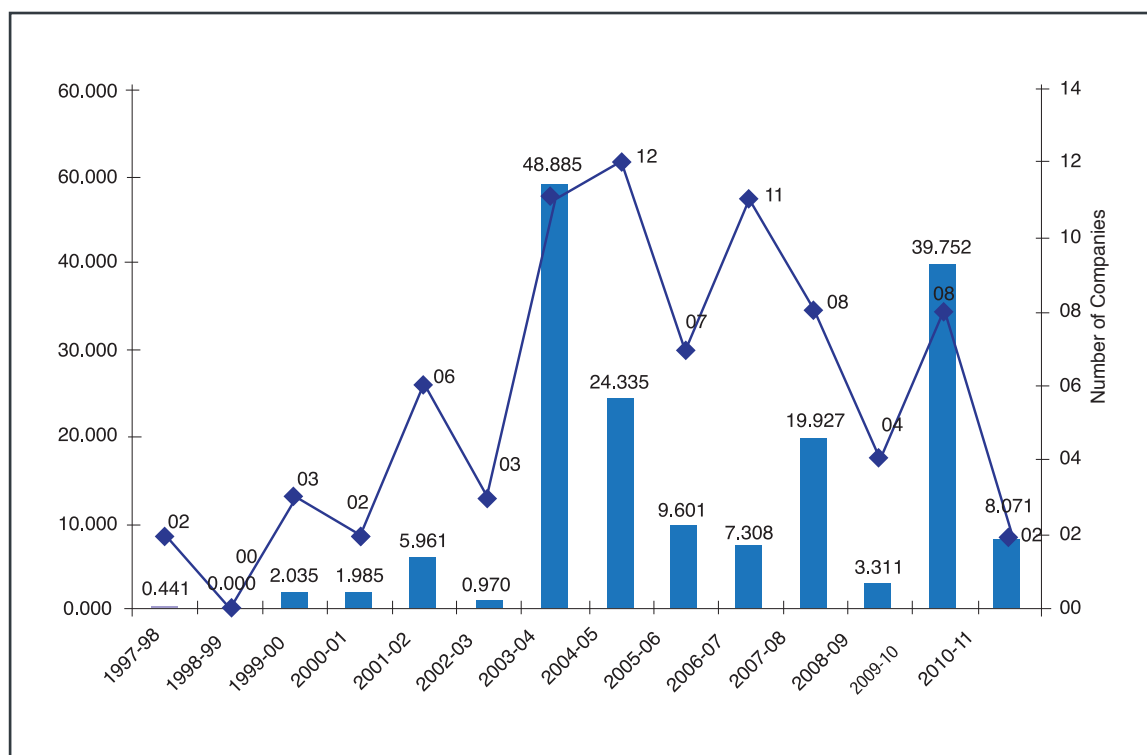
Sr. #	Name of Company	Sector	Subscription Date	Total Paid-up Capital	Already Paid-up Capital	Offered Capital	Premium per share (Rs)	Offered Capital (including premium, if any)	Subscription Received (Including premium if any)	Number of Times Subscribed
1	International Steels Limited (Offer for sale)	Industrial Metals & Mining	3-4 May, 2011	4,350.00	4,350.00	275.06	4.06	386.73	402.24	1.04
2	Pakgen Power Limited (Offer for sale)	Electricity	14-15 June, 2011	3,720.81	3,720.81	372.08	9.00	706.95	266.97	0.38
<b>TOTAL</b>				<b>8,070.81</b>	<b>8,070.81</b>	<b>647.14</b>		<b>1,093.68</b>	<b>669.22</b>	

8.2.2.3.2 Book Building Portion

*(Rs in million where applicable)*

Sr. #	Name of Company	Sector	Bidding Date	Total Paid-up Capital	Already Paid-up Capital	Floor Price (Rs.)	No. of shares offered	Offered Capital (at floor price)	Bids Received			Strike Price (Rs.)	Over/ (under) subscribed %
									Min Bid (Rs.)	Max Bid (Rs.)	No. of Shares bid for		
1	International Steels Limited (Offer for sale)	Industrial Metals & Mining	12-14 April, 2011	4,350.00	4,350.00	12.90	61,875,500	798.19	12.90	15.25	150,800,000	14.06	2.44

## 8.2.2.3 Number of Equity Issues to Public during FYs 1998-2010



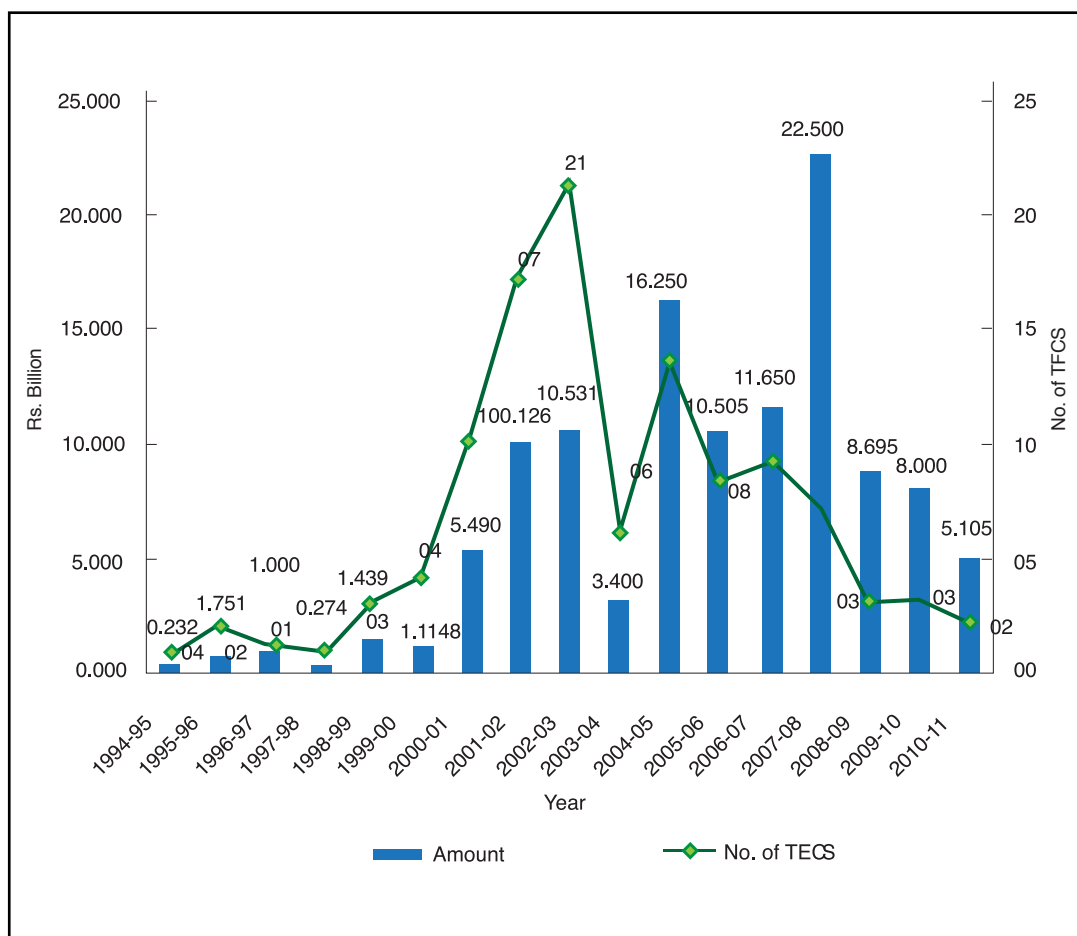
## 8.2.2.4 TFCs

(Rs in million)

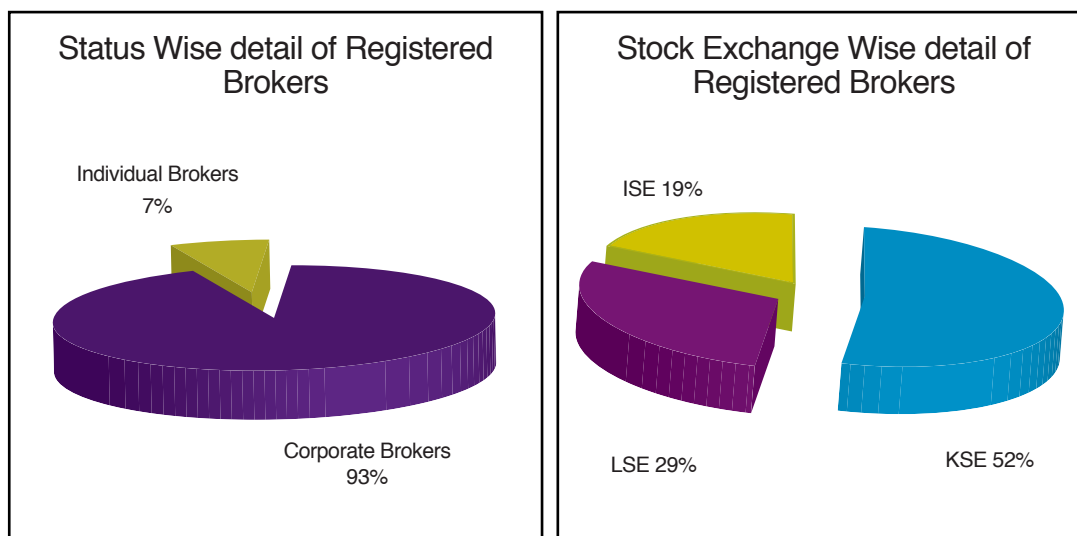
Sr. #	Name of Company	Sub- scription Date	Total Amount Offered			Subscription Received			Green Shoe Option	Amount Retained
			Pre- IPO	IPO	Total	Pre- IPO	IPO	Total		
1	Engro Corporation Limited (Engro Rupiya Certificate-1st Issue)	October 15, 2010 - January 15, 2011	0.00	2,000.00	2,000.00	-	4,000.82	4,000.82	up to 2,000.00	4,000.00
2	Engro Corporation Limited (Engro Rupiya Certificate-2nd Issue)	June 1, 2011 - August 31, 2011	0.00	2,000.00	2,000.00	-	1,104.80	1,104.80	up to 1,000.00	1,104.80
<b>TOTAL</b>			<b>0.00</b>	<b>4,000.00</b>	<b>4,000.00</b>		<b>5,105.62</b>	<b>5,105.62</b>		<b>5,104.80</b>

\*Subscription received till July 16, 2011

### 8.2.2.5 Number of TFCs floated during the FYs 1995-2011



### 8.2.2.6 Details of registered brokers



### 8.2.2.7 Certificates issued to brokers

Details	Corporate Brokers	Individual Brokers	Total Brokers
As of 30-06-2010	276	23	299
Cancelled/expired	(25)	(3)	(28)
Addition	5	0	5
As of 30-06-2011	256	20	276

### 8.2.2.8 Certificates issued to agents

Details	Total Agents
As of 30-06-2010	502
Cancelled/expired	(138)
Addition	58
As of 30-06-2011	422

### 8.2.2.9 Comparative analysis of complaints received and disposed of by Investors Complaint Wing (ICW)

	KSE	ISE	LSE	Total
Number of complaints brought forward from previous financial year	1,333	75	8	1,416
New complaints/claims received during July 1, 2010 to June 30, 2011	72	74	5	151
Total complaints addressed by ICW from July 1, 2010 to June 30, 2011	1,405	149	13	1,567
Complaints disposed of during July 1, 2010 to June 30, 2011	38	42	5	85
Complaints outstanding with ICW as on June 30, 2011	1,367	107	8	1,482

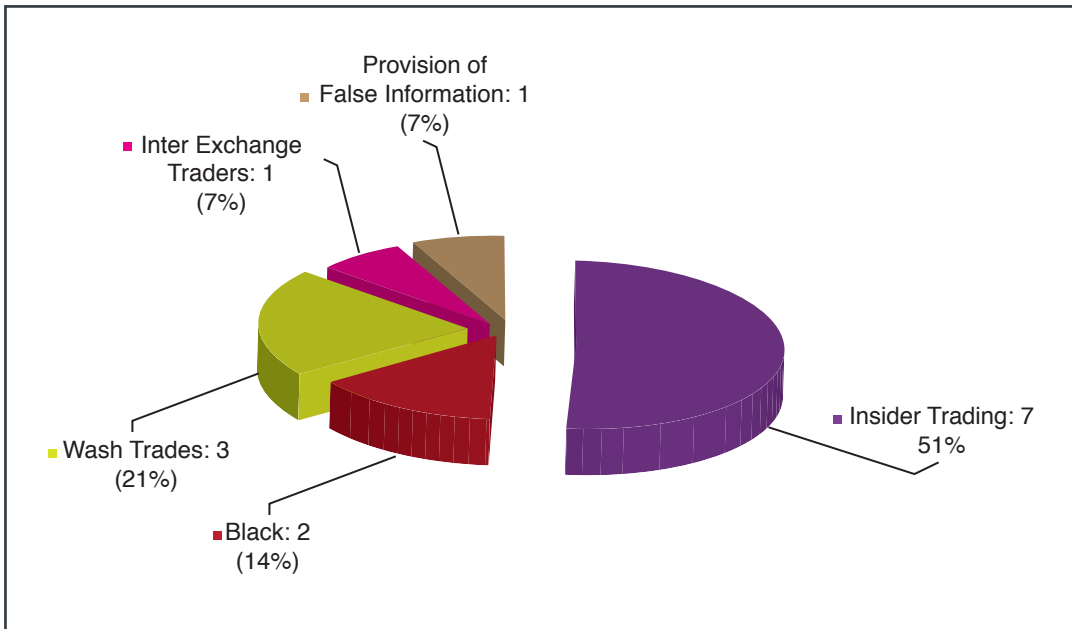
### 8.2.2.10 Details of outstanding investor complaints

	KSE	ISE	LSE	Total
Complaints against suspended/expelled brokerage firms	1,321	89	6	1,416
Complaints pending with the stock exchanges for arbitration	8	6	-	14
Pending with members	13	1	2	16
Pending with complainants	4	3	-	7
Pending with SECP	-	2	-	2
Court cases	21	6	-	27
Total outstanding complaints	1,367	107	8	1,482

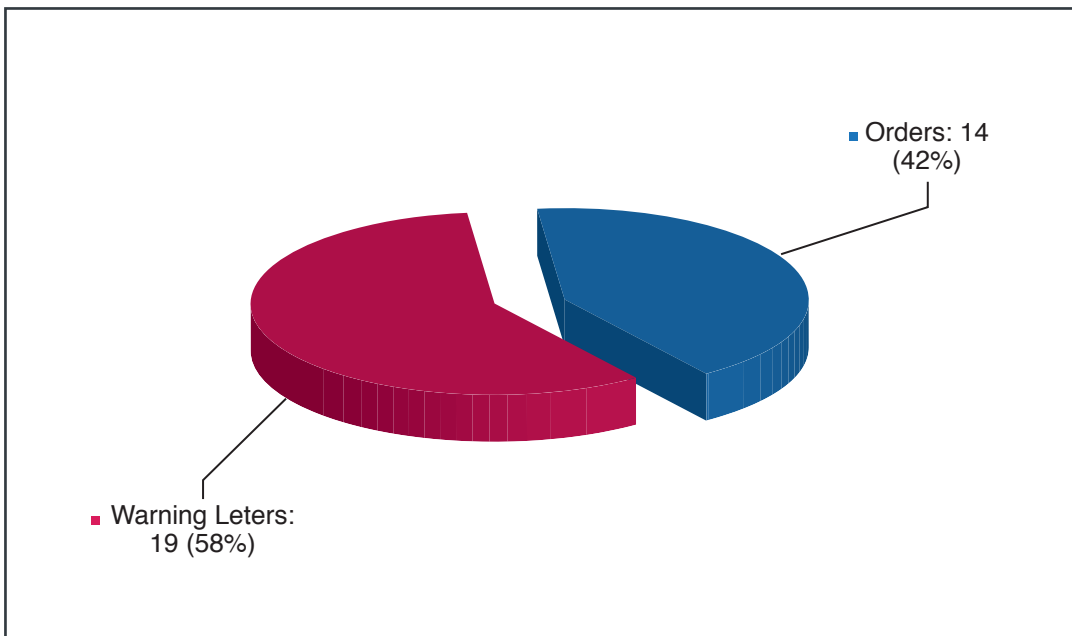


### 8.2.2.11 Administrative actions: Nature of breaches

#### 8.2.2.11.1 Orders Issued by Market Surveillance Wing



### 8.2.2.12 Administrative actions: Types of sanctions

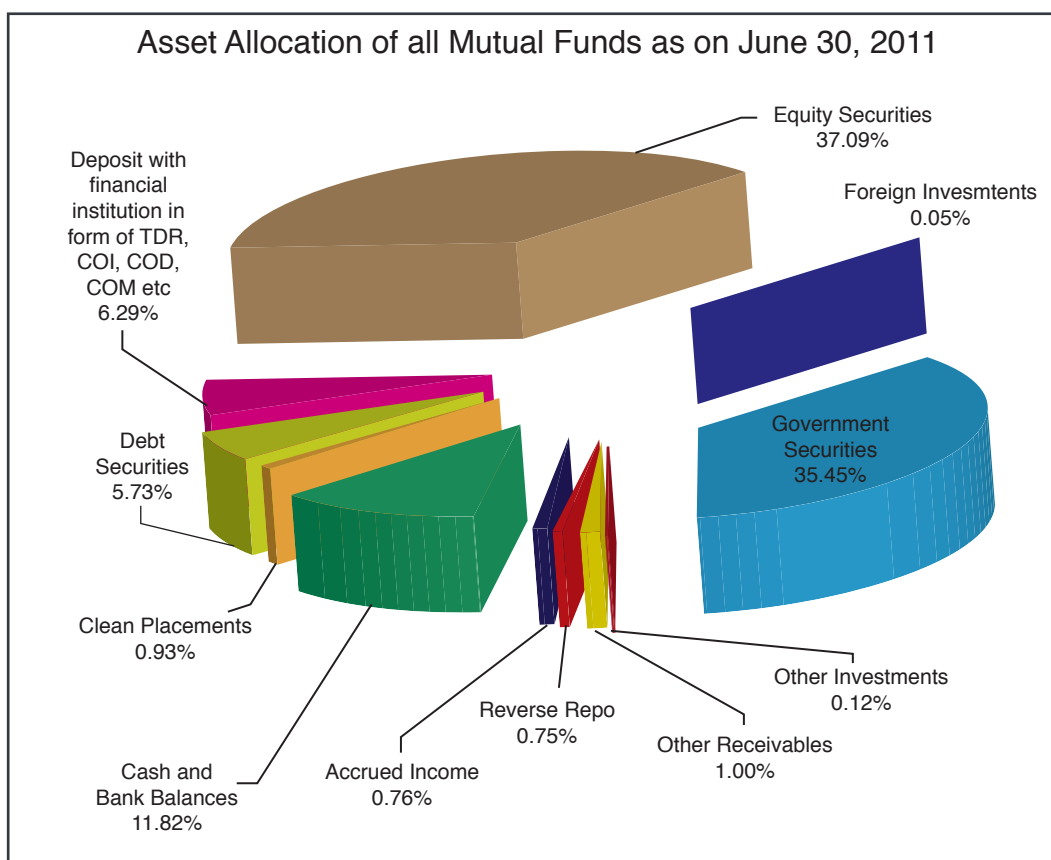


## 8.2.3 SPECIALIZED COMPANIES

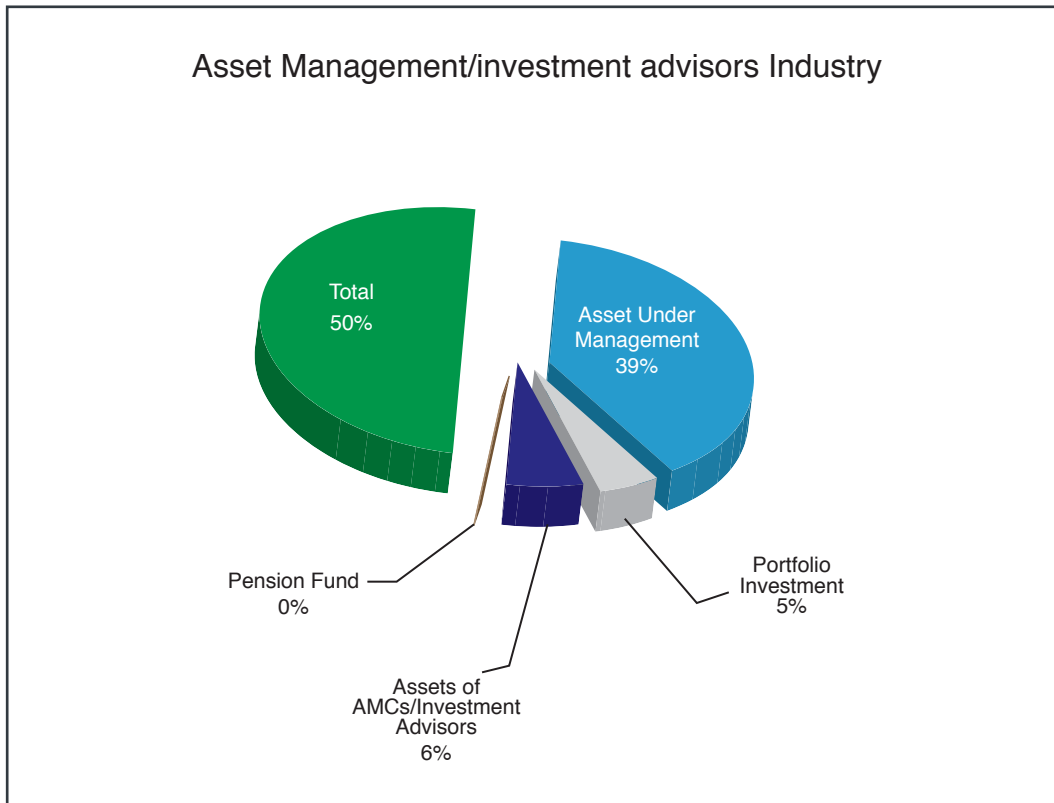
### 8.2.3.1 NBFCs sector at a glance

#### 8.2.3.1.1 Mutual funds

Asset allocation of all mutual funds as on June 30, 2011	
Asset head	Rs in Million
Accrued income	2,222.02
Cash & bank balances	34,352.02
Clean placements	2,704.25
Debt securities	16,636.20
Deposit with financial institution in form of TDR, COI, COD, COM, etc.	18,270.87
Equity securities	107,790.39
Foreign investments	141.33
Government securities	103,014.52
Other investments	363.16
Other receivables	2,908.91
Reverse Repo	2,178.00
<b>TOTAL</b>	<b>290,581.66</b>



### 8.2.3.1.2 Asset management/Investment advisory industry



#### 8.2.3.1.2.1 Nature of assets

Assets under management (nature-wise) - Rs in million		
Open End Funds	264,757	91%
Closed End Funds	25,826	9%

#### 8.2.3.1.2.2 Quality of assets

Assets under management (nature-wise) - Rs in million		
Gross Assets	298,103	100.00%
Classified Assets	7,521	2.52%
Provision Against Classified Assets	5,645	1.89%

### 8.2.3.1.2.3 Position of Unit holders

Position of unit holders	
Total number of unit holders/investors	138,423
Percentage of units held by individuals(open end funds)	12.50%

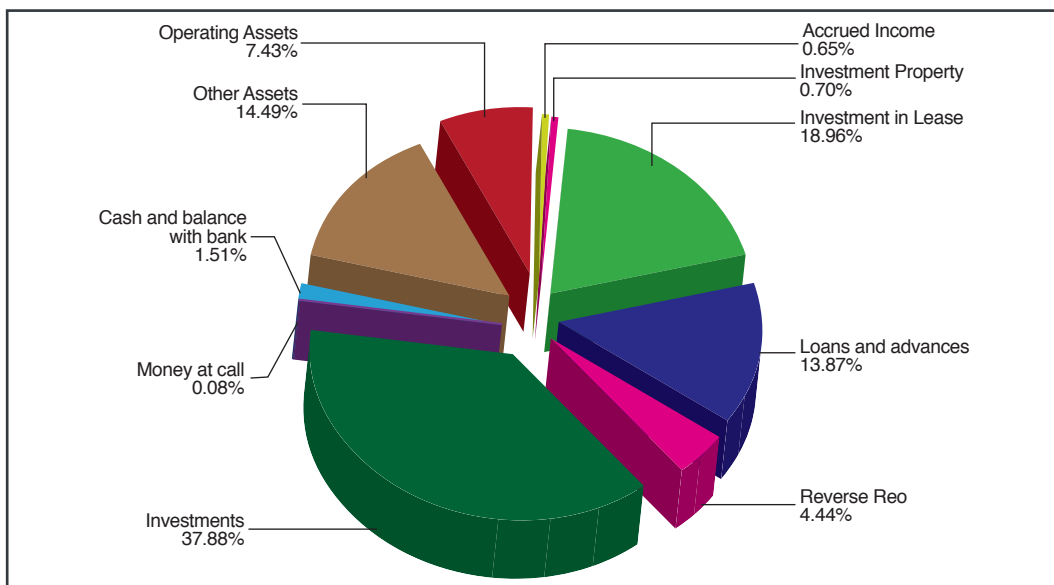
### 8.2.3.1.3 Brief overview of investment banks, leasing and housing finance sectors

S.No.	Name of NBFC	Nature of Business		
		Investment Finance Services	Leasing	Housing Finance Services
01	Asian Housing Finance Limited			√
02	Escorts Investment Bank Limited	√		
03	First Credit & Invest. Bank Limited	√		
04	First Dawood Investment Bank Limited	√	√	
05	Grays Leasing Limited		√	
06	IGI Investment Bank Limited	√	√	
07	Invest Capital Investment Bank Limited	√	√	
08	NBP Leasing Limited		√	
09	Orix Leasing Pakistan Limited.		√	
10	Pak Gulf Leasing Company Limited		√	
11	Saudi Pak Leasing Co. Limited.		√	
12	Security Investment Bank Ltd.	√		
13	Security Leasing Corp. Ltd.		√	
14	Sigma Leasing Co. Ltd.		√	
15	SME Leasing Limited		√	
16	Standard Chartered Leasing		√	
17	Trust Investment Bank Limited	√	√	
TOTAL		7	13	1

### 8.2.3.1.4 Investment banks

Investment Banks	Rs in Million
Total Assets	24,673
Non-Performing Assets	5,681
Non-Performing Assets as % of Gross Total Assets	21.0%
Equity	4,354
Total Liabilities	20,423
Total Deposits	5,857
Sector Leveraging (Times)	4.33

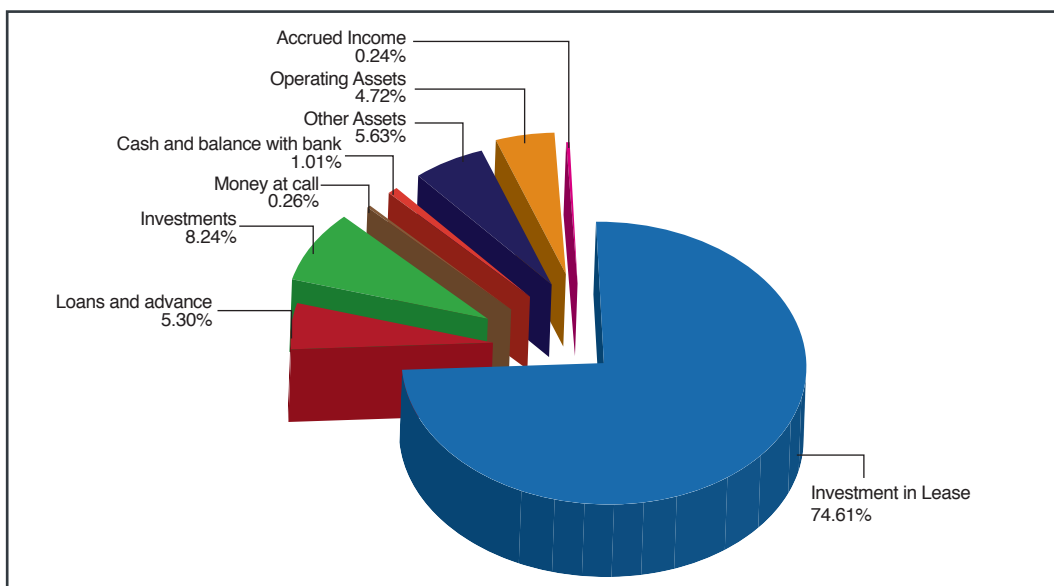
### 8.2.3.1.4.1 Investment banks details



### 8.2.3.1.5 Leasing companies

Leasing Companies	Rs in Million
Total assets	33,525
Non-performing assets	5,909
Non-performing assets as % of Gross total assets	16.4%
Equity	5,021
Total liabilities	28,451
Total deposits	4,260
Sector leveraging (Times)	3.97

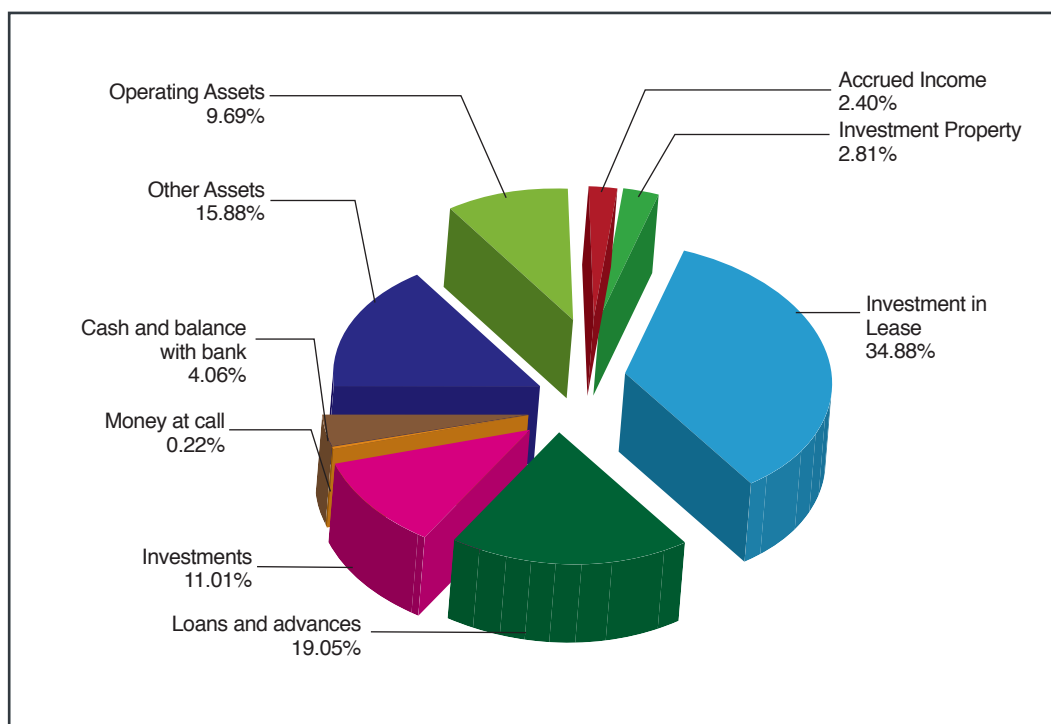
### 8.2.3.1.5.1 Leasing companies details



### 8.2.3.1.6 Modarabas

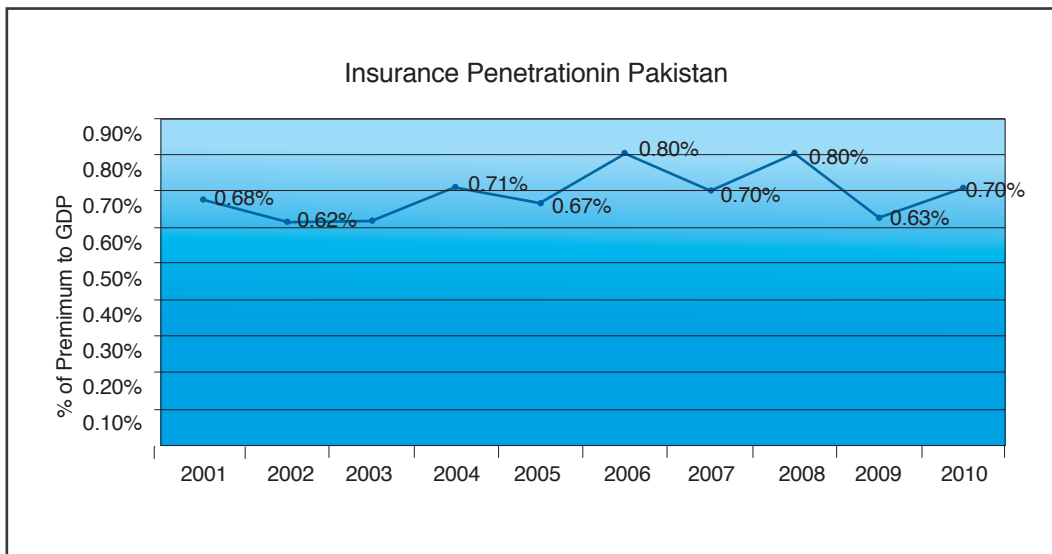
Modarabas	Rs in Million
Total Assets	26,392
Non-Performing Assets	3,324
Non-Performing Assets as % of Gross Total Assets	11.7%
Equity	11,561
Total Liabilities	13,893
Total Deposits	4,632
Sector Leveraging (Times)	1.05

#### 8.2.3.1.6.1 Modarabas details

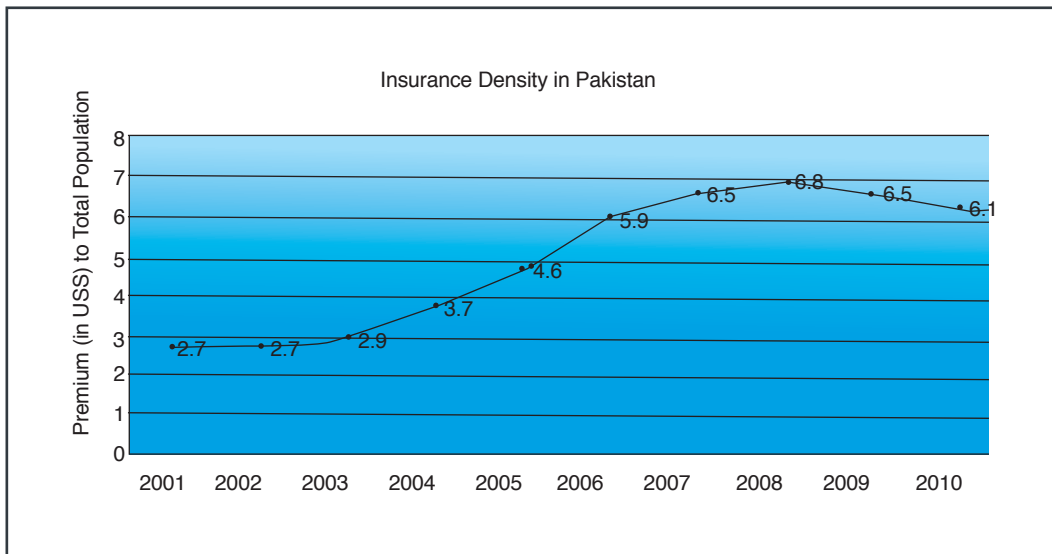


## 8.2.4 INSURANCE

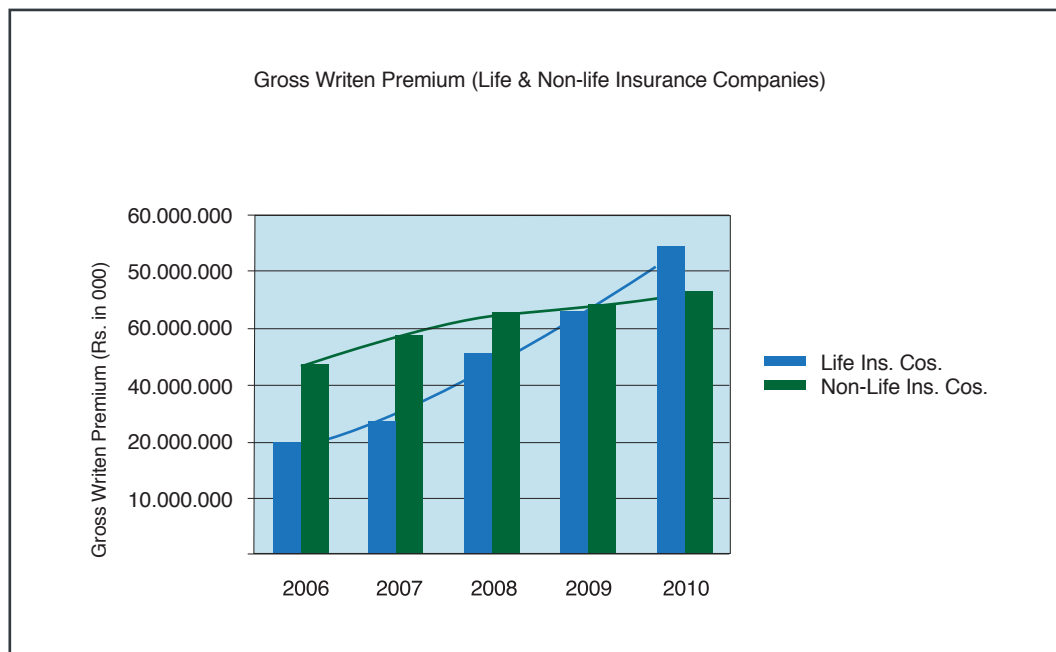
### 8.2.4.1 Insurance penetration



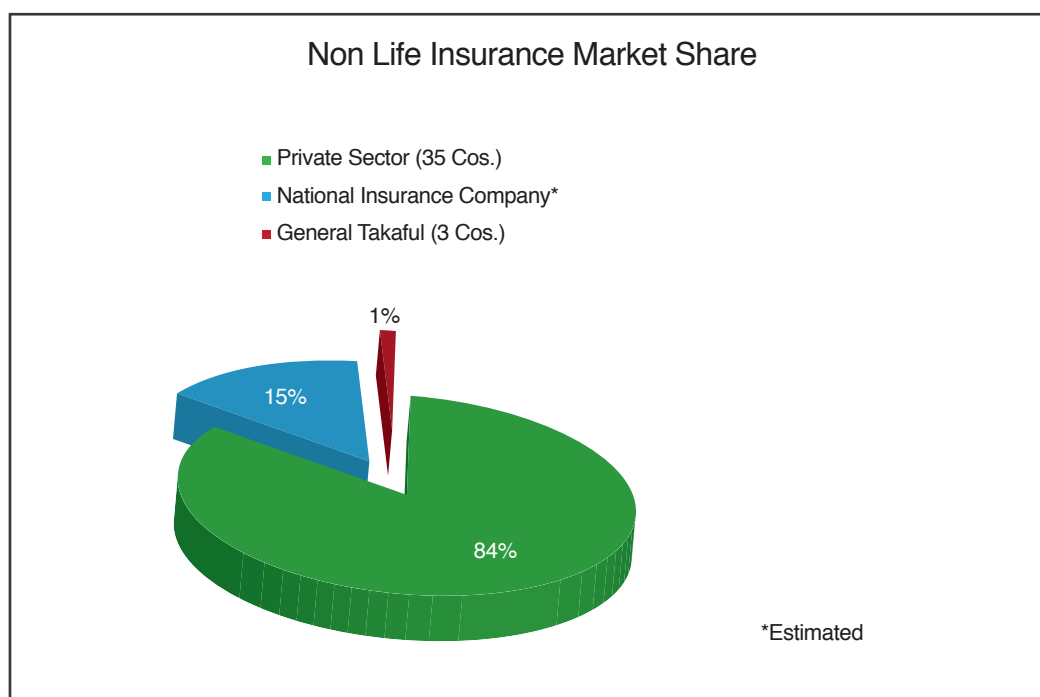
### 8.2.4.2 Insurance density



### 8.2.4.3 Gross written premium

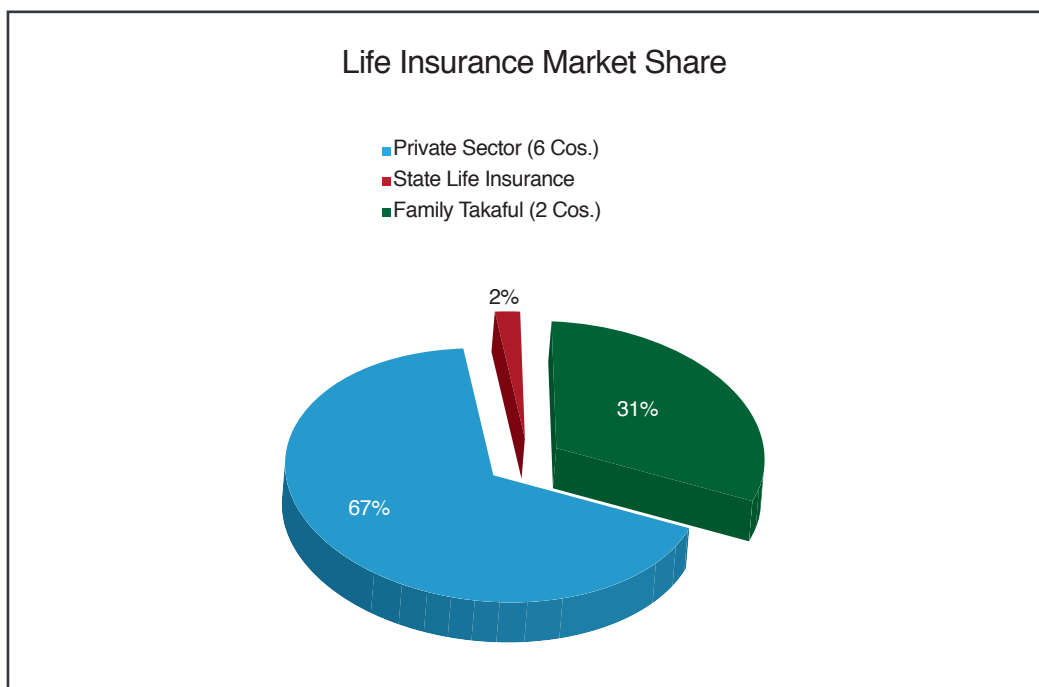


### 8.2.4.4 Non-life insurance





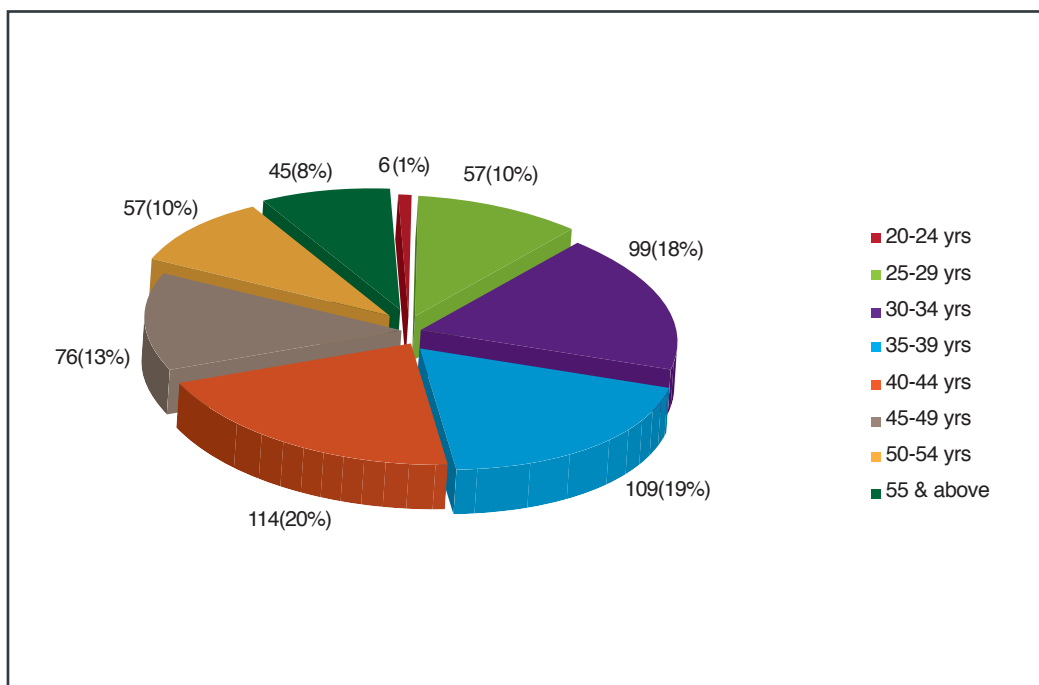
### 8.2.4.5 Life insurance



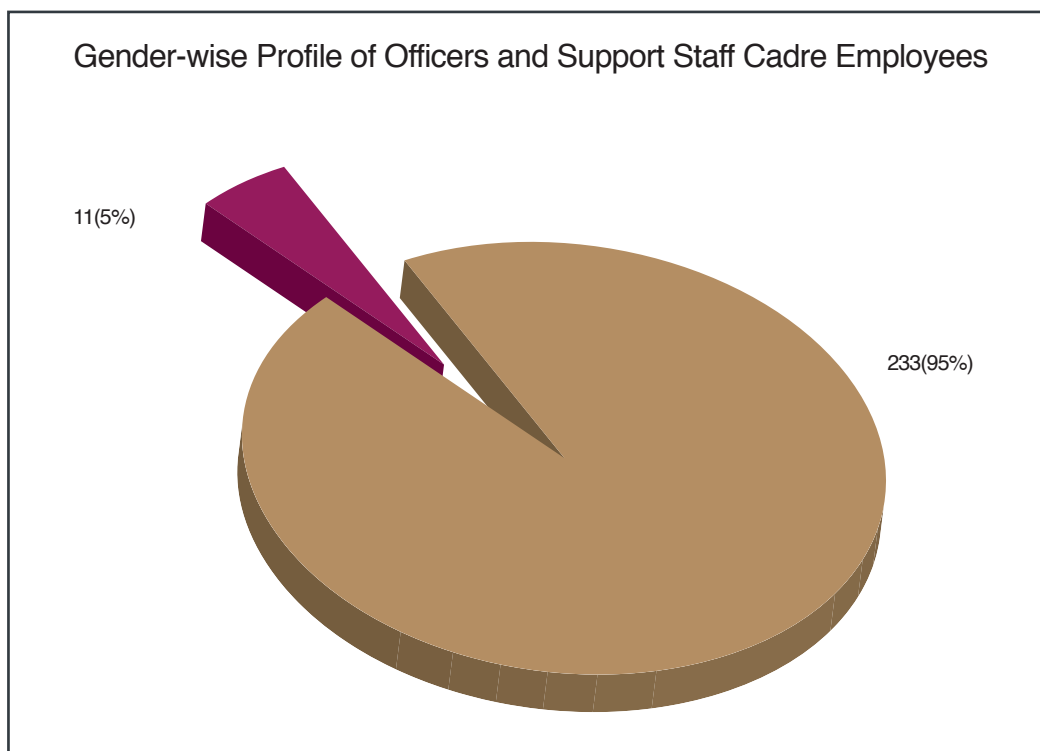
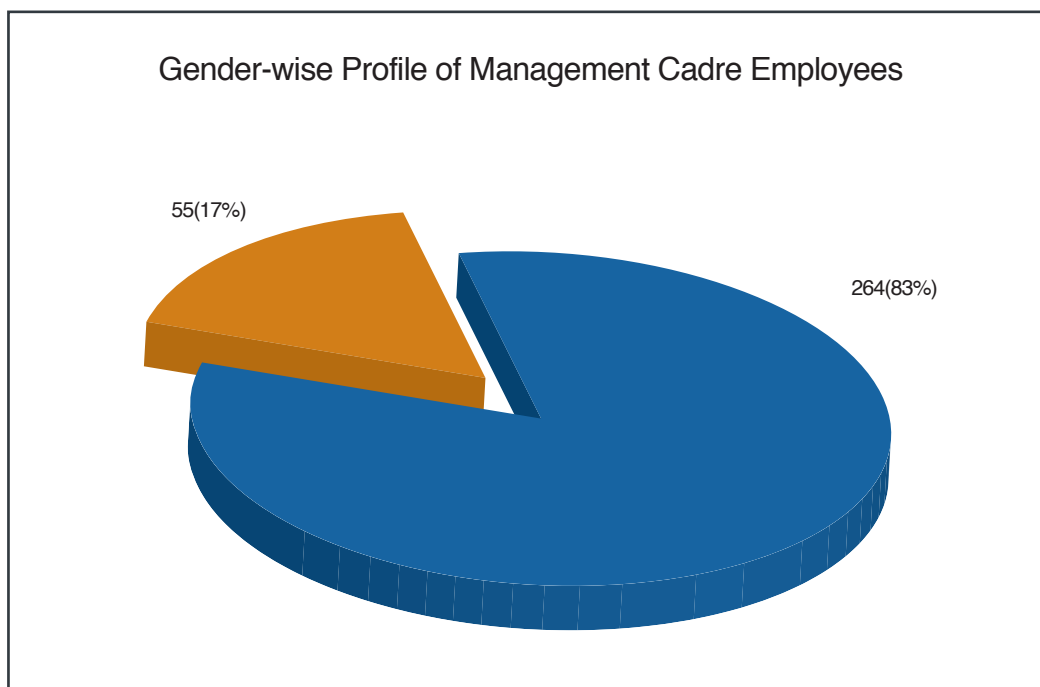
## 8.2.5 HUMAN RESOURCE AND TRAINING DEPARTMENT

### 8.2.5.1 HR demographics

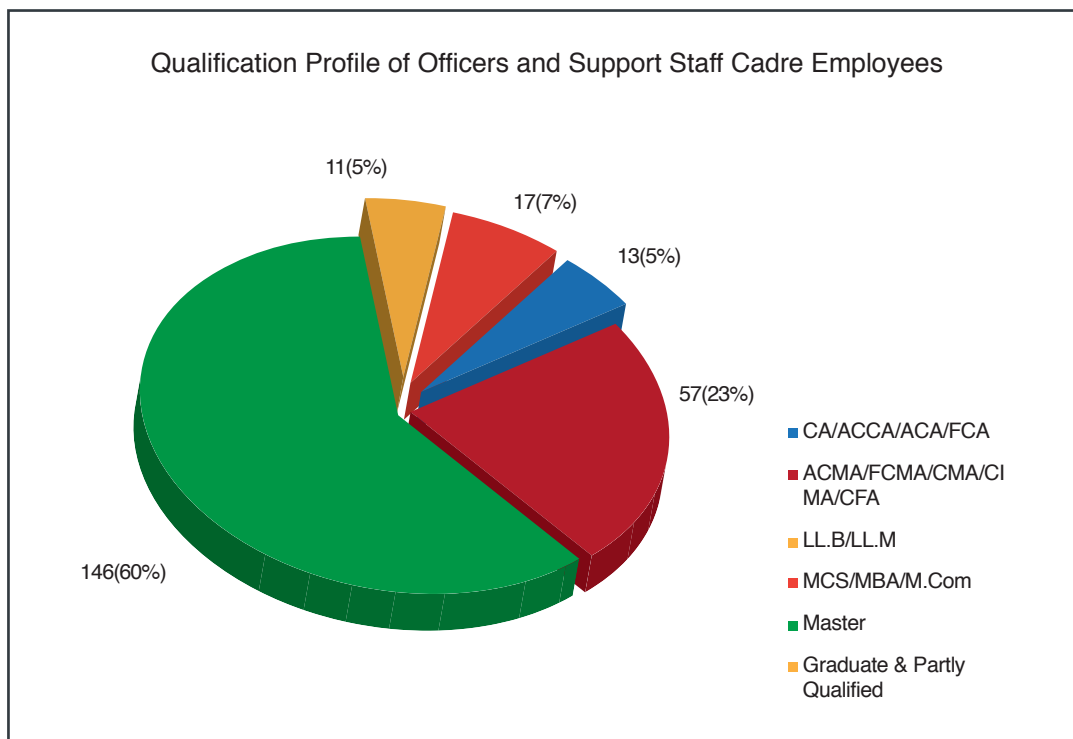
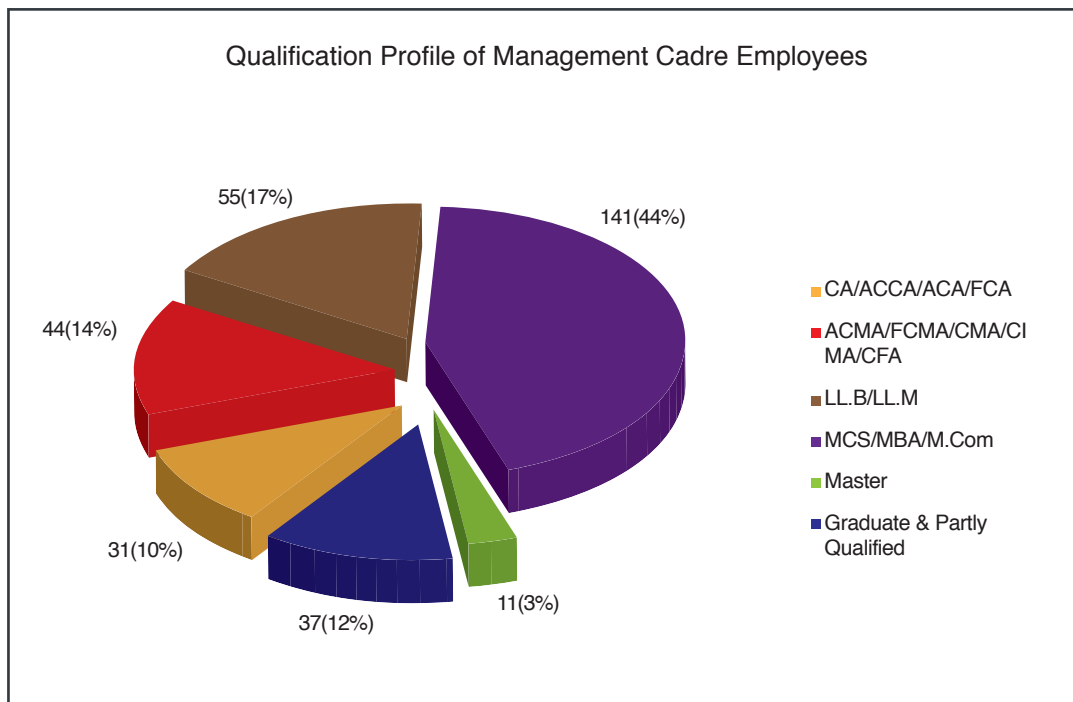
#### 8.2.5.1.1 Overall age profile of SECP employees



## 8.2.5.1.2 Gender position in SECP



### 8.2.5.1.3 Qualifications profile



### 8.3 Abbreviations and Acronyms

ACII: Associate from the Chartered Insurance Institute	FATF: Financial Action Task Force
ADB: Asian Development Bank	EOGM: Extraordinary General Meetings
AGM: Annual General Meeting	FMC: Fund Management Company
AMCs/IAs: Asset Management Company/Investment Advisors	FIU: Fraud Investigation Unit
AMLO: Anti-Money Laundering Ordinance	FMU: Financial Monitoring Unit
APG: Asia/Pacific Group on Money Laundering	FMGP: Financial (non-bank) Markets and Governance Program
APREA: Asian Public Real Estate Association	GDRs: Global Depository Receipts
ASOs: Authorized Surveying Officers	FRU: Foreign Relations Unit
BDS: Board Development Series	HRIS: Human Resources Information System
BOD: Board of Directors	HBFC: House Building Finance Corporation
BPM: Business Process Management	HOD: Head of Department
CCG: Code of Corporate Governance	IAIS: International Association of Insurance Supervisors
CDC: Central Depository Company of Pakistan Limited	IACCD: International Affairs, Communication and Coordination Department
CDD: Customer Due Diligence	IAP: Insurance Association of Pakistan
CDS: Central Depository System	IAIR: The International Association of Insolvency Regulators
CEW: Commodity Exchange Wing	IASB: International Accounting Standards Board
CFT: Combating Financial Terrorism	IAS: International Accounting Standard
CFS: Continuous Funding System	ICAP: Institute of Chartered Accountants of Pakistan
CIS: Collective Investment Scheme	IBA: Institute of Business Administration
CIW: Capital Issues Wing	ICMAP: Institute of Cost and Management Accountants of Pakistan
CLA: Corporate Law Authority	ICM: Institute of Capital Market's
CLD: Company Law Division	ICW: Investor's Complaints Wing
CMA: Cost and Management Accountant	ICT: Islamabad Capital Territory
COD: Certificate of Deposit COI: Certificate of Investment	IDF: Institutional Development Fund
CNIC: Computerized National Identity Card	IFC: International Finance Corporation
COT: Carry-over Trading	IIRS: Insurance Industry Regulatory System
CRCS: Corporate Registration and Compliance System	IFIs: Islamic Financial Institutions
CRO: Company Registration Office	IFSCs: Islamic Financial Services (Non-Banking) Companies
CRS: Companies Regularization Scheme	IFRS: International Financial Reporting Standards
DOW: Directors Orientation Workshop	IFRIC: International Financial Reporting Interpretations Committee
DFI: Development Finance Institution	IFSB: Islamic Financial Services Board
ECAP: Exchange Companies Association of Pakistan	IFRS-4: International Financial Reporting Standard-4
ECO: Economic Corporation Organization	IOPS: International Organization of Pension Supervisors
EGD: Electronic Government Directorate	
EMC: Emerging Market Committee	
EMC-WG3: Working Group-3 of Emerging Markets Committee	
EMD: Enforcement and Monitoring Department	

IPO: Initial Public Offering	OPAC: Online Public Access Catalogue
IOSCO: International Organization of Securities Commissions	PACRA: Pakistan Credit Rating Agency Limited
IS&T: Information Systems and Technology	OTC: Over-the-counter
IRC: Information Resource Centre	PE & VCF: Private Equity and Venture Capital Fund
ISMS: Information Security Management System	PBA: Pakistan Banks Associations
IES: Islamabad Stock Exchange	PICG: Pakistan Institute of Corporate Governance
ISO: International Organization of Standardization	PRCL: Pakistan Reinsurance Company Limited
IVSC: International Valuation Standards Council	PME: Pakistan Merchatle Exchange
KSE: Karachi Stock Exchange	PSOA: Pakistan Society of Actuaries
KYC: Know Your Customer	PSEB: Pakistan Software Export Board
LAP: Leasing Association of Pakistan	QCR: Quality Control Review
LES: Lahore Stock Exchange	PSPD: Professional Services and Policy Division
LoU: Letter of Understanding	RBS: Risk Based Supervision
MIS: Management Information System	QIBs: Qualified Institutional Buyers
MAP: Modaraba Association of Pakistan	RMC: REIT Management Company
MLM: Multi Level Marketing	RTS: Resume Tracking System
M&I: Monitoring and Inspection	REIT: Real Estate Investment Trust
MMoU: Multilateral Memorandum of Understanding	SAOF: Sub-Account Opening Form
MMC: Modaraba Management Company	SAFA: South Asian Federation of Accountants
MoU: Memorandum of Understanding	SCRS: Specialized Companies Return Submission System
N&ICAU: National and International Cooperation Affairs Unit	SCRA: Specialized Companies Return Analysis
MUFAP: Mutual Fund Association of Pakistan	SMC: Single Member Company
NBF: Non-Bank Financial	SLIC: State Life Insurance Corporation
NAV: Net Asset Value	SME: Small and Medium Enterprise
NBFCD: Non-banking Finance Companies Department	SOE: State-owned Enterprise
NBFC: Non-banking Finance Company	SMEDA: Small and Medium Enterprises Development Authority
NBFI: Non-bank Financial Institution	SRO: Self-regulatory Organization
NBFC Rules: Non-banking Finance Companies (Establishment and Regulation) Rules, 2003	SPVs: Special Purpose Vehicle
NCCPL: National Clearing Company of Pakistan Limited	TABS: TA for Banking Sector Reforms
NICOP: National Identity Card for Overseas Pakistanis	TA: Technical Assistance
NEC: National Executive Committee	UIN: Unique Identification Number
NOC: No Objection Certificate	TFC: Term Finance Certificate
NIT: National Investment Trust	VPS: Voluntary Pension System
NTCs: New Terms & Conditions (of employment)	
OSS: Occupational Savings Schemes	

## 8.4 How to contact us

### 8.4.1 How to lodge complaints

In order to create awareness within the stakeholders about the availability of vigilance mechanism and how the stakeholders can make best use of the facility, the SECP has placed the instructions on filing of a complaint on its website. The information and forms have also been made available at the CROs and the stock exchanges. Investors, entities and the public can forward complaint online through the links available at the SECP website. <http://www.secp.gov.pk/ComplaintForm1.asp>

There is a reporting mechanism in place whereby a track is kept of the status of complaints and queries received.

### 8.4.2 How to ask other questions

Investors, entities and general public can forward any queries or complaints on the following email addresses:

General Information: [enquiries@secp.gov.pk](mailto:enquiries@secp.gov.pk)

Complaints: [complaints@secp.gov.pk](mailto:complaints@secp.gov.pk)

### 8.4.3 Our Offices

<b>Head Office</b> <b>NIC Building, 63 Jinnah Avenue</b> <b>Islamabad</b> <b>Tel: 051-9207091-4, Fax: 051-9204915</b>	
<b>Karachi</b> Fourth Floor, State Life Building No 2, Wallace Road, Off I.I. Chundrigar Road Tel: 021-99238269 Fax: 021-99213278 email: <a href="mailto:crokarachi@secp.gov.pk">crokarachi@secp.gov.pk</a>	<b>Islamabad</b> State Life Building 7, Blue Area Tel: 051-9206219 Fax: 051-9206893 email: <a href="mailto:croislamabad@secp.gov.pk">croislamabad@secp.gov.pk</a>
<b>Multan</b> 63-A Nawa-i-Waqat Building Second Floor, Abdali Road Tel: 061-9200920 Fax: 061-9200530 email: <a href="mailto:cromultan@secp.gov.pk">cromultan@secp.gov.pk</a>	<b>Lahore</b> Third & Fourth Floor, Associated House 7 Egerton Road Tel: 042-99204962-6 Fax: 042-99202044 email: <a href="mailto:crolahore@secp.gov.pk">crolahore@secp.gov.pk</a>
<b>Peshawar</b> First Floor, State Life Building The Mall Tel: 091-9213178 Fax: 091-9218636 email: <a href="mailto:cropeshawar@secp.gov.pk">cropeshawar@secp.gov.pk</a>	<b>Faisalabad</b> Second Floor, Faisalabad Chamber of Commerce and Industry Building, East Canal Road Tel: 041-9230264 Fax: 041-9230263 email: <a href="mailto:crofaisalabad@secp.gov.pk">crofaisalabad@secp.gov.pk</a>
<b>Sukkur</b> House No 28-B, Hamdard Housing Society Airport Road Tel: 071-5630517 Fax: 071-5630517 email: <a href="mailto:croskr@hotmail.com">croskr@hotmail.com</a>	<b>Quetta</b> 382/3, (IDBP House), Hali Road Tel: 081-2844136 Fax: 081-2899134 email: <a href="mailto:croqta@qta.paknet.com.pk">croqta@qta.paknet.com.pk</a>



## Declaration of Investment as on December 24, 2010

Submitted to the Federal Government by Mr. Muhammad Ali, Chairman, SECP, in pursuance of sub-section (6) of section 16 of the Securities and Exchange Commission of Pakistan Act, 1997

Sr. #	Name of Company/Partnership firm	Nature of interest	No. of shares of face value of Rs10 each/extent of partnership
1	Allagro Real Estate (Private) Ltd.	Shareholding	1,368,300
2	Converge Technologies (Private) Ltd.	Shareholding	5,845,000
3	MAGM Holdings (Private) Ltd.	Shareholding	6,109,000
4	Inbox Business Technologies (Private) Ltd.	Shareholding	1,370,923
5	Multi Concerns & Enterprises (Private) Ltd.	Shareholding	2,500
6	Al-Shaheer Corporation	Partnership	10.5%
7	Meat One	Partnership	10.5%