2014
ANNUAL REPORT

SECP

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

بسم الله الرحمن الرحيم

Vision

The development of modern and efficient corporate sector and capital market based on sound regulatory principles, that provides 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

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.

This report has been prepared in pursuance of section 25 of the1997 Securities and Exchange Commission of Pakistan Act for the purpose of reporting the activities and performance of the Securities and Exchange Commission of Pakistan from July 1, 2013 to June 30, 2014.

Contents

Tahir Mahmood
Chairman, SECP

Chairman's Message

It is indeed an honor to present the annual report of the Securities and Exchange Commission of Pakistan (SECP) for the year 2013-14.

As the apex regulator of Pakistan's capital markets, NBFC, insurance and corporate sectors, the SECP is committed to playing its strategic role in developing the economy of Pakistan, by providing a strong, vibrant and transparent regulatory framework for large, medium and small business enterprises to improve the overall business climate in Pakistan.

During FY2013-14, the capital market, insurance, corporate and non-banking financial (NBF) sectors made significant progress. The capital market proved truly resilient despite facing a number of challenges ranging from political to law and order situations.

The KSE 100 index reached 29,652 points on June 30, 2014, increasing by almost 41% since the start of the financial year 2013, the average daily turnover increased to 215 million shares by June 30, 2014, increasing by 7.38% over last year and market capitalization stood at Rs7,022,692.26 billion as of June 30, 2014, reflecting a 35% increase.

In the non-banking financial sector, the growth of Islamic mutual funds expanded at a remarkable rate of 42%. Moreover, this year, we have also witnessed a 16% increase in registration of new companies, with foreign investment flowing in from 50 different countries.

As mentioned above, the SECP is fully committed to strengthening the regulatory and supervisory framework of the capital market, NBF, insurance and corporate sectors. In this context, below are the main achievements in some of the most important areas of our endeavor.

Capital market reforms

The SECP has strived to introduce reforms aimed at developing a fair, efficient and vigorous capital market with emphasis on investor protection and product development. The SECP undertook a number of legal, regulatory and operational reform initiatives, which are expected to promote an investment-friendly climate and help achieve sustainable capital market growth.

Equity market

In order to improve regulatory framework of the stock exchanges in the post-demutualization environment, a number of steps were taken by the SECP.

- **Rule book for KSE:** A comprehensive rule book was approved for the KSE, which ensures harmonization and consistency among the different regulatory requirements, incorporating necessary changes consequent to the demutualization process, and accommodating the resulting structural changes at the KSE.
- **Regulations for SME trading:** Regulations were approved for the ISE to create a separate trading counter to enable listing and trading of shares of the SMEs which have the potential to create economic as well as social growth. This initiative will facilitate the SMEs to raise funds through capital market in a cost-effective way by offering their securities to qualified institutional investors.
- **Direct settlement services:** Investors have been provided with an option to settle their trades without the involvement of brokers, this measure will bring about further efficiency and transparency in the clearing and settlement process by eliminating the need for the investors to open a sub-account with a broker. Thus, regulatory amendments were approved for enabling the CDC to offer direct settlement services (DSS) to its investor accountholders, whereas regulations in respect of similar services to be offered by the National Clearing Company of Pakistan Limited are being finalized.

Debt market: The presence of a vibrant debt market is a prerequisite for a competitive and efficient capital market. The trading in government debt instruments was introduced at the KSE from January 31, 2014. Accordingly, trading in T-Bills, Pakistan Investment Bonds (PIBs) and GOP ijara sukuk has started at the KSE. During FY 2013-2014, 8 corporate debt securities were issued through private placement while 121 corporate debt securities totaling Rs555.62 billion were outstanding as of June 30, 2014.

Islamic capital market: In January 2014, the SECP approved issuance of the first ever listed sukuk of Rs6 billion by the K-Electric Limited, this listing has created value and liquidity for the sukuk-holders and provided the public with an additional investment avenue. It is expected that more companies will come forward and raise funds through listed sukuk issues and help contribute to the economic development of the country. So far, 78 privately placed sukuk have been issued for Rs637.43 billion, out of which 32 sukuk issues for Rs100.10 billion have been fully redeemed.

Shariah Advisory Board

The Commission has established Shariah Advisory Board to advise it on all matters relating to the development and promotion of Islamic financial market as well as capital market. The board also functions as a reference center for all Islamic financial market and capital market issues within the regulatory ambit of the Commission.

During the period under review, six meetings of the board were held wherein 23 agenda items and 11 other business items were taken up and decided appropriately. The major issues regarding draft Sukuk Regulations, 2014, and the course content of Certified Finance and Capital Market Professional (CIFCMP) to be introduced by the Institute of Capital Market came under discussion.

Commodity market

The advent of online trading has increased the reach of investors to commodities markets. The Pakistan Mercantile Exchange Limited (PMEX) also made significant progress to meet the hedging needs of low-income investors and enhancing the product suite: approval was granted to the Milli Tola Gold Futures Contract, which enabled low-income investors to participate in the trading of gold with less than 100 rupees.

Another milestone for facilitating a wider investor base was achieved by allowing microfinance banks to act as clearing banks for PMEX, which will encourage the growth of regulated commodities market in addition to enhancing the outreach of this asset class.

On the governance side, the PMEX, which earlier lacked any segregation of commercial and regulatory functions, is now required to segregate its regulatory and commercial functions through a Chinese wall with the help of a plan approved by the Commission. In order to enhance investor confidence and ensure fair dealings with clients, the criteria for selection of auditors under the "Regulations Governing System Audit of the Brokers of PMEX" was approved. The criteria provide the guidelines for selection of auditors for system audits of brokers while providing checks and balances to ensure quality of such audits.

Code of Corporate Governance for listed companies

The SECP had earlier revised the Code of Corporate Governance for the listed companies to raise governance benchmarks of the corporate sector. The code was further revised to remove practical difficulties and facilitate improved compliance, in light of the feedback received from listed companies and other quarters. The provisions of the code pertaining to eligibility requirements for senior management personnel for the listed companies were amended to facilitate new entrants and assist in increasing the pool of professionals in the country.

Corporate sector reforms

The SECP took a proactive approach with regard to regulation and development of the corporate sector. During FY2013-14, company registrations saw a healthy growth of 16% as compared to the previous financial year. In all, 4,587 companies were registered, raising the total corporate portfolio to 64,067. In order to bring the regulation of corporate sector on a par with international jurisdictions and implement best business practices, rules and regulations for a number of jurisdictions were studied and researched. Accordingly, a number of facilitative measures were taken, which includes: allowing listed companies to hold general meetings through videoconferencing, allowing companies to disseminate their annual accounts through email to their shareholders, mandatory online filing for all companies except private companies having paid-up capital less than Rs500 million and introduction of online payment facility for all companies. The SECP is also working to introduce electronic voting for shareholders' resolutions in general meetings. It is worth mentioning that under the fast track registration services (FTRS), one can get a company registered in just 4 hours.

Moreover, in order to facilitate business start-ups, the SECP is vigorously working on a coordination mechanism called the one-stop-shop (OSS) project with other stakeholders, for the provision of virtual OSS in the first phase and physical OSS in the subsequent phase. In this regard, an MOU has been signed with the Federal Bureau of Revenue (FBR) and Employees' Old-Age Benefits Institution (EOBI). The OSS will provide registrations solution with three organizations at one place and is expected to reduce business start-up time.

In addition, a concept paper on the development of a limited liability partnership (LLP) has been approved by the Commission, while a broad consultative process is being initiated for seeking stakeholders' opinion. As an alternative business structure, the LLP will help convert informal, unregistered and unregulated sector into a formal and regulated regime.

On the corporate governance front, a notable development was the implementation of the Public Sector Companies (Corporate Governance) Rules, 2013, which became effective in August 2013. The rules were issued by the federal government in March 2013 and are applicable to all the companies in which the government has at least 50% voting or control rights.

Draft Companies (Easy Exit and Restoration) Regulations were developed to provide an easy route of exit for dormant companies and the SECP struck off almost 2,000 dormant/defunct companies under the activation/strike-off campaign. Amendments were proposed in Single Member Companies Rules and the Third Schedule to the 1984 Companies Ordinance.

Taking note of the controversial advertising practices observed in the pharmaceutical sector, a draft code of interaction with healthcare professionals was developed and submitted to the Drug Regulatory Authority of Pakistan (DRAP).

Moreover, the SECP is working on developing the following guidelines to improve transparency and efficiency of companies.

- Draft voluntary principles of corporate governance for non-listed companies.
- Guidelines on going concern for directors and auditors.
- Guidelines for issuance of shares at discount are also being revised in order to bring them in line with the best international practices.
- Guidelines on compromises, arrangements and reconstruction.
- Guidelines on transactions involving interests on directors.
- Guidelines on statutory rights/powers of a member of a listed company.

Enforcement and monitoring activities

The recent vigor in regulatory alarms and push to pursue individuals for wrongdoings is an implementation of the SECP's vision to enforce corporate securities laws, holding companies and their auditors accountable and create a compliant corporate culture. Through its enforcement actions, the SECP has reassured the investors that as an independent regulator it would provide a level-playing field to all the stakeholders.

In the above context, the Enforcement Department initiated 448 show-cause proceedings related to various matters including violation of takeover laws and non-compliance with legal obligations regarding auditors' report, directors' power, holding annual general meetings, appointment or removal of directors, violations identified in issues of capital, investment in associated companies, misstatement of facts, disclosure of directors' interest, treatment of surplus on revaluation of fixed assets, circulation of financial statements, employees' provident funds and security deposits. The department concluded nearly 500 proceedings against the companies and chief executives, directors and auditors of the companies. Based on its experience for regulating the auditors, the SECP sent recommendations to the ICAP for strengthening its licensing regime for its practicing members.

While facilitating the companies to strengthen their capital base and achieve economies of scale for their businesses, the SECP allowed 21 listed companies to issue shares at discount and by way of otherwise than right shares.

Non-banking finance (NBF) sector

During the year, the NBF sector grew by 9% from Rs585 billion to Rs639 billion. Mutual funds, pension funds and portfolio management all witnessed increase in their assets. Of these, the assets of private pension funds grew by 71% during the year. The notable growth is attributable to, among other things, conducive regulatory and fiscal framework. During 2013-14, one new leasing company was incorporated after a period of 10 years. Moreover, the declining trend in asset size of investment banks and leasing companies witnessed a reversal. In order to safeguard the interests of unitholders, the SECP allowed AMCs to delegate non-core functions to service providers and prescribed conduct requirements for sale of units of mutual funds.

Offsite examinations of high-risk entities were conducted on a quarterly basis while, low-risk entities were reviewed semiannually. Following the risk-based approach, 11 AMCs, managing 73 mutual funds, 2 investment banks, one modaraba and one leasing company were inspected during the year, covering 49% of the NBFC and modaraba sectors. Based on the violations and observations reported in the offsite and onsite inspection reports, 6 show cause notices, 7 orders, 6 warnings, 20 enforcement letters (primarily issued on inspection reports) and 231 compliance related letters were issued to the entities to bring about higher level of discipline and compliance in NBF sector.

In order to further enhance efficiency of supervision function, standard operating procedures/ manuals of the department were reviewed and amended in light of market changes, past experiences and to align them with the IOSCO and OECD principles for supervision of collective investment schemes (CISs).

Insurance sector

With an overall growth rate of almost 20%, the FY2013-14 remained another vibrant year for the insurance sector, both from regulatory and market development standpoints. With the support from World Bank/FIRST Initiative, the microinsurance rules were developed and notified. This has made Pakistan one of the very few countries in the world that have a specific regulatory framework for microinsurance. At present, there are more than 6 million microinsurance policyholders in Pakistan, mostly in health and credit life microinsurance, and this number is growing.

In February 2014, the SECP also hosted the Second SAARC Insurance Regulators Meet and International Conference. This was hosted in a strategic partnership with the World Bank, Asian Development Bank (ADB) and the ILO's Microinsurance Innovation Facility. The representatives of insurance regulatory authorities of SAARC countries, and eminent professionals, regulators and practitioners from around the world attended it. The SECP was elected as the chair of the SAARC Insurance Regulators Forum for 2014-15.

Agriculture is the backbone of the national economy. It accounts for over 40% of the GDP, and employs a large number of people. The SECP is cognizant of its role to facilitate the market development, and supports various national schemes and pilot initiatives for agriculture insurance. Going forward, SECP will continue to focus more on crop and livestock insurance development in the country, jointly with the stakeholders. In this regard, plans are being developed to initiate and support the index-based weather insurance schemes along with the relevant regulatory framework, which can help a large population associated with the agriculture sector to manage and mitigate weather related risks faced by them.

The insurance industry reforms committee constituted by the SECP published the proposed roadmap of reform and development of the insurance industry in Pakistan. The committee with diverse representation of stakeholders from insurance, banking and business segments has given specific recommendations for the growth and development of insurance industry along with making recommendations to resolve the issues faced by it.

SECP remained active even at the international platforms for regulatory and supervisory cooperation. It actively participated in the consultation calls carried out by the Germany-based Access to Insurance Initiative (A2ii), which is an outreach initiative by the International Association of Insurance Supervisors (IAIS) and other stakeholders to support the inclusive insurance markets.

The SECP also facilitated an MOU among life insurers and the CDC to design the Centralized Information Sharing Solution for Life Insurance Industry (CISSII), which will provide an information sharing mechanism to the life insurers so that they can take informed decisions in the areas of underwriting, pricing, agency and claims management. Its objective is to reduce systematic risk, enhance the policyholders' protection and promote sound development of the life insurance market through promotion of formal information sharing mechanism between the life insurers.

Legal reforms

During the FY 2013-14, the SECP remained actively involved in its ongoing exercise to revamp some of its administered legislation. These efforts are aimed at updating legal regimes and streamlining the mandate and powers of the SECP, and include the following:

- SECP (Amendment) Bill, 2014
- Securities Bill, 2014
- Futures Trading Bill, 2014

On the corporate rehabilitation framework, the SECP conducted two stakeholders meetings in Lahore and Karachi during which the participants expressed their views on the scope and contents of the draft bill.

Consequently, the SECP divided the Draft Corporate Rehabilitation Bill into two separate sets of legislations, i.e. law relating to establishment and regulation of corporate restructuring companies and the law relating to corporate rehabilitation process. The law relating to corporate restructuring companies (Corporate Restructuring Companies Bill, 2014), has been forwarded to Ministry of Finance for necessary processing and approvals, while a detailed concept note covering the broad outlines on which corporate rehabilitation framework was shared with the Ministry of Finance for its in-principle approval.

The SECP provided valuable input to the Law and Justice Division on practical aspects of the Foreign Contribution Bill, 2014. The law is aimed at regulating the acceptance and utilization of foreign contributions by NGOs.

Additionally, the SECP has forwarded amendments to the following laws:

- Companies Ordinance (Amendment) Bill, 2014
- Stock Exchanges (Corporatization, Demutualization and Integration) (Amendment) Bill, 2014

Technological advances

In order to deliver quality services to its stakeholders, resources have been invested to upgrade technological infrastructure and keep pace with the latest technological advances. For example

- Enterprise Resource Planning (ERP) project has been fully implemented that enhanced efficiency of the SECP's key operations.
- Online payment facility is being provided to customers of various banks to facilitate fee payment directly from their bank accounts.
- Debt market reporting system has been developed under the eServices program, which gathers post-subscription information about debt securities in compliance with the regulatory framework of the 2012 Debt Securities Trustee Regulations.

Investor education

The SECP strives to protect the interests of investors. In order to achieve this objective, a comprehensive Investor Education Program (IEP) was formulated and approved by the Commission during the year. Under this program, knowledge will be imparted about financial markets and products to different segments of the society. The IEP covers capital market, insurance sector, and NBF sector. In addition to these regulated sectors, information would be provided on company registration and entrepreneurship.

The main focus of the message under IEP will be on financial inclusion, encouraging financial planning and budgeting, market set-up and operations, highlighting product features and risks, rights and obligations of user and providers of financial products, and dispute resolution. Under the program, education would be imparted through digital means – web portal, text messages and social media – and physical interaction via seminars and investor days. Web portal is envisioned to play a pivotal role in the overall IEP as it would act as a single point learning resource for existing and potential users of financial products offered in capital market, mutual fund, pension fund and insurance industry and company registration. The plan is expected to gain momentum in the first quarter of 2015.

International cooperation

Being a member of international regulatory standard setting bodies such as the International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS), International Organization of Pension Supervisors (IOPS), and the Corporate Registers' Form (CRF), the SECP is an active participant in various activities of these forums covering policy and standard setting, international regulatory cooperation and implementation of international standards as well as the reforms mandated by G20 and FSB.

It is heartening to mention that the SECP successfully maintained its position at the IOSCO Board established in September 2014 during the IOSCO Annual Conference in Brazil. This is the first time in the history of Pakistan that a regulatory body has been elected for consecutive two terms to an international decision making forum. Being elected to the Board also portrays Pakistan's contribution to this vital forum and has been a key factor in improving the country's image globally.

By the end of June 2014, the SECP had signed bilateral MOUs with 14 regulators from 13 countries. They include an MOU with the Under Secretariat of Treasury, Turkey, for exchange of information and experience sharing in the area of insurance regulation and supervision. These MOUs constitute the framework of the SECP's cooperation with overseas counterparts.

During 2013-14 the SECP successfully completed its self-assessment of implementation status of IOSCO principles on securities regulation and assessed the compliance status against the 37 IOSCO principles. The assessment revealed 17 principles as fully implemented, 14 as broadly implemented, 4 as partly implemented and 2 as not implemented, reflecting significant improvement from the earlier FSAP assessment undertaken by the IMF/World Bank in 2004.

The SECP, as a member of the OIC's Committee for Commercial and Economic Cooperation (COMCEC) and the current chair of the task force on market development of the Capital Markets Regulators Forum (CMRF), made significant progress on the two mandates of the task force:

- Development of capital market infrastructures in OIC member states
- Transparency requirements and public disclosure systems in OIC member states

A final report on the first mandate was approved by the forum and work is progressing on the second mandate on transparency and disclosure. The SECP also contributed to two other task forces in determining and developing the capacity of regulators and on developing and deepening the penetration of Islamic financial products within the COMCEC member states, as well as sharing know-how and experience about Islamic products respectively.

Looking ahead

Pakistan is on the cusp of change. Undoubtedly, there are many challenges, but in every challenge lies an opportunity. We are trying to make the most of the opportunities that lie within our ambit. We are striving to create a conducive environment for the corporate sector and capital market through structural reforms. The government's privatization program will further strengthen the stock market, and we will play our positive role in this regard.

We realize that we have a primary responsibility to contribute to the strengthening of the economy, and documentation of economy is an important way of doing it. For this purpose, we are working on a new form of business, the LLP, which will help fill the vacuum between formal/documented forms of business and informal forms of business.

In order to achieve the documentation goal, we are playing the role of facilitator for the corporate sector, in terms of service delivery. Also, we are working towards a 'paperless' environment that will promote transparency and documentation, yielding efficient service delivery.

These are the key initiatives that the SECP plans to implement in the future:

- For further growth of the stock market, the stock exchanges will introduce reforms that are essential for taking the exchanges forward in a demutualized set-up. They will also bring in strategic investors, benefiting the exchanges with their extensive expertise and technological assistance, apart from bringing foreign investment and broadening the investor base. Simultaneously, efforts will be made for listing of the stock exchanges so that their shares are offered to the general public in terms of the demutualization law. The possibility of integration of the three stock exchanges is also being explored to benefit from operational synergies in line with the best international practices.
- We are envisaging establishing the Securities Investor Protection Fund (SIPF), managed by a corporate body, to deal with investor claims in case of default by the brokers. The proposed SIPF will maintain an adequate pool of funds to compensate investors to the maximum extent in case of default of their broker or custodian. The SIPF is expected to bring about efficiency in the claim settlement process by eliminating any conflicts of interests and reducing the time that it normally takes for satisfying investor claims.
- In order to facilitate the capital market investors, the establishment of a Centralized KYC Organization is envisaged. The objective to register and maintain investors' KYC records in line with the best international practices pertaining to KYC and customer due diligence (CDD) policies. This measure will assist in removing the duplication presently inherent in the KYC process.
- In an attempt to strengthen risk management of the PMEX, Default Management Procedures of the PMEX are being comprehensively reviewed to address any gaps. Also, the Sharia Advisory Board of the SECP is actively working on the possibility of introducing Sharia-compliant commodity futures contracts.
- In order to enhance efficiency of offsite surveillance, improvements in the current specialized companies return submission system (SCRS) will be made along with digitalization of enforcement record.
- Analysis of trading data of mutual funds industry for at least two quarters on consolidated basis will be conducted to improve monitoring of the sector. In other words, the SECP will conduct analysis of the trading data of mutual funds at least every six months, which otherwise is done during the onsite inspection that is normally done with one to two years gap.
- The SECP also seeks to promote a sound and progressive SME sector with varied development initiatives and strong supervision. In the incoming year, we will focus on improving the regulatory framework, finance market access and capital provision for economic development for a robust SME sector in line with the best international practices.
- We have drawn up an elaborate Investor Education Program (IEP) to better protect the interests of investors. It will cover capital market, insurance and the NBF sector. The IEP's focus will be on financial inclusion, encouraging financial planning and budgeting, market set-up and operations. It will highlight product features and risks, rights and obligations of user and providers of financial products. Information will also be provided on company registration and entrepreneurship.
- The recently developed draft valuers regulations are being vetted. They shall be placed before major stakeholders, including the State Bank of Pakistan (SBP) and Pakistan Bar Association (PBA) before publication to seek public opinion.
- After the review of best international practices with respect to provident funds, the SECP has developed a concept paper. It has proposed to the ministry of finance to form a centralized provident fund regulatory body in Pakistan.
- On the basis of the SECP's proposal to provide a legal framework for vesting of unclaimed dividends and other unclaimed monies, e.g. unclaimed life insurance benefits to government of Pakistan, the ministry of finance has given its consent to necessary amendments to the 1984 Companies Ordinance and the 2000 Insurance Ordinance. The SECP has started work on the matter.
- In line with international practices, the SECP intends to introduce enabling legal provision, allowing dysfunctional and dormant companies to follow a less rigorous and less exhaustive financial statement filing regime.

In conclusion, I would like to express my profound gratitude to the honorable Finance Minister, the Securities and Exchange Policy Board and stakeholders for their valuable guidance and unstinting support. I would also like to thank and appreciate the Commissioners and employees of the SECP for their sound professionalism and unwavering commitment to excellence.

Securities and Exchange
Policy Board

Securities and Exchange Policy Board

As of June 30, 2014, the Policy Board consisted of the following members:

Ex officio members

Dr. Waqar Masood Khan
Finance Secretary
Chairman, Securities and
Exchange Policy Board

Mr. Tahir Mahmood
Acting Chairman
Securities and Exchange
Commission of Pakistan

Barrister Zafarullah Khan
Secretary
Law, Justice and Human Rights
Division

Mr. Muhammad Shehzad Arbab
Secretary
Commerce Division

Mr. Saeed Ahmad
Deputy Governor
State Bank of Pakistan, Karachi

Private sector members

**Senator
Osman Saifullah Khan**

Mr. Javed Aslam Callea

Hafiz Mohammad Yousaf

Mr. Kamal Hassan Siddiqui

Securities and Exchange Policy Board

The 1997 Securities and Exchange Commission of Pakistan Act provides that the federal government shall appoint a Securities and Exchange Policy Board consisting of 9 members, of which 5 shall be from the public sector and 4 from the private sector. The ex officio members are federal secretaries for finance, law, commerce, the SECP chairman and a deputy governor of the State Bank of Pakistan (SBP) nominated by the SBP governor. The federal government has designated the finance secretary as the chairman of the board. Since April 15, 2013, Dr. Waqar Masood Khan has been the board chairman.

On April 29, 2014 upon his appointment as the SBP governor Mr. Ashraf Mahmood Wathra ceased to be an ex officio member and in his place, Mr. Saeed Ahmed, deputy governor, was made an ex officio member on May 20, 2014. Mr. Justice Muhammad Raza Khan (ret) law secretary remained on the board up to October 20, 2013. The following day Barrister Zafarullah Khan took over as the law secretary.

Mr. Munir Qureshi remained on the board up to July 1, 2013. Mr. Qasim M. Zia was appointed as the commerce secretary on the same date and remained on the board until April 10, 2014 when Mr. Muhammad Shehzad Arbab replaced him as the commerce secretary.

During the year, the federal government appointed four new members from the private sector for a period of four years. In this way, the board for the first time achieved its full strength. Hafiz Mohammad Yousaf, Senator Osman Saifullah Khan and Javed Aslam Callea became board members on September 4, 2013, and Mr. Kamal Hassan Siddiqui on December 26, 2013. This was done at the request of the board, which wanted the private sector to actively play its role for the achievement of the board's objectives. Moreover, the federal government increased the number of the SECP's Commissioners from five to seven by amending the 1997 Act with effect from May 16, 2014.

Board's objectives

The board has been entrusted to:

- When so asked after consultation with the SECP to advise the federal government on all matters which fall within the regulatory ambit of the SECP
- Consider and approve, with or without modification, any regulations with respect to implementation of policy decisions proposed to be made by the SECP
- Consider and approve, with or without modification, the budget for each financial year of the SECP
- Express its opinion in writing on any policy matter referred to it by the federal government or the SECP
- Oversee the performance of the SECP to the extent that the purposes of the Securities and Exchange Commission of Pakistan Act, 1997(1997 Act) are achieved
- Exercise all such powers and perform all such functions as are conferred or assigned to it under the 1997 Act
- Specify fees, penalties and other charges chargeable by the SECP for carrying out the purposes of the 1997 Act

Apart from the above, all policy decisions, including any changes to the previous policy in respect of all and any matters within the jurisdiction of the SECP shall be made only by the board. The board may make policy decisions suo motu or adopt such policy recommendations of the SECP, with or without modification, as the board may deem fit in its discretion.

Board's conduct of business

Four meetings of the board were held during the year under review, wherein 19 agenda items and 7 other business items were taken up and decided appropriately. The board also passed a resolution by circulation for consideration and approval of an urgent matter. In compliance with the Supreme Court's short order and detailed Judgment in C.P. No. 59 of 2011, dated April 12, 2013, the board met and looked into the petition and deliberated on the points raised therein with respect to the governance structure and decision-making policies of the SECP in terms of the 1997 Act. The board also looked into the issues of policy-making of the Commission to the extent as empowered under section 21 of the 1997 Act. Accordingly, the board submitted its interim compliance report to the court and also constituted a committee to examine some of the cases highlighted by the petitioner regarding affairs of the SECP.

The committee submitted its report containing findings in each case, a review of the proceedings of the SECP with regard to the reasonableness of the decisions, time taken in finalization of the cases and the reasons for delays. The said analysis of the committee culminated in the suggestions that have been made to rectify deficient areas. The committee also highlighted some facets of the SECP's functioning and has given its recommendations thereon in the report. The board appreciated the efforts of the committee and fully endorsed the report and decided to implement the recommendations in letter and spirit. The board also made the report of the committee as part and parcel of its compliance report submitted in the Supreme Court. The board also constituted an oversight committee in terms of section 15 of the 1997 Act to:

- Perform such functions as the board may direct from time to time.
- Examine the proposals and give its comments on any policy, law, rules and regulations proposed or any amendment

to the existing policy, law, rules and regulations to be made by the SECP.

- Take and review presentations/briefings on regulatory and enforcement actions of the divisions/departments of the SECP periodically submitted for the consideration of the board and make recommendation, wherever necessary. Thereafter, the board shall take appropriate measures in light of the periodic reports.
- Review the annual reports and other reports including investigation reports to be submitted to the board for its consideration.

The SECP was directed to review the overall HR policies and Procedures and necessary amendments be made to make them compliant with provisions of the Constitution as well as the Act, ensuring independent and objective decision making.

During the financial year, the Board considered various matters and some of the approved major items are as follows:

- Approved submission of Annual report of the Commission along with its audited accounts for the year 2012-13 to the Federal Government in terms of section 25(6) of the 1997 Act;
- Approve amendments in the service manual and in the HR Handbook;
- Approved the 2014 Securities and Exchange Commission (Microinsurance) rules;
- Approved the 2014 Third Party Administrators (TPA) for Health Insurance Regulation;
- Approved the SECP's Annual budget for the financial year 2014-15 and compensation review.

In addition, the following aspects/matters were brought before the Board:

1. The board reviewed the demutualization process and observed that consequent upon promulgation of the 2012 Stock Exchange (Corporatization Demutualization and Integration) Act, the Commission has successfully completed various deadlines for Corporatization and demutualization of the stock exchanges. However, certain steps with regard to (a) sale of shares of the stock exchanges to the strategic investors, general public and financial institutions; (b) Listing of stock exchanges; and (c) Integration, are required to be made.
2. Owing to corporatization in the country as one of the core functions of the SECP, it was emphasized that the Commission should play a pivotal role to attract the entrepreneurs toward Corporatization.

Board's Oversight Committee

In order to assist the Board to oversee the performance of the SECP, the Oversight Committee held three meetings. The following recommendations were made to the Board:

- Approval of the Securities and Exchange Commission (Microinsurance) rules, 2014.
- Approval of the Third Party Administrators for Health Insurance Regulations, 2014.
- Amendments to the 2002 Insurance rules relating to the procedure to be followed by the SECP to issue directions to insurers under section 60 of the 2002 Insurance Ordinance.
- Finalized the format and timings for presentations/ briefings on regulatory and enforcement actions of the SECP's Division/Department.
- Considered the proposed amendment in rule 35 of the Securities and Exchange Commission (Insurance) rules, 2002 and directed to review the draft amendments in light of the concerns/observations.

Strategic Objectives 2011-2014

Sectors/ Markets

- Encourage market depth and enhance liquidity in equity markets
- Establish liquid debt capital markets and encourage introduction of debt derivatives
- Promote commodity and currency trading
- Promote growth of mutual fund industry
- Strive for revival of NBFI sector
- Promote growth of insurance products
- Aspire for fair and transparent corporate sector reporting and sharing of profits with minority stakeholders

Capabilities/ Processes

- Amend existing laws and introduce new laws for ensuring a better regulatory environment and protecting investor and public interest
- Ensure state-of-the-art IT & Communication infrastructure
- Build stronger relationships with multilateral agencies and other international corporate and capital market regulators

People

- Ensure that the performance evaluation system is fair and transparent
- Ensure HR systems drive employee motivation and create a happy work environment
- Ensure employees' total remuneration package (financial+non-financial) is in line with market
- Encourage employee training and development

Regulatees

- Develop financially strong and well-governed market players having the desire and systems to protect investor interests
- Provide effective regulations that encourage expansion and outreach of mutual funds, stock brokers, leasing, investment banks, modarabas, insurance and other regulatees
- Ensure fair and transparent regulatory and enforcement practices
- Reduce turnaround time
- Work towards long-term profitable and sustainable operations of the Commission
- Ensure cost-effective investments in Capex and physical and non-physical infrastructure

The Commission

Tahir Mahmood

Mr. Tahir Mahmood has been associated with the Securities and Exchange Commission of Pakistan/former Corporate Law Authority since 1989. Having been selected through the Federal Public Service Commission, as an officer of BPS 18, he has served in various key positions in the SECP/CLA. Prior to his appointment as a Commissioner by the Federal Government in September 2010, he had been serving as Executive Director (Enforcement) since July 2006.

A fellow member of the Institute of Cost and Management Accountants Pakistan (ICMAP) and the Institute of Corporate Secretaries of Pakistan (ICSP), he has a degree in law with extensive experience in company law administration, takeover laws, corporate restructuring, mergers and takeovers, corporate finance, quasi-judicial order writing, etc.

In his capacity as adjudicating officer and member of appellate bench—while working as Executive Director/Commissioner—he has issued around 400 quasi-judicial orders. A large number of these orders have been published in the Corporate Law Decisions (CLD), and are regularly referred to by the legal community in their corporate law practice.

He is also a member of the Corporate Law Review Commission (CLRC), which is headed by Mr. Justice Ajmal Mian, former Chief Justice of Pakistan. He has spearheaded the drafting of numerous laws. His expertise in corporate laws, especially company law, and takeover laws is widely acknowledged by the legal fraternity. In addition, he is a member of various professional forums, including the National Council of the ICMAP, and the South Asian Federation of Accountants (SAFA).

Zafar Abdullah

Mr. Zafar Abdullah is the commissioner overseeing the functions of Securities Market Division, Litigation, Legislation and General Counsel Department and Support Services Division. He holds a bachelor's degree in commerce from the University of Karachi and is a fellow member of the Institute of Chartered Accountants of Pakistan. He did his chartered accountancy from the Institute of Chartered Accountants of Pakistan. He received extensive training in the areas of assurance and audit, financial advisory and corporate advisory at KPMG Pakistan.

Earlier, he had served the SECP as Executive Director in the Securities Market Division, Karachi Stock Exchange as Chief of Operations, Central Depository Company as Head of Operations, Dewan Mushtaq Group as Chief Compliance Officer and Company Secretary and Crosby Securities Pakistan Limited as Chief Executive Officer. His last assignment was as Company Secretary and Head of Legal Division with Faysal Bank Limited. He joined the SECP on August 17, 2012.

Imtiaz Haider

Mr. Imtiaz Haider served as the commissioner for Specialized Companies Division, Internal Audit and Compliance Department, Market Development and Investors' Education Department until August 24, 2014. He is a business graduate and also has a law degree. He has 24 years of diverse management experience in corporate finance, corporate governance, education, development and regulation of capital markets and general management.

Mr. Haider started his career as assistant chief manager at the National Investment Trust (NIT), a premier financial institution in Pakistan. Later he joined a public university and served as head of department of the Business Management Department. Then he served as head of corporate governance, NIT. He joined the SECP in 2001 and left it in 2007 as executive director of the Securities Market Division to join a REITs management company as its chief executive. Immediately before his appointment as Commissioner, he headed the Islamabad Stock Exchange as Managing Director/CEO. He has attended advanced training courses in the United States, Australia, Malaysia, UAE and India.

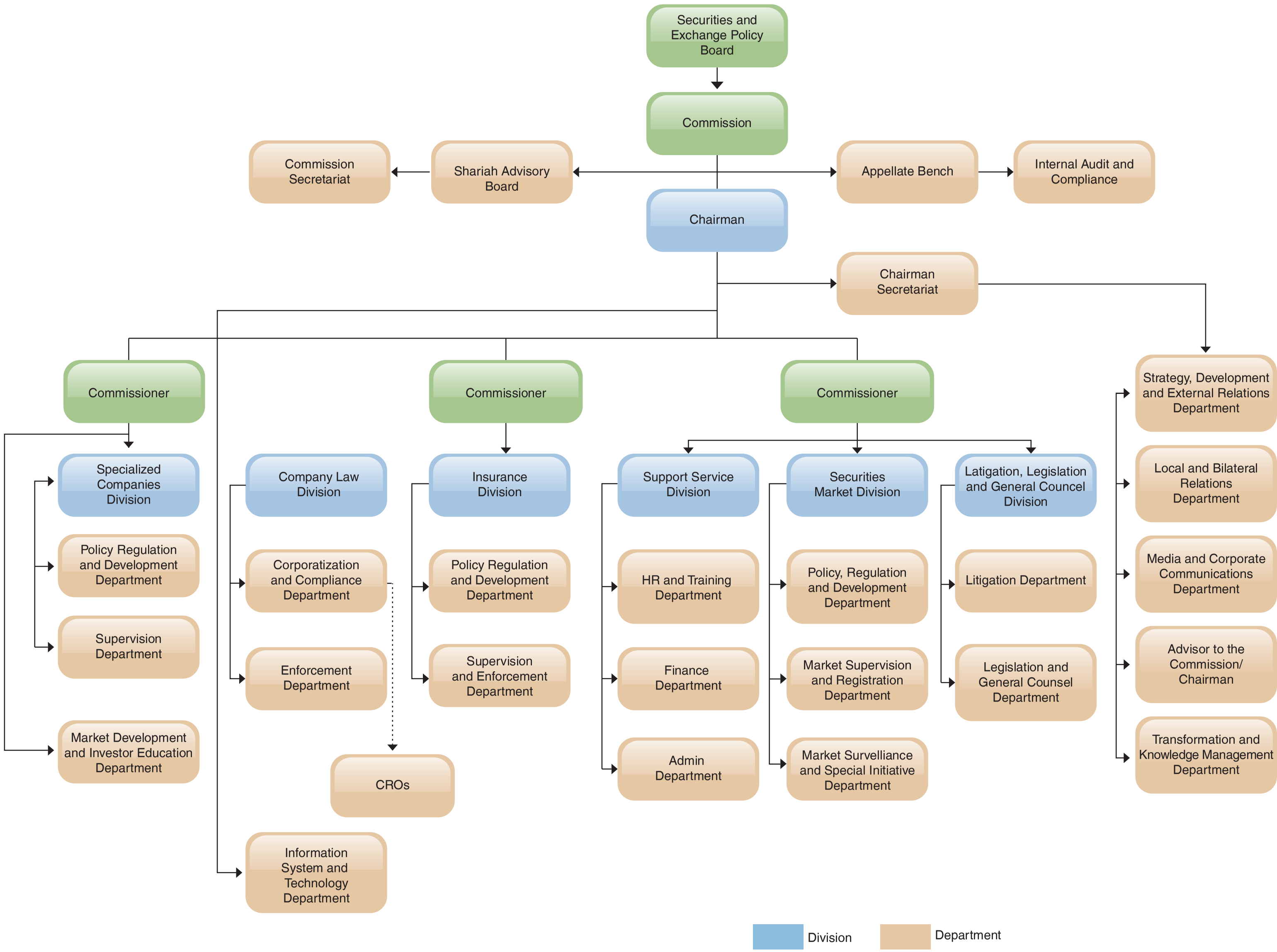
Mohammed Asif Arif

Mr. Mohammed Asif Arif served as the commissioner for the Insurance Division until September 4, 2014. He has over 30 years of professional experience, spanning over the insurance industry as well as the regulatory authority, making him well placed to address the industry's issues. In pursuit of the SECP's objectives of protecting the interests of policyholders and putting the insurance industry on a sound financial footing, Mr. Arif through persistent advocacy and consultative dialogues with the stakeholders has accelerated the reform process.

While he heads the portfolio of insurance at the SECP, the industry has witnessed new regulatory frameworks in the area of insurance solvency, takaful, microinsurance, third party administrators as well as the fit and proper criteria. During his career, he has been involved in an array of notable areas, ranging from improving the business profitability through prudent risk management to training of sales force to the deployment of software systems in the insurance organizations.

He did his MBA from the Institute of Business Administration, Karachi, followed by associateship from the Chartered Insurance Institute, London, which subsequently conferred the title of "Chartered Insurer" on him. He has also represented on various technical committees of the Insurance Association of Pakistan and the Karachi Insurance Institute. He has attended numerous local and international events, including conferences, seminars and workshops. He is considered an expert speaker on the insurance topics, ranging from takaful

Organizational Structure of SECP



How and Whom We Regulate

Corporatization and Compliance Department

How	Whom		Responsible department	Number of employees
	Type	Number		
• Supervise and monitor CROs • Grant license to non-profit associations • Perform delegated powers of the Commission • Perform statutory powers of registrar of companies • Process appeals, revision and review applications • Liaise with other jurisdictions • Develop legal framework • Improve facilitation mechanism including eServices	Private companies, public unlisted companies, single member companies, companies limited by guarantee, non-profit associations, trade associations, foreign companies	64,067	Corporatization and Compliance Department	36
• Register companies • Process mortgages/ charges related matters • Issue certified true copies • Provide inspection of companies' record • Issue certificate of commencement of business • Handle alterations to Memorandum and Articles of Association • Grant approvals and permissions • Examine and record statutory returns • Adjudicate defaults falling within the jurisdiction of CRO • Enforce compliance • Dissolve companies • Implement facilitation schemes	Private companies, public unlisted companies, single-member companies, non-profit associations, companies limited by guarantee, trade associations, foreign companies	64,067	Company Registration Offices	159

Enforcement Department

How	Whom		Responsible department	Number of employees
	Type	Number		
• Enforcement of corporate laws • Adjudicate on defaults and process appeals, revisions and review applications, where filed • Conduct inspections and investigations • Grant regulatory approvals • Review of compromises and scheme of arrangements • Propose and/or amend rules and regulations • Monitor regulatory compliance by companies **Activities specific to listed companies:** • Enforcement of takeover laws • Process for approval and issue of shares otherwise than right, preference shares and shares at a discount • Facilitation to listed companies by granting relaxation from certain rules of further issue of capital	• Public listed companies • Public non-listed companies • 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, modarabas, insurance companies and stock brokerage houses) • Companies registered under the provisions of sections 42 and 43 of the 1984 Companies Ordinance	474 listed companies 10,640 unlisted companies	Enforcement Department	46

Securities Market Division
Policy, Regulation and Development Department

How	Whom		Responsible department	Number of employees
	Type	Number		
• Handling all policy and regulatory matters relating to the stock and commodity exchanges, CDC and NCCPL • Giving approval to new products/ systems launch and to other operational activities of these entities • Approving amendments to the regulatory framework of these entities • Issuing and renewing licensing to securities depository and clearing companies • Devising and proposing rules pertaining to these entities for the approval by the Federal Government • Appointing non- member directors on the boards of stock exchanges, CDC and NCCPL	• Karachi Stock Exchange Limited • Lahore Stock Exchange Limited • Islamabad Stock Exchange Limited • Central Depository Company of Pakistan Limited • National Clearing Company of Pakistan Limited • Pakistan Mercantile Exchange Limited		Policy, Regulation and Development Department	11

Market Registration and Supervision Department

How	Whom		Responsible department	Number of employees
	Type	Number		
• Issuing and renewing certificates of registration to brokers • Issuing and renewing certificates of registration to agents • Redressing investor complaints received against the brokers, agents and stock exchanges • Monitoring and initiating actions against unregistered brokerage houses	• Brokers of stock exchanges • Agents of stock exchanges • Brokers of PMEX	252 273 189	Brokers and Agents Registration and Investor Complaints Wing	5
• Examination of returns of beneficial ownership	Directors, chief executives, managing directors, chief accountants and shareholders with more than 10% shareholding of listed companies	All listed companies	Beneficial Ownership Wing	3
• Compliance of all the prevalent laws	• Members of stock exchanges • Stock exchanges, CDC, PMEX, NCCPL	252 6	Compliance and Inspection Wing	6
Issuance and Offering of Securities • Approve issuance and public offering of securities • Approve issuance of securities outside Pakistan • Handle complaints against issuers, share registrar and • Transfer agents, consultants to the issuer/offerer • Issue rules and regulations, guidelines governing securities issuance and offering, and suggesting • amendments therein	Securities issuers/offerers, consultants, share registrars and bankers to the issue/offer	Various	Capital Issue Wing	5

• Issue licenses to special purpose vehicles.	Securities issuers/offerers			
• Provide necessary relaxations where required, in case of issuance of commercial papers and Providing necessary relaxations from the requirements of the 1996 Companies (Issue of Capital) Rules, and listing regulations of stock exchanges, in case of issuance of securities	Issuers of commercial papers /offerers	Various		
• Provide necessary relaxations from the requirements of ballotters, transfer agents and underwriters rules	Underwriters, ballotters and transfer agents	Various		
• Approve employees stock option schemes	Offerers of the scheme	Various		
• Process cases of violations of section 18A of the 1969 Securities and Exchange Ordinance	Share applicants	Various		
• Register the debt securities Trustees • Monitor the compliance of the covenants of the trust deeds and handle cases of relaxation of the 2012 Debt Securities Trustees Regulations	Debt securities trustees	15	Capital Issues Wing	5
Issuing and renewing certificate of registration • Review documents and reports filed by the credit rating companies • Examine existing legal framework for credit rating companies	Credit rating agencies	2		
• Monitor intermediaries associated with IPOs	Share registrar and transfer agents underwriters	Companies providing shares register and transfer service		

Market Surveillance and Special Initiatives Department (SMD)

How	Whom		Responsible department	Number of employees
	Type	Number		
• Monitoring and surveillance of the trading activity of all the market participants. • Ensuring compliance of the trading activities with provisions of laws • Conducting investigations/enquiries on deduction of market abuse or malpractice.	• Brokers of the stock exchanges • Individual investors and institutional investors	252	Market Surveillance and Special Initiative Department	8

Specialized Companies Division

<table>
<tr><th rowspan="2">How</th><th colspan="2">Whom</th><th rowspan="2">Responsible department</th><th rowspan="2">Number of employees</th></tr>
<tr><th>Type</th><th>Number</th></tr>
<tr><td rowspan="11">• License, regulate and devise policies for the mutual funds industry
• License, regulate and devise policies for leasing, investment banks and housing finance
• Register, regulate and devise policies for pension funds, REITS and private equity, modarabas and modarabas management companies
• Conduct offsite monitoring and surveillance on the basis of returns filed by the market intermediaries operating in the NBFCs and modarabas sectors
• Conduct risk-based and periodic on-site inspections of all licensed NBFCs and modarabas entities
• Undertake enforcement actions based on violations detected during the off-site and on-site processes
• Adjudicate on defaults and process revisions and review applications, where filed</td><td>Asset management companies</td><td>25</td><td rowspan="6">Policy, Development and Regulation Department</td><td rowspan="6">35</td></tr>
<tr><td>Investment advisors</td><td>2</td></tr>
<tr><td>Mutual funds</td><td>160</td></tr>
<tr><td>Leasing companies</td><td>9</td></tr>
<tr><td>Investment finance services</td><td>8</td></tr>
<tr><td>Housing finance companies</td><td>0</td></tr>
<tr><td>Modaraba management companies</td><td>43</td><td rowspan="5">Supervision Department</td><td rowspan="5">22</td></tr>
<tr><td>Modarabas</td><td>27</td></tr>
<tr><td>Pension funds</td><td>13</td></tr>
<tr><td>REIT management companies</td><td>3</td></tr>
<tr><td>Private equity companies (PE) and venture capital companies (VC)</td><td>3</td></tr>
</table>

Insurance Division

<table>
<tr><th rowspan="2">How</th><th colspan="2">Whom</th><th rowspan="2">Responsible department</th><th rowspan="2">Number of employees</th></tr>
<tr><th>Type</th><th>Number</th></tr>
<tr><td rowspan="7">• License, regulate and devise policies for the insurance sector Conduct offsite monitoring and surveillance on the basis of returns filed by the insurance companies
• Conduct risk-based and periodic on-site inspections of the insurance companies
• Undertake enforcement actions based on violations detected during the off-site and onsite processes
• Adjudicate on violations
• Strengthening the legal framework</td><td>Life insurance companies</td><td>7</td><td rowspan="7">Supervision Department
Enforcement Department
Policy Development and Regulation Department
Legislation Department</td><td rowspan="7">26</td></tr>
<tr><td>Non-life insurance companies</td><td>37</td></tr>
<tr><td>Takaful operator</td><td>5</td></tr>
<tr><td>Local reinsurers</td><td>1</td></tr>
<tr><td>Insurance brokers</td><td>9</td></tr>
<tr><td>Surveying companies</td><td>202</td></tr>
<tr><td>Authorized surveying officers</td><td>308</td></tr>
</table>

Senior Management*

Nazir A Shaheen
Executive Director
Corporatization and
Compliance Department
Company Law Division

Akif Saeed
Executive Director
Market Development
and Investor Education

Arshad Javed Minhas
Executive Director
Transformation and
Knowledge Management

Shahid Nasim
Executive Director
Supervision Department
Specialized Companies
Division

Asif Jalal Bhatti
Executive Director
Policy, Regulation and
Development
Specialized Companies
Division

Aamir Khan
Executive Director
Chairman Secretariat

Imran Iqbal Panjwani
Executive Director
Securities Market Division

*As of June 30, 2014

Muhammad Siddique
Registrar of Companies
Corporatization and
Compliance Department
Company Law Division

Imran Inayat Butt
Director/HOD
Market Supervision and
Registration Department
Securities Market Division

Bushra Aslam
Secretary SECP
Commission Secretariat

Abid Hussain
Director/HOD
Market Surveillance and
Special Initiatives Department
Securities Market Division

Ali Azeem Ikram
Director/HOD
Enforcement Department
Company Law Division

Muzzafar Ahmed Mirza
Director/HOD
Litigation, Legislation
and General Counsel

Haider Waheed Khan
Director/HOD
Internal Audit and
Compliance

Mohammad Aqil Ismail
Director/HOD
Information Systems
and Technology

Khalid Iqbal
Director/HOD
Human Resource and
Training

With faith, discipline and selfless devotion to duty, there is nothing worthwhile that you cannot achieve.

Muhammad Ali Jinnah

Company
Law Division

Company Law Division

The Company Law Division (CLD) has a wide range of responsibilities that include regulation, monitoring and enforcement of laws dealing with the corporate sector. In recent years, it has brought about amendments to the existing laws and has enacted new laws to cater to the changing best business practices, needs and scenarios. It also undertakes strict monitoring and vigilance of the corporate sector with a view to promoting transparency, accountability, good corporate governance practices, and safeguarding investors' interests.

It comprises of two departments:

1. Corporatization and Compliance Department
2. Enforcement Department

Corporatization and Compliance Department

The Corporatization and Compliance Department (CCD) administers the 1984 Companies Ordinance, and the rules and regulations made under it along with other relevant laws. Its primary functions include registration of companies and monitoring corporate compliance through examination of statutory returns and accounts. These functions are performed by our 8 Company Registration Offices (CROs). The CCD supervises, coordinates, and monitors the workings of the CROs. Besides, the CCD performs a number of other functions, i.e. licensing of non-profit associations, developing legal framework, exercising delegated powers of the Commission and statutory powers of the registrar of companies, improving facilitation mechanism and processing appeals review and revision applications.

Muhammad Siddique (HOD) with Sumaira Siddiqui, Saila Jamshaid, Muhammad Umair, Mubasher Saeed Saddozai, Salman Khan Lodhi and Muhammad Anas Noman

Key achievements

During the period under review, the CCD embarked on many initiatives aimed at improving the facilitation mechanism for stakeholders. Some of the key achievements are:

1. Online payment of fees through MCB online fund transfer facility

In April 2014, the SECP launched online payment facility for its stakeholders. Now customers, having their account with MCB, can make payments to the SECP through online funds transfer facility. Online filers can submit their documents through SECP eServices and generate challan for payment, as per previous practice. Upon generation of challan, the user shall login to their internet banking account with MCB and make payment to SECP using the challan number generated by the SECP's eServices.

With the launch of online payment facility, it is now possible to make filing and subsequent fee payment, without any hassle or the need for visiting SECP/bank.

2. Online tools enhancement

Enhancements were added to the tools available at the SECP website. Company name search facility was enhanced and now stakeholders can also view when the company last made Form A/B and mandatory online filing status. Manual challan generation was also enhanced with the addition of alerts as to the mandatory online status of the company.

3. Signing of SECP-EOBI MOU for increased cooperation and coordination

The SECP and the Employees Old Age Benefits Institution (EOBI) signed a memorandum of understanding (MOU) aimed at enhanced cooperation and coordination in pursuance of mutual objectives. The MOU mainly calls for sharing of information of mutual interest, utilization of services of field staff of EOBI and consultations on matters of common regulatory, supervisory and overseeing interest.

The information-sharing arrangement is expected to greatly enhance the efficiency and effectiveness of both organizations. Through the MOU it was also agreed that the two organizations shall inform each other about prospective legal and policy changes that may have an impact on industry, product or overseeing responsibility of the other.

4. Formation of technical committee to improve business climate

The executive director, CCD, was nominated as a member of the technical committee formed by the Board of Investment (BOI) in November 2013. A plan to improve the business climate in Pakistan has been approved by the BOI in consultation with the committee members, including the SECP. Meetings are being held to proceed on the recommendations made in the plan.

Development of legal framework

1. Public sector companies (corporate governance) rules

The federal government approved the 2013 Public Sector Companies (Corporate Governance) Rules under section 506 of the 1984 Companies Ordinance to provide a governance framework for the public sector companies owned and controlled by the government. The rules became effective on August 8, 2013, after extension in the implementation date by the federal government and apply to all companies in which the government has at least 50% voting or control rights.

Circular No. 12 of 2014 issued on May 28, 2014 to all the public sector companies (PSEs) requires compliance in the manner reported on the statement of compliance prescribed for the purpose: PSEs should amend articles of association to bring them in line with the legal framework where necessary, and further ensure meticulous compliance with the provisions of the 1984 Companies Ordinance including the filing of annual returns and audited accounts with the registrar concerned.

Meetings were held with the ADB Consultation Mission that visited Pakistan from January 30, 2014 to February 7, 2014 to discuss PSEs reforms and technical assistance to the government. A Memorandum was signed by ADB with the federal government on the basis of discussions held with the stakeholders, including the SECP.

2. Public sector companies (corporate governance compliance) guidelines

The SECP approved the 2013 Public Sector Companies (Corporate Governance Compliance) Guidelines in May 2013 to prescribe a compliance statement to be prepared by the public sector companies in pursuance of rule 24 (1) of the 2013 Public Sector Companies (Corporate Governance) Rules. Besides the statement of compliance, the guidelines also require a statement for explanation of non-compliance with any provisions of the rules as well as future course of action, and a review report from the external auditors of the public sector company on the statement of compliance. Pursuant to the issuance of revised review report to the members on statement of compliance of the 2012 Code of Corporate Governance issued by the Institute of Chartered Accountants of Pakistan vide Circular No. 02/2014 dated February 24, 2014, the format of the review report accompanying the guidelines is under revision. The guidelines shall come into force from the financial years ending on or after June 30, 2014.

Regulatory actions

1. Capital issues

Issue of shares other than right

Approval was granted to 2 companies for issuance of shares other than right to existing shareholders in terms of sub-section (1) of section 86 of the ordinance amounting to Rs488 million.

- Avanceon Limited (Rs252m)
- Pakistan Gems and Jewellery Development Company (Rs236m)

Issue of shares with varied rights and privileges

Three cases for issue of shares with varied rights and privileges were granted approval in terms of section 90 of the 1984 Companies Ordinance read with Rule 5 (1) of the 2000 Companies' Share Capital (Variation in Rights and Privileges) Rules amounting to Rs486 million:

- Engro Eximp Agriproducts (Pvt.) Limited (Rs100m)
- DTH Pakistan (Pvt.) Limited (Rs25m)
- Origin Fabrics (Pvt.) Limited (Rs9m)
- Chrome Ore Services (Pvt.) Limited (Rs352m)

Issue of shares at discount

The following two cases for issue of shares at discount were processed in terms of sub-section (2) of section 84 of the ordinance amounting to Rs8.48 billion:

- Burj Bank Limited (Rs8,165m)

- KASB Invest (Pvt.) Limited (Rs249M)
- Vision Network Television Limited (Rs67M)

2. Amalgamations and mergers of companies

During the year, in response to th SECP's oral and written representations, the courts approved the amalgamation in respect of the following:

- Stork IBI Prints Pakistan (Pvt.) Limited into Stork Prints Pakistan (Private) Limited
- Farm Chemicals (Private) Limited into Syngenta Pakistan Limited
- Raiwind Chemical Industries (Pvt.) Limited into Tufail Chemical Industries Limited
- King's Food (Pvt) Limited into Hilal Confectionery (Pvt.) Limited
- Quality Knits (Pvt) Limited into Industrial Clothings (Pvt.) Limited
- Ihsan Raiwind Mills (Pvt.) Limited into Din Textile Mills Limited
- Schering Plough Pakistan (Pvt.) Limited into OBS Pakistan (Pvt) Limited
- Colony Industries Ltd and Colony Mills Limited into Colony Textile Mills Limited

3. Approvals and permissions

Under the provisions of the Ordinance, 80,213 applications seeking regulatory approvals were received and after due consideration necessary approvals were granted by the SECP or the registrar (see: Table 1).

4. Application for grant of license under section 42 of the ordinance

During the financial year 2013-14(FY2013-14), 48 licenses were issued to non-profit associations under Section 42 of the Ordinance. The SECP ensures quick disposal of applications seeking licenses to non-profit associations. Relevant statistics pertaining to associations' not-for-profit are provided below:

Object	Number of associations not for profit u/s 42, companies u/s 43 and trade organizations incorporated during 2013-14	Total number of associations not for profit u/s 42, companies u/s 43 and trade organizations as on 30-06-2014
Commerce	10	240
Art	0	11
Science	2	14
Religion	1	12
Sports	1	30
Social services	19	251
Charity	1	68
Others	28	307
Total	62	933

5. Investigations into affairs of companies and special audit

The SECP processed 14 applications during FY 2013-14 under section 263 of the ordinance for investigation of affairs of the companies that were allegedly not being managed in accordance with the law.

6. Adjudication of cases under the ordinance

The registrar of companies and the CROs adjudicated 1,413 cases of violation of various provisions of the Ordinance and punitive actions were taken against errant companies (see: Table 2).

7. Dissolution of companies

The SECP disposed of 2,232 cases of dissolution of companies. Of these, 17 companies wound up voluntarily, 4 companies liquidated under Court Orders and 2,211 companies were struck off from the register under section 439 of the Ordinance. The dissolved companies had a cumulative paid-up capital of Rs2.2 billion.

8. Protection of stakeholders' interest

The SECP received 213 complaints from different stakeholders. Of these, 178 complaints were disposed of during FY 2013-14, while 35 complaints were under process at the close of the year.

Relevant statistics are provided below:

Sr. No.	Nature of complaint	Received	Disposed	Under process
1	Mismanagement	17	17	0
2	Non receipt of notices	1	1	0
3	Non registration of transfer of shares	4	4	0
4	Improper election of directors	2	2	0
5	Non-issue of share certificates	1	1	0
6	Misappropriation	1	1	0
7	Miscellaneous	187	152	35
Total		213	178	35

9. Disposal of appeals

The SECP received 93 appeals under the Ordinance. Of these, 76 appeals were disposed of while 17 appeals were under process at the end of the period under review. Relevant statistics are provided below:

Sr. No.	Relevant section of the ordinance	Nature of appeal	Received	Disposed of	Under process
1	Section 37	Appeal against refusal of company name	77	67	10
2	Section 78-A	Appeal against refusal for registration of transfer	2	1	1
3	Section 468	Appeal against refusal to accept any document	11	5	6
4	Section 484	Revision and Review of any order passed other than Section 476	3	3	0
Total			93	76	17

10. Annual accounts-related measures

The SECP ensures efficient monitoring of companies with the relevant laws and regulations and conformity with the International accounting standards. During FY 2013-14, summary examination of annual audited accounts filed by private companies having paid-up capital less than Rs100 million as well as section 42 Companies where total annual grant /donations are less than Rs50 million or total assets and revenue are less than Rs100 million was conducted by the registrars at the Company Registration Offices.

Continuous monitoring is being done at the head office in this regard. Notices were issued for the default, hearings have been held and orders were issued.

Further, a filing module is being developed which would include important fields of financial and non-financial data to be submitted by the filers, while submitting their annual audited accounts. The aforesaid data would help in generating different reports on the basis of the data provided by the filers which would help the SECP in its regulatory work.

Developmental activities

1. Measures to promote corporate compliance

Activation/strike-off drive

In order to increase the compliance rate, the SECP launched a comprehensive activation/strike-off campaign to activate defaulter companies and strike off defunct companies. The lists were made of defaulter and defunct companies and were placed on the SECP website. The strike-off action against around 2,000 companies was completed during the FY 2013-14.

Mechanism to review and deal with pending returns/documents

In April 2013, the SECP implemented a mechanism to review and deal with pending returns/documents. These returns/documents have been pending for months or in some cases for years, due to some deficiencies or incorrect data submitted by companies. As part of this mechanism, companies were reminded a number of times for correction/rectification in returns/documents. Under this campaign re-examination of about 22,000 documents/returns (pending at companies' end) was performed. About 15,000 such returns were processed and around 2,700 rectified documents/returns were filed by companies. Over 1,000 deficient returns were rejected on the grounds of non-compliance with repeated reminders.

Concept paper on enhancing the filing ratio of accounts

A concept paper was drafted during the year by the CCD, analyzing various patterns of an enhanced filing ratio of the financial statements with the registrar. Chiefly, the paper analyzed the reasons why some required filers did not file the financial statements, set out the unhealthy outcomes of non-filing vis-à-vis potential benefits of an increased number of financials of the industry; and produced an account of the initiatives taken in past, in progress and proposed for the future while taking into account contemporary developments at the international jurisdictions to further increase the ratio of filing of financial statements with the registrar. The concept paper provided a time-bound action plan, consistent with the macro objective to beneficially regulate the corporate sector and to encourage or force any non-filers to file the accounts. The year 2014-15 is expected to see implementation of the measures proposed in the action plan, in a consensus-driven order of preference.

2. Facilitation measures

Filing of annual returns and annual accounts

Companies were facilitated on the due dates of filing of annual returns and annual accounts. Advertisements, public notices and press releases to raise awareness were issued. The Chambers of Commerce and Industry (CC&Is), the Institute of Chartered Accountants of Pakistan (ICAP) and the Institute of Cost and Management Accountant of Pakistan (ICMAP) were engaged to extend facilitation to the corporate sector, to raise awareness and to disseminate information among their members. The CROs remained open late on the closing dates, and last dates for filing of Form A/B/29 and annual accounts, and extended maximum facilitation for collection of these documents. Special counters were established at bank branches, the CROs and CC&Is.

Media campaigns

Extensive advertising campaigns were run to raise awareness that included joint awareness campaign by the SECP and SBP against illegal businesses and an awareness campaign on online payment facility.

Development of one-pager memorandums of association

One-page memorandums of association for the following sectors were drawn up and placed on the SECP' website for the convenience of promoters:

- Construction
- Trading
- Developers
- Consultancy
- IT consultancy
- Hajj and umrah services
- Courier services and
- Drugs and chemicals

Furthermore, a detailed memorandum of the hospital sector was also drawn up and placed on the website for the convenience of the general public.

Development of guidebooks

During the year Transfer of Shares and Debentures guide was placed on the SECP website.

Meetings with corporate consultants

Regular meetings with corporate consultants/intermediaries were held to seek their ideas on ways to improve the operational working of the CROs.

Raising awareness

More than 65 awareness seminars and workshops on benefits of corporatization, eServices, mandatory online filing and corporate compliance were organized in various cities. Almost half of these events were organized in collaboration with chambers of commerce, tax bar associations and other relevant organizations. These events were well attended and produced good results.

Participation in conferences, seminars, events and shows

During the FY 2013-14, the SECP participated in a number of events. Some of these events are listed below:

- Participation in program arranged for Chinese delegation from Yantai Chamber, China at the FPCCI, Lahore
- Corporate Pakistan – 2013, organized by the ICMAP, Lahore
- Journalists' workshops, 2014, arranged in Lahore and Islamabad

Awareness campaign on public sector companies (corporate governance) rules

The SECP either organized or provided technical support to many awareness events regarding the 2013 Public Sector Companies (Corporate Governance) Rules, including the following:

- Conference on Corporate Governance of Public Sector Entities held in September 2013 at Islamabad, sponsored by the Association of Chartered Certified Accountants, Islamabad and Center for International Private Enterprises (CIPE), Karachi with a key-note speech on "Choosing Right Man for the Right Job – How to appoint CEO and Directors in Public Sector Companies" delivered by Executive Director (C&CD)
- Workshop on challenges facing the implementation of the 2013 Public Sector Companies (Corporate Governance) Rules held in October 2013 jointly with the World Bank, Pakistan Mission at Islamabad
- Conference on Corporate Governance of Public Sector Entities held in March 2014 at Lahore, sponsored by the Institute of Cost and Management Accountants of Pakistan and the World Bank jointly with the SECP and the Ministry of Finance
- Workshop on Corporate Governance in the Utility Sector of Pakistan held in March 2014 at Islamabad, organized by the Institute of Cost and Management Accountants of Pakistan jointly with the USAID and the SECP
- Seminar on Corporate Governance Rules for Public Sector Companies held in April 2014 at Islamabad, organized by the Institute of Chartered Accountants of Pakistan, the World Bank and the SECP
- Seminar on Corporate Governance Rules for Public Sector Companies held in May 2014 at Lahore, organized by the Institute of Chartered Accountants of Pakistan, the World Bank and the SECP

Corporate Registers Forum (CRF) Conference 2014

The SECP participated in the annual CRF conference in March 2014, held in Rio de Janeiro. Mr. Tahir Mahmood, the CLD commissioner and acting chairman, and Mr. Muhammad Musharraf, the additional registrar of companies, represented the SECP. Delegates from global registries participated in the conference and compared notes, particularly on paperless environment and online services regime.

Corporate Registers Forum Conference in Rio, Brazil, in March 2014

Visits to the facilitation desks established at BBCI and RYKCCI

Facilitation desks were established at the Bahawalpur Chamber of Commerce and Industry and Rahim Yar Khan Chamber of Commerce and Industry in pursuance of PM's directive. During the year, the designated official visited these chambers on a quarterly basis. During these visits, many meetings were held with office-bearers of the chambers and local investors of Bahawalpur and Rahim Yar Khan Districts. These meetings were successful in persuading the people of the areas to become part of the corporate sector. The officials reassured them of the SECP's increased cooperation and assistance in their day-to-day corporate affairs. More people are corporatizing their businesses and availing themselves of services provided by the SECP.

Future plans

1. eServices project

Mandatory online filing of returns

Notification for next phase of mandatory online filing of returns was issued on June 30, 2014, which shall be effective from September 1, 2014 and applicable to the following categories of companies:

- All public unlisted companies;
- All companies not for profit licensed under section 42;
- Trade bodies; and
- All private companies including single-member ones having paid-up capital of Rs50 million or more.

Earlier, online filing was made mandatory for the following categories of companies:

- Companies registered online through eServices since May 16, 2012 are required to file their subsequent statutory returns electronically with the SECP or the relevant registrar
- All listed companies since May 13, 2013
- Companies which filed last document, return, accounts or any application through eServices as on May 13, 2013, or have filed any document, return, accounts or application through eServices from the said date onwards

This is another step towards paperless environment in the SECP.

Online payment system enhancement

In order to further enhance the services' delivery to the corporate sector and invoke the true spirit of online services regime, the availabilty of online payment options is being implemented which will greatly enhance facilitation to the stakeholders. It will enable payment through debit/credit cards, interbank fund transfers etc.

Modules under eServices

eServices modules for voluntary winding up, licensing under section 42 of the ordinance for non-profit associations, filing of accounts and adjudication are being developed. Moreover, module for submitting applications for CTC and inspection by third parties is also being developed which will facilitate users other than companies to submit the said applications online without the need for digital signatures.

Alert system

In order to improve the efficiency and compliance, an alert system is being proposed through which automated alerts will be sent to the internal and external stakeholders.

2. Development of legal framework

Draft Associations Not-for-Profit (Licensing and Corporate Governance) Regulations

The 2013 Draft Associations Not-for-Profit (Licencing and Corporate Governance) Regulations were published on April 9, 2013, to elicit public opinion and to have an in-depth interaction with the stakeholders (NGOs, chartered accountants, cost and management accountants and lawyers). Roundtable conferences were organized in coordination with the ICMAP and the ICAP in Karachi, Lahore and Islamabad. The conferences were very successful and witnessed active participation from the stakeholders, which will help in finalizing the proposed regulations and betterment of the NGO sector. However, the 2014 Foreign Contribution Act has been presented in the Parliament and has yet to be passed. The matters covered in the proposed act shall also touch the issues relating to the licencing regime under section 42 of the 1984 Companies Ordinance, therefore, the 2013 Associations Not-for-Profit (Licensing and Corporate Governance) Regulations are being kept pending to make them in line with the proposed Foreign Contribution Act.

Draft amendments to the Single Member Companies Rules

The concept of incorporation of a company limited by shares by a single person was introduced through the 2003 Single Member Companies Rules. It was, however, observed that the concept of the single member company could not flourish as per expectations. The cumbersome pre-incorporation procedures, mandatory appointments of nominee and alternative nominee directors, and ambiguous provision regarding legal person intending to be a single member were found to be the main reasons. Therefore, in order to facilitate the entrepreneurs to incorporate single member companies without any hassle, certain amendments to the Single Member Companies Rules were forwarded to the Law Ministry for vetting before their publication in the official gazette to elicit public opinion.

The notification containing proposed amendments as approved by the Ministry of Finance and vetted by the Ministry of Law was published in the Official Gazette on September 13, 2013 vide SRO 791(I)/2013. No response was received from any quarter. However, while reviewing the proposed amendments, it was observed that further changes were required to be made to the draft amendments. Consequently, a revised notification was placed before the Commission which was discussed in its meeting, held on January 29, 2014, and certain observations were made and the department was directed to revisit the entire Single Member Companies Rules in light of resubmitted proposal to the Commission.

As desired by the Commission the entire Single Member Companies Rules have been revisited and revised and some further minor additions and deletions have been made and working paper in this regard has been placed before the Commission.

Draft Companies (Easy Exit and Restoration) Regulations

In order to make the Companies Easy Exit Scheme (CEES) a permanent feature and acknowledging the continuous demand from various quarters, the SECP has approved the draft 2014 Companies (Easy Exit and Restoration) Regulations for eliciting public opinion in terms of section 506 of the Companies Ordinance, 1984. The proposed regulations will provide the companies having no assets or liabilities or not carrying on any business, with an opportunity to get their name struck off from the register under section 439 of the ordinance, without going into lengthy winding up process. Accordingly, only healthy and functional companies will remain on the register, thereby increasing the rate of compliance with the provisions of the ordinance, particularly with respect to filing of returns. Moreover, in the meeting of Senate Standing Committee on Finance, Revenue, Economic Affairs, Statistics, Planning and Development and Privatization held on September 27, 2013, it was recommended that the Commission should make company easy exit scheme a permanent feature.

Furthermore, the proposed regulation also prescribed the procedure for restoration of name of companies in light of the provisions of sub-section 9 of section 439 of the Ordinance.

Draft amendments to Third Schedule of the Companies Ordinance

Every company is required to file with the registrar once a year a return containing the particulars specified in Form A or Form B of the Third Schedule. Keeping in view the amendments to the Fifth Schedule to the ordinance pertaining to the classification of companies, it was felt necessary to amend the format of Forms A and B, so as to incorporate fields pertaining to classification of companies. Moreover, suggestion to include a field pertaining to national tax number (NTN) was also received from the FBR. Therefore, an exercise for amending the existing format of Forms A and B has been carried out with the coordination of respective departments of the SECP and a working paper for approval of the Commission has been moved for revised version of both forms.

The Companies (Appointment and Qualification of Company Secretary) Regulations

Section 204A of the 1984 Companies Ordinance was inserted into the ordinance in 2002 regarding compulsory appointment of secretary by listed and single member companies. Subsequently, rule 14B was inserted into the Companies (General Provisions and Forms) Rules 1985, in 2003, which prescribed qualifications of company secretary for listed as well as single member companies.

It was observed that neither the ordinance nor the rules provide for the procedure and mechanism for the appointment as well as removal of a company secretary by companies for whom appointment of company secretary is mandatory as well as for the companies in which appointment of company secretary is optional, i.e. private and unlisted public companies.

Therefore, with a view to providing procedure and mechanism for the appointment and removal of a company secretary by the companies, working paper for draft regulations would be moved for approval of the Commission and subsequently published in the official gazette to elicit public opinion as required under section 506A of the ordinance.

Concept paper on limited liability partnership

The Commission in its meeting held on April 1, 2014 approved a concept paper for the introduction of the concept of limited liability partnership (LLP) in Pakistan.

The SECP has already started consultative process with the ICAP on this issue. In the next phase, the concept paper will be circulated to all the stakeholders, academics, scholars, market participant etc. for their input. Final version of Concept Paper will be shared with the Ministry of Finance prior to August, 2014 to meet the deadline of September 30, 2014.

Furthermore, the SECP has already initiated preliminary work on the draft Limited Liability Partnership Act and after input from stakeholders and approval of the Commission the same will be shared with the MOF for onward submission to the Ministry of Law for vetting and further process of enactment through parliament.

3. Public facilitation

One-stop shop

An MOU for the establishment, operation and administration of a virtual one-stop shop (OSS) for business registration was signed on December 19, 2013 between the SECP, Federal Board of Revenue (FBR) and Employees Old-Age Benefit Institution (EOBI). The virtual OSS shall be a web portal to provide a single interface for investors intending to get their company registered with the SECP, followed by NTN/tax registration with the FBR, and employers' registration with EOBI, and without the need to physically visit the offices of the said authorities.

The project is the first of its kind in Pakistan with the underlying objective to facilitate the entrepreneurs and investors and ensure an expeditious service delivery by integrating the registration procedures of the three government authorities. The OSS is best global practice that is being followed by governments in various countries to facilitate business start-up, either on virtual or physical basis, with the aim to reduce administrative procedures and the time to obtain business approval. Reduction in the time, cost and the number of procedures for business registration is also an important parameter in the" ease of doing business/starting a business" indicator of the World Bank. The launch of OSS shall further improve Pakistan's ranking in the World Bank, doing business indicators, which is likely to have favorable implications for investment promotion to attract investors from within and outside the country. The establishment of an OSS is also a policy condition in the area of business climate reforms as laid down in the Memorandum of Economic Financial Policy entered between the government of Pakistan and the International Monetary Fund pursuant to its Extended Fund Facility.

The deadline for completion of technical documentation and functional specifications of the OSS project, identified as an indicative trigger for Development Policy Credit-I (DPC-1), being part of Extended Fund Facility agreed by federal government with the IMF, was successfully met on February 28, 2014. A meeting was held with the Pre-Appraisal Mission of the World Bank that visited Pakistan from March 10-14, 2014, wherein update on the OSS development and other reform measures included in DPC-I was provided.

In the long run, and after the launch of the virtual OSS, it is contemplated to strategize ways and means to expand the scope of the OSS so as to include other regulatory authorities in the virtual and/or physical modes, in consultation with the government.

Statistics

Key statistics and graphs are presented below for information of stakeholders. These include data pertaining to incorporation/registration of companies, foreign companies, capitalization break-down, cases approved etc.

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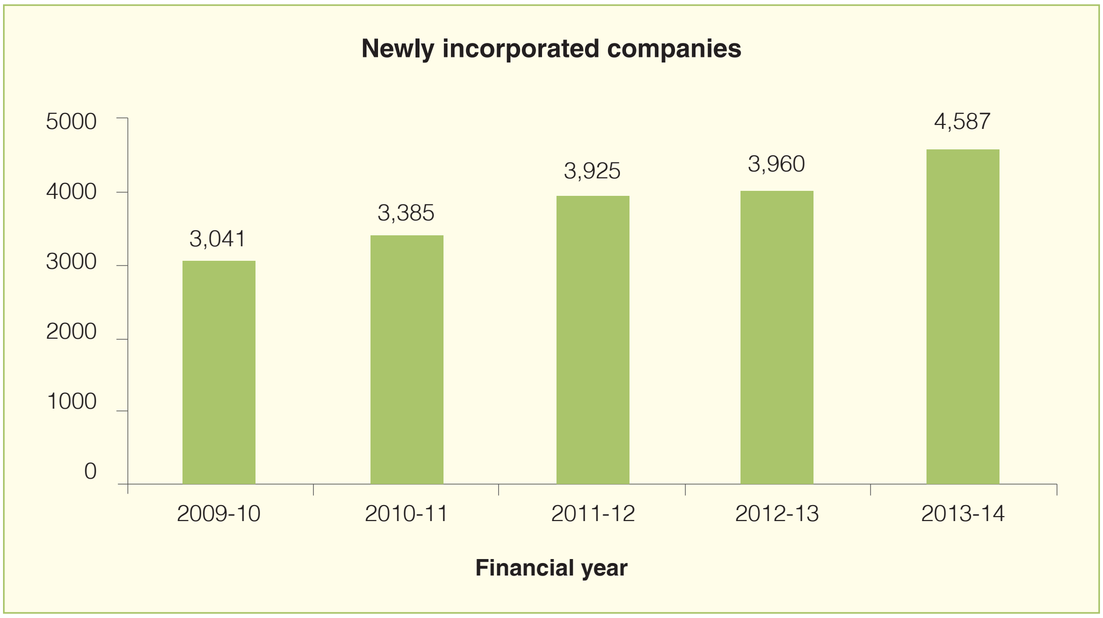
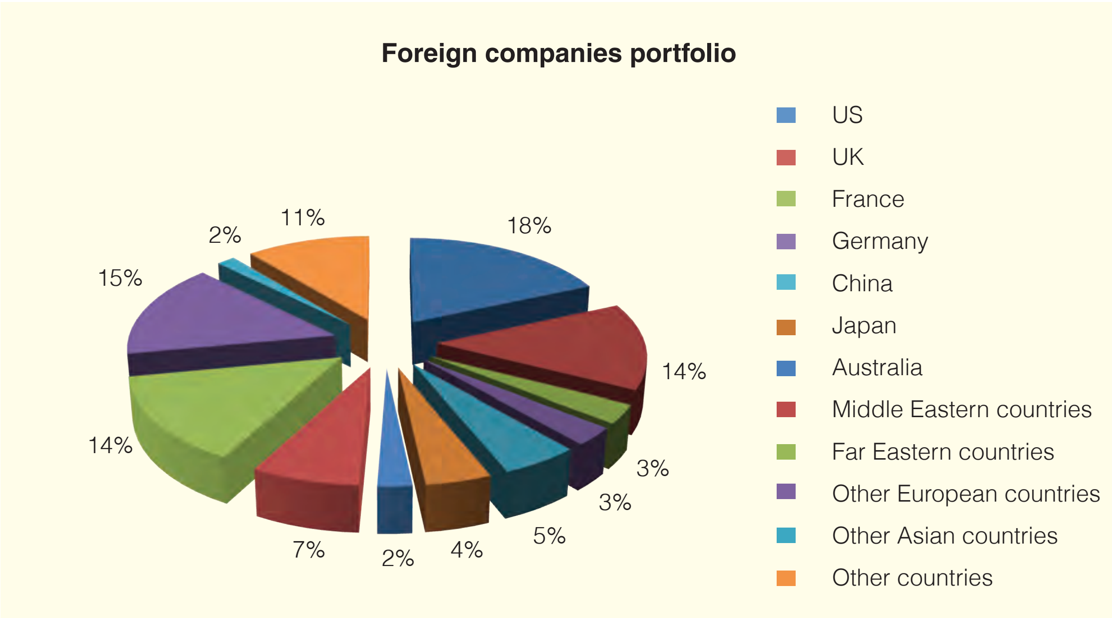
Graph 1: Year-wise company incorporation



Graph 2: Total number of foreign companies



Graph 3: Province-wise new incorporation during FY 2013-14

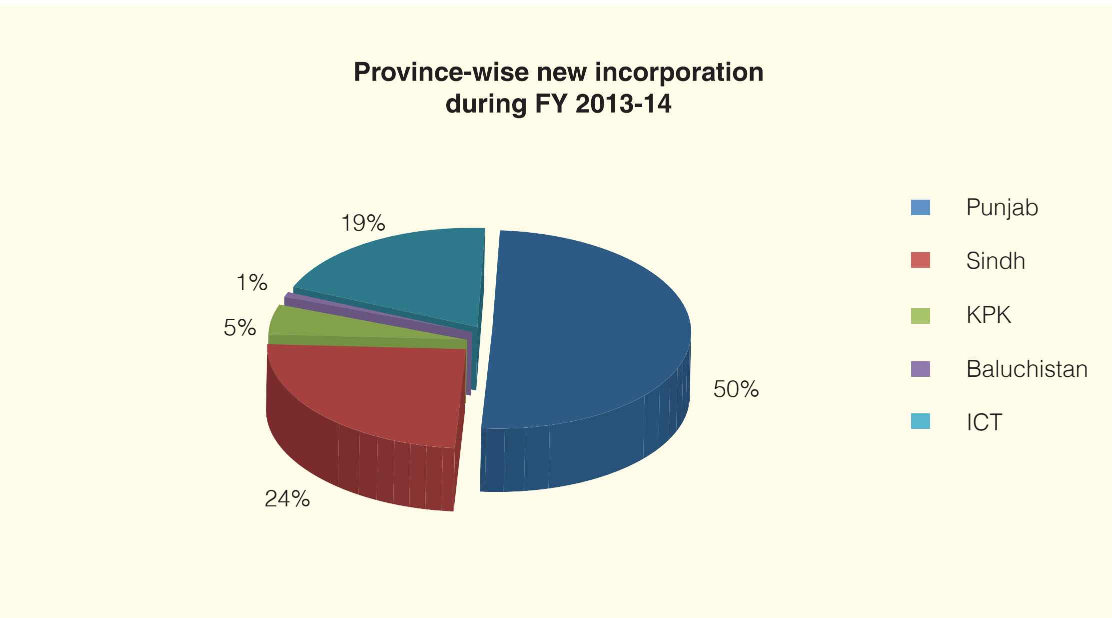


Table 1: List of cases approved under the Companies Ordinance and rules and regulations made thereunder

Sr. No.	Relevant section of the ordinance	Nature of approval/permission sought	Total
1	Section 21	Amendment in memorandum and articles of association	186
2	Section 37	Availability of name	10,182
3	Section 39	Change of name	215
4	Section 42	Grant of license to associations	48
5	Section 44	Conversion of public companies into private companies	3
6	Section 84	Issue of share at Discount	3
7	Section 86	Further issue of capital	1,227
8	Section 90	Issuance of shares having different kinds and/or classes of share capital	4
9	Section 131	Registration, modification, satisfaction of charge and Condonation of delay in submission of particulars of charge	6,258
10	Section 146	Commencement of business certificate	13
11	Section 158	Extension in period for holding of AGMs by non-listed public and private companies	148
12	Section 159(7)	Holding of an EOGM at a shorter notice	7
13	Section170	Calling of overdue meetings	30
14	Section 195	Grant of loans to directors of non-listed public companies	2
15	Section 237	Exemption for Consolidation of Accounts	2
16	Section 251	Extension in payment of dividend	4
17	Section 252	Appointment of Auditors	6
18	Section 258	Approval of appointment of cost auditor	69
19	Section 439(9)	Restoration of name of company to the register of companies	13
20	Section 466(6)	Issue of certified copies of documents	42,792
21	Regulation 18 of the Companies (Registration Offices) Regulations, 2003.	Inspection of records maintained with CROs	17,582
22	Group Companies Registration Regulations 2008	Approval of registration of group and designation for group relief/group taxation	7
23	Public Sector Companies (Corporate Governance) Rules, 2013	Exemptions to Joint Investment companies from the requirements of the Rules	7
24		Miscellaneous (minor activities, providing information to different agencies and shareholders, etc.)	1405
		Total	80,213

Table 2: Adjudication activity

Sr. No.	Section of the Companies Ordinance, 1984 or a rule	Nature of default (give brief description)	Total
1	Under Section156	Late Filing	145
2	Under section 205	Late Filing	273
3	Under section 156 & 206 Combined	Late Filing	546
4	Under Section 198	Late Filing	6
5	Under Section 199	Late Filing	1
6	Under Section 176	Late Filing	4
7	Under Section 172	Late Filing	8
8	Under Section 158	Late Filing	18
9	Under Section 222 & 224	Late Filing	10

10	Under Section 159	Late Filing	1
11	Under Section 184	Late Filing	77
12	Under Section 157	Late Filing	5
13	Under Section 242	Late Filing	176
14	Under Section 245	Late Filing	1
15	Under Section 142	Late Filing	19
16	Under Section 86	Late Filing	24
17	Under Section 94	Late Filing	4
18	Under Section 178	Late Filing	13
19	Under Section 180	Late Filing	21
20	Under Section 260	Late Filing	1
21	Under Section 73	Late Filing	23
22	Under Section 198	Late Filing	5
23	Under Section 252	Late Filing	1
24	Under Section 453	Late Filing	1
25	Under Section 492	Misstatement in the public advertisement through fraudulent promotion of housing scheme	1
26	Under Section 496	Ultra vires activities	3
27	Section 258 r/w the Companies (Audit of Cost Accounts) Rules, 1998	Delay in filing of application / late filing of cost audit report	26
	Total		1413

Table 3: Number and type of companies

Type of companies	Newly incorporated companies for the financial year ending June 30, 2014	Total companies as of June 30, 2014
Companies limited by shares:		
Public listed	-	580
Public unlisted	59	2,260
Private	4,191	57,650
SMCs	253	1,792
Total companies limited by shares	4,503	62,282
Associations not for profit u/s 42	56	634
Companies limited by guarantee u/s 43	1	71
Trade organizations	5	228
Foreign companies	22	847
Public companies with unlimited liability	-	2
Private companies with unlimited liability	-	1
Companies u/s 503(2)		2
Total companies	4,587	64,067

Table 4: Capitalization breakdown as of June 30, 2014

	Listed companies	Unlisted public companies	Private companies	SMCs	Total	%age
Paid-up capital up to Rs100,000	3	389	21,518	1,118	23,028	36.97
Paid-up capital from Rs100, 001 to 500,000.	-	283	8,736	295	9,314	14.95
Paid-up capital from Rs500,001 to 1,000,000	-	102	6,321	168	6,591	10.58
Paid-up capital from Rs1,000,001 to 10,000,000	16	335	15,867	150	16,368	26.28
Paid-up capital from Rs10,000,001 to 100,000,000	161	634	4,297	57	5,149	8.27
Paid-up capital from Rs100,000,001 to 500,000,000	206	327	752	3	1,288	2.07
Paid-up capital from Rs500,000,001 to 1,000,000,000	73	80	80	1	234	0.38
Paid-up capital from Rs1,000,000,001 to above	121	110	79	-	310	0.50
Total	580	2,260	57,650	1,792	62,282	100.00

Table 5: Sector-wise distribution (limited by shares)

Sector	Newly incorporated companies for the financial year ending June 30, 2014	Total companies as of June 30, 2014
Auto and allied	60	787
Broadcasting and telecasting	68	567
Cables and electric goods	42	682
Carpets and rugs	3	71
Cement	2	102
Chemical	75	1,643
Pharmaceutical	128	1,390
Communications	173	2,662
Construction	306	3,162
Corporate agricultural farming	195	1,225
Education	132	999
Engineering	108	1,842
Finance and banking	33	1,089
Food and beverages	166	2,443
Footwear	5	75
Fuel and energy	82	1,250
Ginning	8	350
Glass and ceramics	5	260
Healthcare	68	578
Information technology	367	2,947
Insurance	11	284
Jute	-	20
Leather and tanneries	16	368
Lodging	22	462
Mining and quarrying	66	572
Paper and board	87	1,142
Power generation	125	858

Real estate development	99	1,319
Services	520	7,182
Sport goods	12	199
Steel and allied	23	508
Sugar and allied	10	180
Synthetic and rayon	3	194
Textile	141	4,662
Tobacco	4	86
Tourism	421	6,706
Trading	544	7,310
Transport	99	1,286
Vanaspati and allied	23	453
Wood and wood products	11	215
Miscellaneous	324	5,937
Total	4,587	64,067

Table 6: Foreign companies

Country	Newly incorporated companies FY 2013-14	Number of companies as of June 30, 2014
US	1	156
UK	2	119
France	1	26
Germany	2	25
China	7	45
Japan	1	38
Australia	0	20
Middle Eastern countries	2	62
Far Eastern countries	4	119
Other European countries	2	130
Other Asian countries	0	14
Other countries	0	93
Total	22	847

The Corporate Law Review Commission

The Corporate Law Review Commission (CLRC) Wing is part of the Corporatization and Compliance Department, Company Law Division, which in addition to acting as a secretariat to the Corporate Law Review Commission is also undertaking the corporate sector reform process.

Muhammad Musharraf Khan with Raja Farukh Ahmad, Mian Ahmad Ibrahim and Zahra Gandapur

In order to carry out a holistic examination of the legal framework governing corporations, the SECP established the CLRC in November 2005 under the able leadership and guidance of Mr. Ajmal Mian, former chief justice of Pakistan. It comprised, inter alia, eminent members of the legal, business and accountancy community to examine, assess and ultimately give its recommendations, which will lead to a modernized corporate legal framework in Pakistan.

After extensive stakeholder consultation, the CLRC issued a concept paper to formulate a conceptual framework for the development and regulation of the corporate sector in Pakistan. The concept paper has been placed on the SECP's website to solicit feedback from stakeholders. In light of the deliberations and recommendations of the CLRC, a new company law is being drafted. The CLRC wing has conducted extensive research on international jurisdictions to ensure that every concept pertaining to the corporate law practiced in leading jurisdictions of the world is considered by CLRC during the review process.

In addition to rewriting the 1984 Companies Ordinance, the CLRC Wing has also undertaken an initiative to introduce of limited liability partnership (LLP) in Pakistan. The LLP is a business structure having separate legal entity in which all partners have limited liability and partners' relation with each other and the LLP is governed through a partnership agreement. Going forward, the CLRC wing intends to hold advocacy and consultation sessions in different business hubs of Pakistan. The feedback and ideas from these sessions will be incorporated into legislation.

Introducing the LLP as a new business structure will fill the gap between business firms such as sole proprietorship and partnership, which are generally unregulated and limited liability companies governed by the 1984 Companies Ordinance. In addition to an alternative business structure, the LLP will act as a step towards documentation of the economy and will convert informal, unregistered and unregulated sector into formal and regulated regime.

The LLP regime will provide a platform to small and medium enterprises, increasing their global competitiveness. This structure will assist firms of professionals such as chartered accountants and lawyers to conduct their business activities efficiently and in accordance with their respective governing statutes. The continuing exposure of partners to joint and several liabilities in the traditional partnership structure deters entrepreneurs from undertaking commercial projects or entering into any profession. The LLP structure will provide the necessary cushion to the young entrants to the profession as well as the entrepreneurs. The simplified incorporation regime and relaxed periodic filing requirements will incentivize incorporation. Most importantly, the LLP will be taxed as a partnership but will have the benefit of being a corporate, or more significantly, a juristic entity with limited liability.

Enforcement Department

Introduction

The Enforcement Department is responsible for regulation and enforcement of companies listed on the stock exchanges; public non-listed companies, private limited companies having paid-up capital of Rs7.5 million and above, companies formed under sections 42 and 43 of the 1984 Companies Ordinance, (except insurance companies, non-banking financial companies and modarabas) and their statutory auditors with the applicable corporate laws, rules, regulations, accounting and financial reporting standards, and the auditing standards through review of accounts, inspections, investigations and prosecutions. Necessary actions are taken against non-compliant companies, their directors, management and auditors.

Bilal Rasul, Ali Azeem Ikram (Director/HOD), Amina Aziz, Shahzad Afzal, Ayesha Riaz and Maheen Fatima

Performance review

Facilitation and regulatory approvals

- 105 approvals for dispatch of dividend warrants without CNIC and extension of deadline in payment of dividend
- 53 approvals for appointment of cost auditors
- 31 approvals for extension in holding AGM and change in venue
- 23 approvals for relaxation from consolidation of accounts and change of year for consolidation
- 21 approvals for issue of capital-relaxation of capital issue rules and preference shares
- 7 approvals for group companies registration
- 3 approvals for placement of quarterly accounts on website and extension in submission deadline
- 9 other approvals
- 282 investors' complaints resolved

Monitoring and enforcement actions

- 1,116 examinations of annual financial statements
- 448 cases initiated
- 513 cases concluded
- 114 warnings issued after examination of annual financial statements
- 6 onsite inspections and investigations initiated
- 15 companies directed to hold overdue AGMs

Enforcement actions taken under different statues 2013-14					
Particulars	**Companies Ordinance, 1984**	**Take-over Ordinance**	**Capital Issue Rules**	**Cost Audit Rules**	**Total**
Cases initiated	425	8	3	12	448
Cases concluded	497	6	4	6	513

Facilitation and regulatory approvals

The following facilitations and regulatory approvals were provided:

1. Schemes of arrangements

In line with its objectives, the department facilitates companies in strengthening their capital base and achieving economies of scale in their businesses. The merger/de-merger under a scheme of arrangement within the corporate sector enhances its capacity to deal with the systemic risk and to meet global challenges. The department ensures that the schemes of arrangement proposed by the companies are not prejudicial to the interests of minority shareholders. The department reviewed 9 schemes of arrangements of listed and unlisted companies and provided comments to the respective higher courts. In addition to above, in some cases high courts on recommendation of department have directed the companies to amend the swap ratios calculated for merged companies.

2. Issue of capital (listed companies)

The companies can raise further capital by way of right and /or bonus issues without the SECP's approval. However, if the companies want to issue right shares more than once in a year or want to raise their capital without the offer of right shares, they are required to obtain the SECP's permission. A company limited by shares can issue more than one kind of shares having different rights and privileges under the ordinance. During the year, the department received 28 applications from listed companies for further issuance of capital. These applications were disposed of as follows:

Issue of shares otherwise than right

Eight listed companies approached the SECP, during the year for permission to issue shares otherwise than right shares. In order to facilitate further issue of capital, all applicant companies were allowed to issue shares by way of otherwise than right.

Issue of preference shares

The ordinance allows companies limited by shares to issue more than one type of shares having different rights and privileges after the approval from the SECP. The department received applications for issue of preference shares to existing shareholders from 3 companies, out of which 2 companies were allowed to issue shares as per their application, whereas further information has been sought from the other company. Along with the SECP's Sharia Advisory Board, the department also reviewed the structure proposed by a listed company for the issuance of Sharia-compliant participation term certificates. In light of the SECP's feedback, the said structure is under revision by the company.

Issue of shares at discount

The companies are allowed to issue shares at discount only after getting the SECP's approval. The companies wishing to issue shares at discount are required to file an application with the SECP for an order sanctioning the issue. Six applications relating to issue of shares at discount were received. Approvals in 5 cases were granted, whereas further information has been sought in one instance. Further, in case of one listed company in order to protect the interests of minority shareholders, the sponsors and their relatives have been prohibited from trading company shares for 2 years. In the case of another listed company, where right issue remained under subscribed on part of sponsor, direction in terms of Section 472 was given to issue right shares to minority shareholders who had deposited the right subscription. While in case of a bank, the discount on issue of right shares was reduced from Rs3.67 per share to Rs1.65 per share in the interest of shareholders.

Relaxation of rules

The federal government has empowered the SECP to relax the requirements of certain laws upon application from companies, if considered appropriate. In this context, 11 companies applied for relaxation from the requirements of the 1996 Companies (Issue of Capital) Rules. After detailed examination and keeping in view the circumstances of the cases, the department relaxed the requirements of rules for 6 companies enabling them to raise capital whereas one application was rejected and the remaining 4 applications are under consideration.

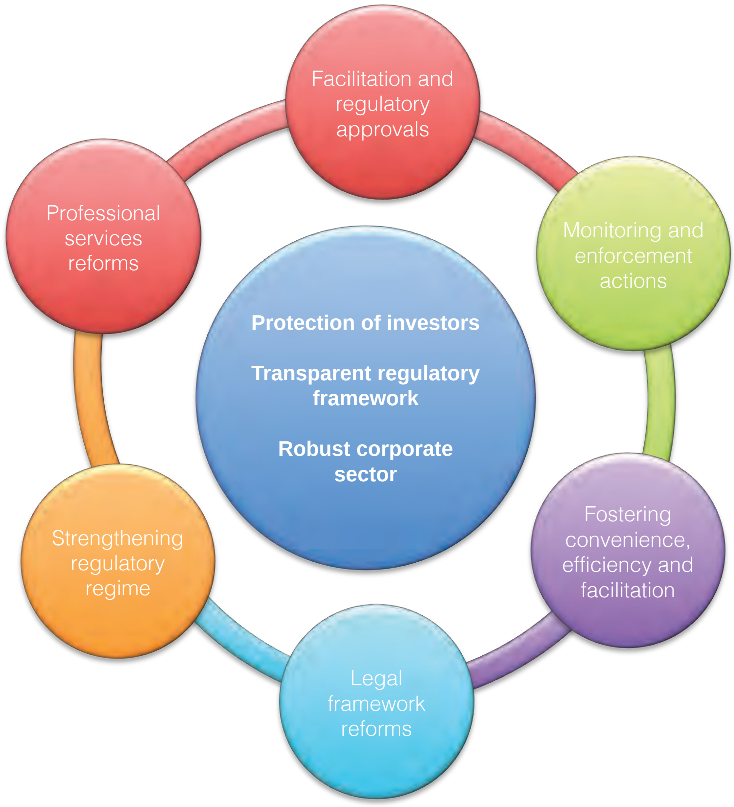
3. Other regulatory actions/approvals

Appointment of cost auditors

Companies from vegetable ghee and cooking oil, chemical and fertilizer, synthetic and rayon, sugar and cement industries are required to appoint cost auditors with prior approval from the SECP. The appointment of 53 cost auditors in the matter of listed companies was approved under the 1998 Companies (Audit of Cost Accounts) Rules.

Relaxation for dividend warrants

In order to facilitate companies for issuing their dividend warrants, the department, under the authority of the Commission to relax the rules, has granted relaxations in respect of 105 applications of listed companies from SRO 831/(I) of 2012, which requires mandatory bearing of computerized national identity card (CNIC) number on dividend warrants. While granting relaxations, it was ensured that notice of seeking CNIC is published in the newspapers and is also served at the registered address of the shareholders.

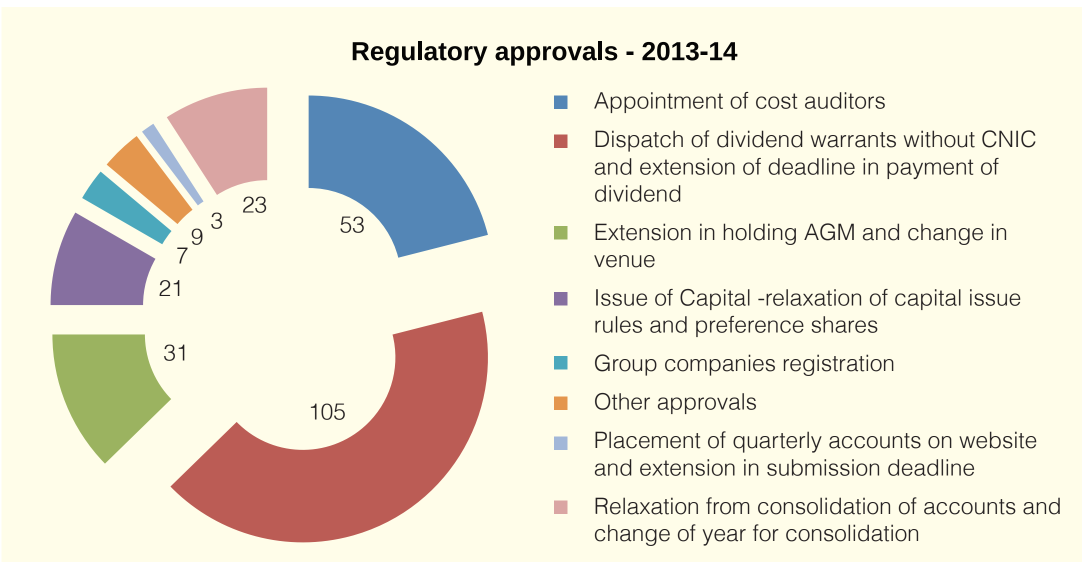


Extension in time to hold annual general meetings

Extension in time to hold annual general meetings was granted to 24 listed companies after fulfilling the requirements of the law. Seven companies were allowed to hold their AGMs in locations other than their registered offices, as allowed in the ordinance.

Exemptions from preparation and filing the consolidated accounts

A number of companies applied for exemption from the mandatory requirement of preparation and filing of consolidated accounts along with the stand alone accounts. The department granted the exemption to 23 companies after analyzing the circumstances of the cases. However, such relaxations were subject to certain conditions such as financial highlights of the subsidiaries and nature of auditors' opinion on the subsidiaries accounts must be disclosed in the annual and half yearly accounts of the applicant company. Furthermore, it must be disclosed at a conspicuous place in the annual and half yearly accounts of the applicant company, that annual audited accounts and half yearly accounts of the subsidiaries shall be available for inspection at registered office of the company.



Placement of quarterly accounts on website

At the beginning of the year under review, 274 listed companies had approval from the SECP to place their quarterly accounts on their official websites instead of transmitting the same by post in order to ensure that material information is available to shareholders, enabling them to make informed decisions. The total number of listed companies having such approval rose to 277, as 3 more companies obtained the aforementioned approval.

Group companies registration

A company which is desirous of forming group with its subsidiaries is required to apply to the SECP to register as a group. During the year, SECP issued certificate of registration as a group to 7 companies under the 2008 Group Companies Registration Regulations.

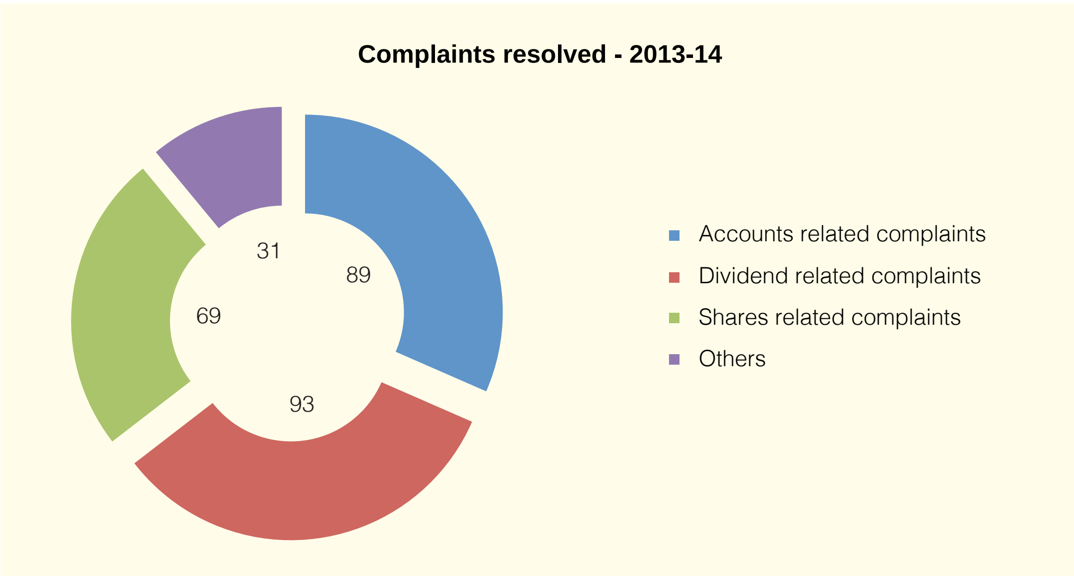
Approvals for extension of loan

Approval to a listed company was given to extend loan facility to its chief executive fulfilling the requirements of the ordinance.

4. Investors' grievances

The restoration of the shareholders/stakeholders' confidence by swift resolution of concerns/complaints is part of objectives of the department. The department also assures its actions on whistleblowing by the shareholders/stakeholders, where possible violations/ contravention of law by the management of any company is observed. Investors' grievances are considered top priority and addressed in a timely manner by the department in order to safeguard their interests.

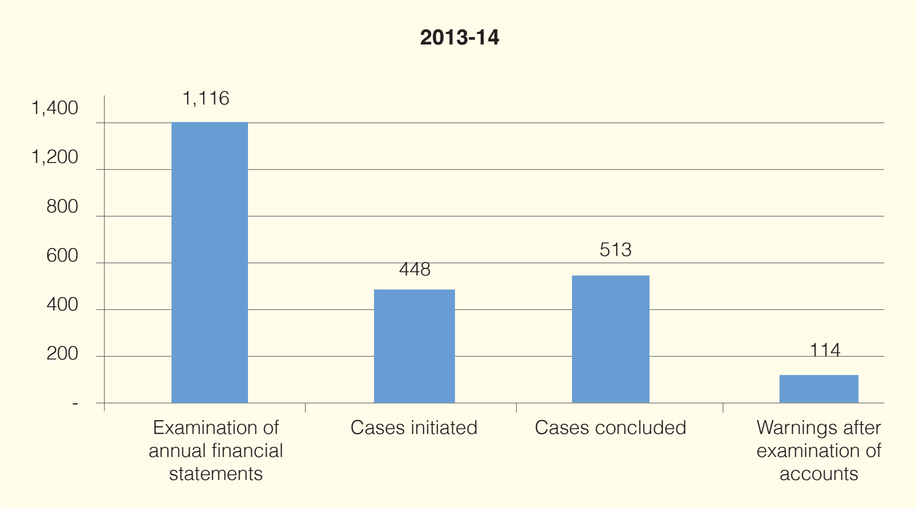
During the year, the department resolved 282 complaints from various shareholders, mainly relating to non-receipt and non-encashment of dividend warrants, delay/non-transfer of shares and issuance of duplicate shares, non-receipt of annual and interim accounts, inappropriate deduction of zakat and other miscellaneous matters, including non-holding of AGMs, non-circulation of notice of meeting etc. Rapid and appropriate actions were taken on all complaints received. Here is a summary of complaints resolved:



Monitoring and enforcement actions

The department conveyed a message to the corporate sector that the SECP is a sophisticated and robust regulator, ready to take immediate and strong action against violators of corporate laws. During the year 1,116 audited financial statements of listed and non-listed companies were examined and explanations with regard to various violations observed during the examination of the audited financial statements were sought. Here is a summary of actions taken against the companies and their statutory auditors on account of various defaults:

Administrative measures 2013-14	
Examination of annual financial statements	1,116
Cases initiated	448
Cases concluded	513
Warnings after examination of accounts	114
Onsite inspections and investigations initiated	6
Companies directed to hold overdue AGMs	15



1. Inspection into the affairs of companies

The department authorized onsite inspection of books, records and papers of 3 companies due to instances including adverse audit opinions of statutory auditors in the audit reports, unauthorized inter-corporate financing, non-confirmation of the balance of assets and liabilities of the companies, improper payments made to foreign officials, non-repayment of loan installments, suspension of operations, payment of hefty advisory fee to director of the company, contraventions and irregularities of the applicable regulatory framework and unauthorized disposal of fixed assets. Such inspections are fact finding exercises undertaken under section 231 of the ordinance on a routine basis to ascertain whether proper books of accounts and books and papers of companies have been maintained or not.

2. Investigations

Investigations constitute a salient aspect of the SECP's role as the regulator of the corporate sector. Three investigation proceedings were initiated against the companies out of which 2 were against non-listed companies and one was related to a listed company. Investigation proceedings were initiated against the companies based on observations, including but not limited to adverse or disclaimer of opinion by the statutory auditors, blatant misstatements by the companies, siphoning of funds of the company by the directors and company's failure with regards to submission of requisite documents.

3. Inter-corporate financing

Efforts under the ordinance were geared up to deter unlawful inter-corporate financing. Necessary steps were taken to curb the misuse of company funds. The department vigilantly monitors inter-corporate financing between the associated companies to ensure that the transactions are made at arm's length and to restrain the unauthorized utilization of funds by the management and sponsors of the companies for their own benefit. Cases were identified where investments were either made in associated companies without approval of shareholders or free of interest. Five proceedings of unauthorized inter-corporate financing against the chief executives and directors of companies were concluded through penal actions and stern warnings.

4. Powers of directors

In pursuit of one of the key objective of the department, i.e., to safeguard the interests of general public/shareholders in the companies and in order to ensure good governance in the companies, the department actively monitors the use of powers given by the ordinance to directors of a company and takes appropriate actions where misuse of powers by the directors is identified. Proceedings against directors of 12 companies were concluded in this regard.

5. Making false/incorrect statements in documents required under the ordinance

The ordinance has empowered the SECP to take strict action against persons who submit or cause to submit false/incorrect information. During the year, 33 cases were identified where false/incorrect information/documents were submitted to the SECP. Penalties were imposed in 25 cases while strict warnings were issued in 8 cases after obtaining assurance of future compliance of the ordinance.

6. Actions against auditors

The auditors have significant responsibility towards shareholders of companies. In issuing an audit report on financial statements, the auditors are guided by the requirements of relevant laws and applicable accounting and auditing standards. It is essential that auditors discharge their responsibilities with due care, integrity and professionalism to give an independent and objective opinion on financial statements.

Fifty instances were identified where auditors failed to perform their statutory function as per the provisions of the law. The department took appropriate actions against such non-compliances by the statutory auditors of the company and concluded the cases accordingly. Besides imposing fines on auditors, they were advised to discharge their responsibilities with due care and professionalism and to give independent and objective opinion on financial statements in future.

In order to address the issue where the auditors deny having audited the accounts filed by the companies with the registrar, instructions were issued to all Company Registration Offices (CROs) through the Corporatization and Compliance Department to ensure compliance with section 253 (5) of the ordinance with regard to filing of the consent letters of auditors upon their appointment.

7. Non-preparation and submission of consolidated financial statements

The ordinance stipulates that consolidated financial statements of the holding company and its subsidiaries shall be attached to the standalone financial statements of a holding company having a subsidiary or subsidiaries. Legal proceedings against directors and officers of 14 holding companies were concluded who failed to prepare and attach consolidated financial statements with their standalone annual audited financial statements. Eight proceedings were concluded with penalty, while in 6 instances proceedings were concluded with stern warnings.

8. Irregularities in provident fund

The ordinance requires the companies to deposit the employees' and employer's contributions to the provident fund in a separate bank account and has prescribed the investments wherein the money should be invested, whereas in case the company has formed a trust for the provident fund, the contribution to the provident fund should be paid by the company to the trust within the time prescribed by the Ordinance.

The department concluded 24 proceedings against directors of companies and trustees of provident fund trusts for contravening the provisions of the ordinance and the rules formulated for this purpose. Penalties were imposed in 13 cases while strict warnings were issued in 11 cases after obtaining assurance of future compliance of the law. In addition, directions were given to repay the contributions and loans due to respective funds along with accrued markup.

9. Surplus arising out of revaluation of fixed assets

Six cases against the directors of the companies were concluded wherein the companies failed to transfer an amount equal to incremental depreciation from surplus on revaluation of fixed assets to unappropriated profit/accumulated loss through statement of changes in equity to record realization of surplus to the extent of the incremental depreciation charge for the period. Penalties were imposed in 5 cases, while strict warning was issued in one case after obtaining assurance of future compliance.

10. Irregularities in utilization of security deposits

The provisions of the ordinance have restrained the companies from utilizing any money received as security or deposit, except in accordance with a contract in writing; and deposit or keep all the moneys so received in a special account with a scheduled bank. The department has concluded the proceedings against 15 companies for violation of the aforesaid provisions of the law wherein, penalty was imposed in 7 cases while stern warnings were issued to chief executives and directors of 8 companies after obtaining assurances of future compliance.

11. Authentication of balance sheet

The department also ensures that the balance sheets and profit and loss accounts of companies have been authenticated by the chief executive and directors in the manner as prescribed in the ordinance. In pursuit of this objective, the department concluded 27 proceedings against the directors of companies wherein they failed to authenticate the balance sheet and profit and loss account in accordance with the provisions of the law. Seventeen proceedings were concluded with imposition of penalties while warnings were issued in 10 cases.

12. Improper issue, circulation or publication of balance sheet or profit-and-loss account

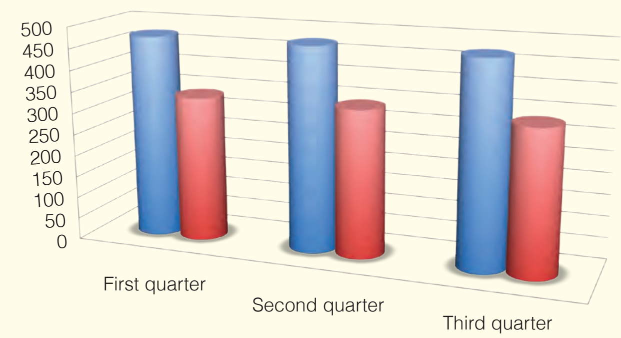
The 1984 ordinance requires companies to attach certain reports and accounts to their balance sheets while issuing, circulating or publishing them. In order to ensure compliance of companies with these provisions of the ordinance, the department reviews the annual audited accounts filed by the companies. During the year, 180 proceedings were concluded against non-compliant companies.

13. Non/late-holding of annual general meeting

The meeting of the shareholders/members of a company is a pivot around which the concept of corporate democracy revolves. The annual general meeting (AGM) has a particularly important role and significance in the functioning and administration of a company. Since the shareholders do not directly participate in the company's day-to-day operations, the AGM serves as a forum for the shareholders to align themselves with its management and to consider and approve significant matters relating to the management and performance of the company, including approval of annual audited accounts, declaration of dividend, appointment of auditors, and election of directors etc. Considering the importance of the shareholders' meetings and in view of its duty to protect shareholders' rights, the department pays special attention to ensure that the AGMs are held in a timely manner so that the shareholders are able to exercise their voting rights at general meetings on all important issues.

In order to safeguard the interests of the shareholders, the department takes a strict view of non-holding of AGMs of the listed companies. Nineteen instances were observed and proceedings were concluded wherein companies failed to hold the AGMs within the prescribed time period.

Quarterly accounts filing status 2013-14



	First quarter	Second quarter	Third quarter
Accounts due	474	475	473
Accounts filed	339	342	335

14. Meetings of board of directors and disclosure of interest

The ordinance has laid down specific rules and procedures for board of directors meetings and disclosure of interest. The department observed several violations with the provisions of the ordinance in this regard. Proceedings against directors of 10 companies have been concluded for their failure to comply with the mandatory provisions of the ordinance, such as disclosure of interest, quorum of meeting, participation in board meeting where a business in which directors have interest was being considered. Eight proceedings were concluded with imposition of penalties while warnings were issued in 2 cases.

15. Non-disclosure of directors' interest in contract appointing chief executive, managing agent or secretary in the directors' report

The ordinance requires companies to disclose directors' interest in contract appointing chief executive, managing agent or secretary or any variation in such contract already in existence. In this regard, the department concluded legal proceedings against 35 companies that had failed to abide by the provisions of the law regarding the disclosure of terms of appointment of the chief executive or contract or variation thereof in the directors' report as well as circulation of the same to the shareholders.

16. Enforcing compliance with the provisions of the ordinance

The SECP has been mandated to direct any company and any officer of the company, as the case may be, to make good on the default or undo any irregularity/violation of any provision of the law which has been observed by the department. In this regard, the department concluded proceedings against 5 companies.

17. Circulation of quarterly accounts

The filing of quarterly accounts with the registrar and the Commission is mandatory for the listed companies. Due to determined efforts of the department, the compliance level of filing of accounts by the companies has reached 71%. A total of 1,016 quarterly accounts were received out of 1,422 accounts.

The department concluded 11 proceedings against the directors of listed companies which failed to file their quarterly accounts within the prescribed time period. Penalties were imposed in 7 proceedings, whereas 5 proceedings were concluded with stern warnings.

18. Non-holding of election of directors within prescribed time period

The ordinance lays down the procedure of election of directors in a general meeting within the stipulated time period. The department is empowered with the monitoring of compliance by the companies with the election procedures and in case of non-compliance takes cognizance of the violation.

Accordingly, 4 proceedings were initiated where the companies could not hold election of directors within the stipulated time period. Two proceeding were closed by imposing penalties whereas remaining 2 proceedings were concluded with stern warnings.

19. Late filing of cost audit report and non-submission of applications by companies for appointment of cost auditors

The vegetable ghee and cooking oil, chemical and fertilizer, synthetic and rayon, sugar and cement industries operating under the corporate umbrella are bound by law to prepare and file the duly audited cost accounts with the SECP. Further, the appointment of cost auditor in the aforesaid companies is subject to prior approval of the SECP. Six proceedings were concluded against the listed companies against the violation of the law wherein, penalties were imposed in 4 instances while stern warnings were issued in 2 instances.

20. Actions under listed companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002

The active monitoring of the transactions relating to substantial acquisition of shares of listed companies with a view to providing a fair and equal treatment to all investors, as well as a transparent and efficient system for substantial acquisition of voting shares and takeovers of listed companies is part of the objectives of the department. The department initiated actions against companies which were in violation of the provisions of the takeover ordinance. Six instances of non-compliance with the provisions of the takeover ordinance were concluded. Three proceedings were concluded with penalty while warning was issued in 3 instances.

21. Application for revision and review of the orders

An aggrieved person/party who is dissatisfied with the outcome of legal proceedings concluded by the department may file an application for revision/review of the order issued pursuant to the provisions of the ordinance. Four applications for revision of orders have been received wherein, revision of 2 applications was approved whereas, 2 applications were rejected and the orders were upheld.

Development activities

The department, in addition to its routine task, has kept itself abreast and has thrived to meet the dynamic needs of the future. The department has actively been involved in development activities which includes development of new rules/regulations and laws and revamping of the existing statutes. Here is a summary of developmental activities:

1. Annual general meetings through video conferencing

The SECP allowed listed companies to hold general meetings through videoconferencing, with a view to providing larger participation and cutting costs borne by the shareholders to attend meetings. The facility would allow shareholders, residing at different locations, to participate in meetings.

2. Development of guidelines

As a part of its endeavor to create public awareness on the key legal and regulatory issues and to develop a modern, efficient and dynamic corporate sector, the SECP is in the process of developing/revising guidelines on the following areas:

Guidelines on compromise, arrangements and reconstruction

The procedures and legal provisions relating to compromise, arrangements and reconstruction of companies have been consolidated by the department in the form of a guide. Comments in this regard have been received from the Institute of Chartered Accountants of Pakistan (ICAP) and the guidelines have been forwarded to the Legislation Litigation and General Counsel Department (LLGCD) for vetting before submission to the Commission.

Guideline for conduct of directors in BOD meetings, restriction and disclosures

Guidelines on the transactions involving interest of directors are being developed in order to promote better disclosures and transparency in line with the requirements of the ordinance. Regulatory experience highlighted numerous contraventions of the requirements of the law in respect of transactions and arrangements involving interest and concern of directors. The main objective of the guidelines is to create better awareness among the corporate sector by providing guidance for companies, their directors and officers on the application of relevant legal provisions and the SECP's expectation in relation to various aspects of transactions and arrangements that involve interest or concern of directors. The draft has been sent to the LLGCD for vetting before approval by the Commission.

Fostering convenience efficiency and facilitation

Achievements

1. Allowed companies to hold annual general meetings through videoconference

Initiatives in process

2. Guidelines on compromises, arrangement and reconstruction
3. Guideline for conduct of directors in BOD meetings restriction and disclosures
4. Guidelines on going concern for directors and auditors
5. Revision of guidelines for issue of shares at discount
6. E-voting in general meetings
7. Revision in schedule of fee in respect of authorized capital as a result of merger
8. Dispatch of annual accounts through email
9. Functional website for companies
10. External assurance mechanism for CSR reports

Strengthening regulatory regime

Achievements

1. Summary examination of financial statements of non-listed companies having paid-up capital of Rs100 million or below
2. Clarification: only chartered accountants to act as auditors
3. Clarification on quality of audit by QCR-rated statutory external auditors of non-Listed companies
4. Clarified definition of term “firm of chartered accountants”

Initiatives in process

5. Whistleblowing mechanism
6. Amendments in audit report format
7. Adoption of IFRS for SMEs and revisiting qualifying criteria for non-listed companies
8. Initiatives for improving quality of financial reporting

Legal framework reforms

Achievements

1. Issuance of bonus shares against redemption reserve fund

Initiatives in process

2. Provident fund rules, 2014
3. Principles of corporate governance for non-listed companies
4. Amendments in the 1st schedule to the 1984 Companies Ordinance
5. Development of CSR assurance standards
6. Amendment in 2012 Companies (Investment in Associated Companies or Associated Undertakings) Regulations
7. Simplified financial reporting regime for dormant companies
8. Companies (Issue of Share Certificate) Rules

Professional services reforms

Achievements

1. Code for interaction with health professionals
2. Recommendations on Licensing regime for practicing chartered accountants and their code of ethics

Initiatives in process

3. Valuer’s regime: Introduction of legal framework for registration and quality
4. Audit Oversight Board
5. Cost accounting and auditing regime

Liaison with other regulatory professional bodies

Ongoing activities

1. SECP-ICAP co-ordination
2. Technical committees of ICAP
3. Representation on QAB of ICAP
4. Work with quality control review committee of ICMAP
5. SECP-SBP coordination

Guidelines on going concern reporting

It has been noted while reviewing audited accounts of companies, that going concern reporting is one of the most critical financial reporting areas which is not given due weightage by the companies and the auditors. A large number of cases of insufficient disclosures in financial statements regarding going concern and inappropriate reporting by the auditors on this important issue have been noted. These guidelines are a compilation of all the requirements of the ordinance, the Code of Corporate Governance, and accounting and auditing standards related to the topic of going concern. It has been prepared to assist the company’s management in making their assessment of going concern assumption as a basis of accounts preparation, and to make appropriate going concern reporting in the financial statements.

Revision of guidelines for issue of shares at discount

Guidelines for issue of shares at discount were issued by the SECP in 2004, which required revision keeping in view changes in legal requirements, varied circumstance of cases dealt by the department and the best international practices. The dynamics for determining rate of discount, prerequisite for board of directors, requirements for seeking approval of the shareholders and the SECP, along with conditions ancillary to such issuance of shares has been consolidated in these guidelines. The revised guidelines shall be sent to the stakeholders, including State Bank of Pakistan (SBP), after completion of internal review.

3. E-voting in the general meetings

In an effort to facilitate shareholders and corporate sector through effective use of information technology, the SECP initiated the process of e-voting for shareholders resolutions in general meetings. It will especially be beneficial to the minority shareholders of listed companies living at places away from the registered offices of the companies, and will also encourage international listing. The Companies (Proxy E-Voting) Regulations, 2014, are in process of publishing for eliciting public comments.

4. Revision in schedule of fee in respect of authorized capital as a result of merger

The SECP is in the process of abolishing the additional fee on increased authorized capital as a result of a merger of companies sanctioned by the courts under section 284 to 287 of the ordinance. For this purpose a working paper has been moved for approval by the Commission with recommendations to amend the Schedule of Fees (Sixth Schedule to the Ordinance). The amendment will ensure standardized practice across the board and will facilitate the mergers of companies.

5. Dispatch of annual accounts through email

The SECP is considering the option of allowing companies to dispatch accounts through e-mail, in exercise of its powers under the Ordinance. The proposal is presently with the LLGCD and once implemented will result in cost reduction for companies on the one hand and facilitation for the shareholders on the other hand.

6. Functional websites for companies

The SECP through its notification SRO 25 (I)/2012 dated January 16, 2012 and SRO 1385 (I)/2012 dated November 21, 2013 required listed companies and certain non-listed companies (NLCs) to maintain a functional website with mandatory and prescribed material information to be placed on the said website. However it was noted that some companies sought relaxation from certain requirements of the said notification while some did not maintain functional websites despite consistent reminders. Therefore, a comprehensive notification consolidating the requirements of aforementioned notifications, prescribing manner and format of placement of financial reports and other information, access and security measures for website, and preferable appointment of information technology auditor was prepared. The said notification was reviewed by the Commission and it took effect on June 30, 2014.

7. External assurance mechanism for CSR reports

The 2013 Corporate Social Responsibility Voluntary Guidelines encourage companies to obtain external assurance of CSR reports. The SECP is of the view that external assurance providers may comprise of accountancy firms, member of certified bodies and sustainability sector specialists. A concept note explaining the need for external assurance, assurance providers, relevant standards, contents of assurance report and what the SECP sought in formats for the CSR reporting and assurance statement was forwarded to the ICAP so as to incorporate the said features into the format for assurance statement being developed by it. Further, it was also stressed that the ICAP recognizes diversity in approach and skill set of external assurers towards the CSR in accordance with the best international standards.

Legal framework reforms

1. Issue of bonus shares against redemption reserves fund

Pursuant to an application received from a company regarding permission to issue bonus shares out of redemption reserve fund created under section 85 of the ordinance and in order to ensure consistency in compliance with international practices, the SECP vide SRO No 1049(I)/2013 dated December 10, 2013 directed that the capital redemption reserve fund created as per the provisions of section 85 of the ordinance, after redemption of the preference shares, may be applied by the company in paying up un-issued shares of the company to be issued to members of the company as fully paid bonus shares. The SRO was issued after reviewing the corporate law practices adopted in other jurisdictions such as, India, the UK and Hong Kong and consultation with other departments of the SECP.

2. Provident fund rules, 2014

After receiving approval from the Ministry of Finance, the SECP issued vide SRO 80 (I)/2014 new draft of the 2014 Employee's Provident Fund (Investment in Listed Securities) Rules to obtain public comments. The comments received were compiled and submitted to the committee formed for this purpose; the response of the committee has been received. Currently, the draft has been submitted to stakeholders, including the ICAP, Institute of Cost and Management Accountants of Pakistan (ICMAP), Federal Board of Revenue (FBR), stock exchanges and Pakistan Business Council (PBC). After receipt and compilation of the comments from the stakeholders', the final draft of the rules will be submitted to the SECP for approval and onward submission to the Ministry of Finance.

3. Principles of corporate governance for non-listed companies

In order to improve the efficiency of non-listed companies (NLCs), draft principles of corporate governance for NLCs were issued for stakeholders comments. Thirteen principles of good governance are presented on the basis of a dynamic phased- approach, which takes into account the degree of openness, size, complexity and level of maturity of individual companies. The NLCs can extract from this stepwise approach useful guidelines to: promote their sustainability, bring external parties to their boards, attract funds, and solve issues between shareholders.

4. Amendments to the First Schedule to the Ordinance

Table A of First Schedule to the ordinance has been reviewed to identify any inconsistencies in the main provisions of the ordinance and practical difficulties in its implementation. The department intends to propose amendments for:

- making provisions for utilization of unclaimed dividends and their forfeitures
- restricting use of circular resolution by BOD to matters other than those covered under section 196 of the ordinance
- making provisions to cater for the IT-related measures (e-voting) by the SECP

5. Development of CSR assurance standards

The CSR reports assist organizations in understanding and communicating the vision of a company, and to combine profitability with social responsibility and environmental care. External assurance provided on CSR reports, boosts confidence of internal and external stakeholders regarding the quality of CSR reporting. In this regard, the SECP and ICAP exchanged notes for the need for external assurance, assurance providers, relevant standards and contents of assurance report.

6. Amendment to the Companies (Investment in Associated Companies or Associated Undertakings) Regulations

Based on the feedback and difficulties identified in our regulatory experience, the department is in process of proposing some amendments to the Companies (Investment in Associated Companies or Associated Undertakings) Regulations, 2012. The changes proposed are aimed at removing practical difficulties faced by the companies while seeking shareholders' approval in terms of section 208 of the ordinance that requires the companies to seek prior approval of the shareholders before making investment in associated companies and undertakings.

7. Simplified financial reporting regime for dormant companies

Legal frameworks in various international jurisdictions have express provisions whereby non-operational or dormant companies can declare themselves dormant, subject to certain conditions and requirements, and follow a less stringent regulatory regime. The department looks forward to implementing a similar model that allows exemptions to such companies to file simplified financial statements, subject to approval of the Commission.

Strengthening regulatory regime

1. Summary examination of financial statements of non-listed companies

Keeping in view the risk-benefit analysis and feedback of stakeholders, an instruction was issued to conduct a summary examination of annual audited accounts of the following companies by the concerned registrar:

- Private companies having paid-up capital less than Rs100 million, and
- Section 42 companies where the total annual grants/donations were less than Rs50 million or total assets and revenue less than Rs100 million.

2. Clarification: Only chartered accountants to act as auditors

The SECP has taken note of the concern regarding appointment of unqualified auditors of companies. With the objective of ensuring that only qualified persons act as auditors of companies, a circular has been issued, advising companies to consult the ICAP resources comprising members' directory, available on the ICAP website, before appointing their auditors.

3. Clarification on quality of audit by QSR-rated statutory external auditors of non-listed companies

A circular was issued, advising all non-listed companies required to appoint QCR-rated audit firms as their statutory external auditors, to facilitate their statutory external auditors in quality control review of their audit working paper files, by authorizing them to make available all the relevant information, documentation and records, including the audit working papers files to the Quality Assurance Department of the ICAP.

4. Clarified definition of term "firm of chartered accountants"

In order to ensure effective implementation of audit quality requirements circular No. 15 of 2013 dated September 4, 2013, clarified that the term firm of chartered accountants connotes a firm as a whole, inclusive of all its locations/branches in the context of regulations requiring appointment of audit firms having satisfactory quality control review (QCR) rating.

5. Whistleblowing mechanism

The SECP intends to design implementation strategy for whistleblowing mechanism for listed companies resulting in improved good corporate governance and regulatory oversight. This mechanism would include preparing an act for protection and reward of whistleblowers, establishing an external whistleblowers program at the SECP level and prescribing an internal whistleblowing program at company's level. The proposed mechanism shall be more focused on an external whistleblowing mechanism that is important from regulator's perspective.

6. Amendments to audit report format

In order to enhance compliance and curb malpractices in the field of audit in the country, the department is envisaging various measures. At the outset, the department has conducted a research on the format of the audit report (both individual and consolidated) used by the auditors of listed, non-listed companies, and companies registered as NGOs/NPOs within the South Asian region and Europe. The department after obtaining comments from the ICAP is in the process of taking approval from the Commission with regards to revision in the audit report format for stand-alone and consolidated financial statements of the companies (other than NBFCs and insurance companies).

7. Adoption of IFRS for SMEs and revisiting the qualifying criteria of non-listed companies

The International Accounting Standard Board (IASB) developed and published separate IFRS for small and medium sized entities (SMEs) designed to meet the financial reporting needs of SMEs. The SECP upon receipt of recommendation from the ICAP is in the process of adoption of "IFRS for SMEs" for medium size companies with regards to preparation of their annual financial statements.

To remove practical difficulties faced by both regulators and companies, the department is amending existing qualifying criteria for non-listed companies (NLCs) in close collaboration with ICAP. The following categories in NLCs are proposed to be introduced:

i. Public interest companies

ii. Large sized companies

iii. Medium sized companies

iv. Small sized companies

Public interest companies and large size companies will be required to follow the IFRS, while medium and small sized companies will be required to follow the IFRS for SMEs and AFRS for SSEs issued by the ICAP.

8. Initiatives for improving quality of financial reporting

The department has conducted a gap analysis to identify inconsistencies between the requirements of the ordinance and IFRS/IAS. A detailed proposal for alignment of such inconsistencies through issuance of notification of removal of difficulties is being deliberated with in house legal team. Moreover, the department is coordinating with the ICAP for issuance of clarifications to provide appropriate guidance to companies in certain areas of financial reporting where incorrect accounting practices are being followed. The areas currently under consideration of the ICAP and the SECP include depreciation on revalued assets and recording of foreign exchange gains on trade receivables. These initiatives will help to achieve full compliance with IFRS as well as improve the quality of financial reporting.

Professional services reforms

1. Code of interaction with healthcare professionals

A draft code of marketing practices for pharmaceutical industry was sent to Minister of Health Services stating that Drug Regulatory Authority of Pakistan (DRAP), the frontline regulator of the pharmaceutical sector may be advised to put in place a mechanism to ensure effective regulation of marketing practices in the pharmaceutical industry. The theme mainly related to restriction on gifts to healthcare professionals. The recommended code for interactions with health care professionals further seeks to clamp down on foreign trips by restricting industry sponsored international conferences and encouraging local based conferences and trainings of health professionals. The code also prevents such meetings from coinciding with sports, entertainment or other leisure events or activities. Review of marketing expenses of pharma companies revealed instances of weak internal control systems, and the fact that lack of regulatory controls over marketing practices was to some extent responsible for such control issues. Research on international practices on the subject revealed that globally codes for interactions with healthcare professionals have been developed and countries where such code is already in existence include India, Ireland, the Philippines and the US.

2. Recommendation on licensing regime for practicing chartered accountants and their code of ethics

Pursuant to the significant changes taking place in the laws governing the practicing chartered accountants and the SECP's actions against certain chartered accountants' firm during the last few years, on non-compliance with provisions of the ordinance, the IFRS, AFRS and auditing standards, the SECP has advised the ICAP to strengthen its licensing regime for its practicing members. The suggestions are based on the best international practices, covering areas such as the introduction of mandatory public practice programs, know your licensee, continued professional education, interview process and other measures that will keep the ICAP members updated on new demands of the accounting profession and equip them with the understanding of key issues that directly affect the industry.

Furthermore, keeping in view the perspective of auditor independence, the SECP has recommended to the ICAP to revise the existing Code of Ethics for Chartered Accountants vis-à-vis auditors of non-listed companies.

3. Valuers regime–introduction of legal framework for registration and quality assurance of valuers

Keeping in view various regulatory risks posed by valuer's work due to lack of regulatory oversight, the SECP has suggested a roadmap for introduction of unified valuers regime based on prevailing international models. The first phase of this roadmap comprise of those interim measures which are aimed to immediately address the regulatory gap, which includes the issuance of valuers regulations and adoption of international valuation standards. This would be followed by the second phase, which includes preparation and enactment of specialized act for professional valuers, constitution of board/council of valuers and the establishment of Institute of valuers.

Draft registration regulations have been prepared and are going through internal review, that are aimed at registration of professional valuers, adoption of international valuation standards, quality control review framework and the handling of complaints/disciplinary action.

4. Audit Oversight Board

The Council of the ICAP in March 2012 mandated a joint committee comprising representatives from the SECP and the ICAP to consider and deliberate on the concept of the Audit Oversight Board (AOBP). After a series of meetings, the committee agreed on an outline of the proposed board. However, the most appropriate enabling legal provisions for accomplishment of this objective have yet to be determined.

The committee is cognizant of the fact that ideally specific legislation on the subject should be put in place; however, considering the lengthy process involved, a consensus has been developed that the proposed board should be formed in line with the existing legal provisions, till such time the Companies Ordinance, 1984 is appropriately amended. The committee also acknowledges that the proposed board would most likely face resistance from the profession, it eventually seeks to regulate.

In view of above, and to avoid any complexities at a later stage, opinion on the matter was sought from two legal advisors, appointed one each by the ICAP and the SECP at their respective costs. Legal opinions from two leading law firms were received in April 2014 and in light of the opinions received, the joint committee at its next meeting will discuss the way forward.

5. Cost accounting and auditing regime

Cost accounting framework and standard

The joint working committee of the SECP, ICMAP and ICAP has finalized the drafts of Cost Accounting Framework and First Cost Accounting Standard (CAS-1) 'Classification of Costs', for final review of the joint committee. Alongside, the working committee is finalizing draft of nine more cost accounting standards. The framework shall provide broad parameters for practicing members regarding purpose, manner and components of cost statements. Meanwhile, cost standards are aimed at streamlining principle requirements for preparation and presentation of cost statements and enhancing their utility for stakeholders.

Criteria for the appointment of cost auditors by companies

The companies within the ambit of the Companies (Audit of Cost Accounts) Rules, 1998 are required to seek the SECP's approval for the appointment of cost auditor for the respective year. In order to improve effectiveness of SECP role in the process of cost auditors' appointments, draft circular specifying application requirements, including specifying names of three auditors for proposed appointment was issued.

Liaison with other regulatory professional bodies

1. SECP-ICAP coordination

During the year, the SECP-ICAP Coordination Committee met twice. It discussed issues regarding the amendments to the Chartered Accountants Ordinance, fake chartered accountant/audit firms, adoption of IFRS for SMEs, conversion of the ICAP's Financial Reporting Guideline for NGOs into standards, accounting issues relating to mutual funds, reforms in practice management regime, and revision of format of auditor's report. Appropriate action was taken by constituting joint committees of the SECP and ICAP.

2. Technical committees of ICAP

In order to make effective representation of the SECP at the ICAP's technical committees, two officers of the department have been nominated for participation in the ICAP's auditing and accounting standards committees.

Further, an officer of department was also nominated to the task force working on amendments to the 1961 Chartered Accountants Ordinance.

3. Representation on QAB of ICAP

The SECP has also nominated an officer of the department to the Quality Assurance Board (QAB) of the ICAP; QAB is responsible for carrying out QCR to develop and maintain compliance of professional standards by audit firms.

4. Quality control review committee of ICMAP

The department will be represented on the Quality Control Review Committee of the ICMAP; active participation will ensure the establishment of a quality control framework to monitor the work of the cost auditor.

5. SECP-SBP coordination

The department extended coordination to the SBP on diverse issues of mutual interest. In this regard, deliberations and meetings were held on issue of regulatory regime for valuers. The purpose, contents and benefits of valuers regime and valuers regulations were discussed in detail.

In 2009 the SECP and SBP had formed a joint task force on conglomerates. It is working on developing a framework for determining risks posed by conglomeration, i.e. lack of transparency in intra-group transactions and liquidity risks arising from asset liability mismatch. It will also continue to address the concerns through the sharing of information within the framework of the respective laws of the two regulators. Both the SBP and SECP have reaffirmed their commitment to take coordinated steps for the development of framework and capacity in the areas of credit rating, valuers, surveyors, administrator and liquidators.

Securities Market
Division

Securities Market Division

The Securities Market Division (SMD) is responsible for monitoring, regulating and developing the securities market. It regulates the primary and secondary markets as well as market intermediaries through registration, surveillance, investigation, enforcement and rule making, with the objective of protecting investors' interest. SMD also processes and grants approvals to prospectuses for public offering of both debt and equity securities. In addition, it is entrusted with instituting appropriate regulatory reforms to develop and promote the market, engender investor confidence and instill transparency, effective risk management and good governance at the Stock Exchanges, Pakistan Mercantile Exchange (PMEX), Central Depository Company (CDC) and National Clearing Company of Pakistan Limited (NCCPL).

The division has these 3 departments:

- Market Supervision and Registration Department
- Policy, Regulation and Development Department
- Market Surveillance and Special Initiatives Department

Market Supervision and Registration Department

Market Supervision and Registration Department (MSRD) plays a key role in maintaining market transparency and protecting investors' interests. The department ensures compliance with relevant rules and regulations by the stock exchanges and other market intermediaries to strengthen market oversight and enforcement. It undertakes inspection of books and records of the members of the stock exchanges which entails a detailed and comprehensive review of the policies, procedures and internal control systems established to assure compliance with the rules and regulations, and to assess financial health of the entity. Areas of responsibilities include:

Najia Ubaid, Amir Khan Afridi, Imran Inayat Butt (Director/HOD), Hasnat Ahmed, Muhammad Farooq Bhatti and other team members

- Registration of brokers and agents of the stock exchanges, and the mercantile exchange for ensuring investor protection
- Resolution of investor complaints and grievances, particularly those of small investors dealing with cases pertaining to the approval of prospectuses for public offer of securities, i.e. listing of companies on the local stock exchanges; issue of securities outside Pakistan; and offer of employees stock option schemes
- Registration of special purpose vehicles under section 4 of the 1969 Securities and Exchange Ordinance; regulating the affairs of credit rating agencies; the debt securities trustees; the underwriters; and the share registrars
- The development and regulation of the primary market and to monitor enforcement of the requirements of the 1996 Companies (Issue of Capital) Rules pertaining to initial public offerings (IPOs), redress of the investors' complaints and queries relating to IPOs, and cases reported under section 18-A of the 1969 ordinance
- Monitoring the trading activity of specified officers and more than 10%shareholders of all listed companies in order to safeguard the interests of small shareholders
- Monitoring of timely filing of returns under section 224(4) and 246 of the 1984 Companies Ordinance.

Monitoring of beneficial ownership

The department monitors trading activities of beneficial owners of listed companies through returns filed, prescribed information/ annual returns filed by listed companies, and trading data of stock exchanges. The primary objective of this monitoring is to detect instances, where the beneficial owners have made a gain by purchase and sale, or sale and purchase of shares of issuer companies within a period of less than six months. During the fiscal year the MSRD received 2126 returns. The returns were reviewed and the following enforcement actions were taken:

Under sections 224 (4) and section 246 of the 1984 ordinance where the returns were received with a delay of more than 30 days, orders and warning letters were issued as under:

Serial number	Category	Number of cases
1	Orders issued	52
2	Show cause notices under process	141
3	Warning letter issued	11

Under section 224 (2) of the 1984 ordinance (recovery of tenderable gain); in light of decision, made by appellate bench of the SECP in the matter of appeal number 49/2011, the SECP on recommendations of SMD approved certain amendments to Rule 16 of the 1985 Companies (General Provisions and Form) Rules. The status of recovery of tenderable gain during the fiscal year was as under:

Serial number	Category	Number of cases
1	Gain recovered in favour of the SECP, but later on passed on to the respective issuer company	1
2	Gain tendered to the issuer company, pursuant to the proceedings initiated by SECP	1
3	Warning letters issued for non-observation of time limit prescribed in section 224(2) of the Companies Ordinance	4
4	Personal hearings conducted, but orders have not yet been issued due to aforementioned decision of the appellate bench of the SECP	2
5	Cases under process	5

1. Disposal of appeals by appellate bench

The appellate bench disposed of appeal number 73/2009, wherein the beneficial owner tendered the gain in favour of the respective issuer company. The appellate bench held in the matter of appeal number 49/2011 that rule 16 of 1985 Companies (General Provisions and Forms) Rules had not been framed within the parameters of section 224 of the Companies Ordinance.

2. Automation of processes

In order to facilitate the listed companies, the SECP withdrew S.R.O.763 (I)/85 dated August 7, 1985, and S.R.O. 1014(I) dated November 12, 1986, issued in exercise of powers conferred by section 246 of the Companies Ordinance, with effect from September 30, 2013 and launched a sub project of e-Services, titled “annual return by listed companies-SMD-BO-246”. The listed companies have been advised vide order number SMD (BO)-Pol-2/2012 dated July 26, 2013, to prepare with effect from October 1, 2013, the information specified in the order, and file the same with the SECP, within 45 days of holding of annual general meeting. From October 1, 2013 to May 30, 2014, 275 companies submitted the prescribed information online, out of which 218 returns were accepted, and the remaining are under examination/issue resolutions for rectification/removing of deficiencies pointed out by the SECP.

Compliance and inspection

The compliance of relevant rules and regulations, and effective monitoring is essential for strengthening market oversight and enforcement. MSRD ensures compliance with the regulatory framework through on-site inspection and review of off-site reporting.

1. Onsite inspection

In order to ensure the compliance of rules and regulations, the department carries out on-site inspection of brokerage houses on a regular basis. Twenty-four inspection orders were issued, whereby inspection of 20 brokerage houses has been completed, and inspection of 4 brokerage houses is in progress.

In view of inconsistent approach on the part of broker/TREC holders with regard to interpretation of the requirements prescribed in the Third Schedule of the Securities and Exchange Commission Rules (SEC Rules), and resulting miscalculation of net capital balance (NCB), the department issued guidelines, explaining the required treatment of various heads of accounts for inclusion/exclusion when calculating NCB. These guidelines have been implemented with effect from December 31, 2013.

2. Offsite reporting

An important tool employed by the SECP in achieving compliance with its regulatory framework is the off-site monitoring of the various entities it regulates. This offsite monitoring mostly comprises of reporting, as per prescribed format and frequency to the SECP. Such reports are assessed and analyzed to identify and determine compliance status, which may lead to identification of potentially high-risk areas.

The offsite reports received from the stock exchanges, CDC and NCCPL during the period were reviewed, and observations were communicated to respective entities.

Key achievements

1. Regulatory actions

During the course of recent inspections of the brokerage houses, various non-compliances of laws and shortcomings on the part of the brokers/TREC holders have been observed by the department. The major irregularities include miscalculation and misinterpretation of the requirements regarding NCB, and non-segregation of clients' assets. Based on findings of inspection reports, the following regulatory actions were taken during the period under review:

- Eighteen brokerage houses, as well as 5 auditors were penalized for non-compliance of rules and regulations
- Warning letters were issued to 9 brokerage houses and one audit firm
- Two brokerage houses were penalized for non-provision of information

In addition, SECP also served show-cause notices to the Karachi Stock Exchange Limited (KSE) and its management for not ensuring compliance with the System Audit Regulations by the KSE brokers.

A summary of inspections initiated and completed and of orders/ warnings issued are tabulated below:

Inspections and enforcement actions for the year ending June 30, 2014				
	Brokers	Auditors	KSE	Total
Total inspections conducted (July 1, 2013- June 30, 2014)	20			20
Inspection under process	4			4
Show-cause notices issued	20	2	2	24
Orders issued	18	5	2	25
Warning letters issued	9	1		10
Inspection reports under analysis	2			2
Show-cause notices in process	6			6

2. Internet-based trading reports

In order to ensure effective compliance of Internet Trading Regulations on an ongoing basis, SECP has made it obligatory for the KSE and Islamabad Stock Exchange Limited to initiate offsite reporting to ensure compliance with the regulatory framework in areas such as periodic audit, vulnerability assessment and penetration testing by the brokers who have been trading through internet based facility.

3. Offsite reporting by PMEX

Offsite reporting, covering various regulatory processes was started in December 2013. PMEX has filed 15 reports as per prescribed frequencies. The said reports were reviewed and observations were communicated and resolved in a timely manner.

4. System audit reports of PMEX brokers

With the promulgation of System Audit Regulations for PMEX, the department has started to review the system audit reports of PMEX brokers.

5. Inspection reports of CDC participants

The CDC conducts on-site inspection of its participants/stock exchange brokers and submits copies of its inspection reports to the SECP on a regular basis. During the period under review 199 inspection reports were reviewed, and SECP's observations in this regard were communicated to the CDC.

Further, the department reviewed the scope of the CDC's inspection, and suggested necessary changes thereon. In this regard, the CDC has been advised to review and improve its scope of inspection accordingly.

6. System audit

The system audit is also a regular feature for ensuring the compliance of rules and regulations. During the year all three stock exchanges conducted two ballots each for selection of the brokers.

In addition, during the financial year 158 system audit reports, including 34 reports of PMEX were reviewed, and SECP's observations were communicated to the respective exchanges.

7. Enquiry under section 21 of the 1969 Securities and Exchange Ordinance

During the year, the department initiated an enquiry in the matter of Hum Securities Limited against unauthorized use or misuse of clients' funds/securities without consent and authority of the concerned clients.

Registration of brokers and agents

At the end of financial year 2014, the total number of brokerage houses registered with the SECP stood at 252, as compared to 249 last year. At present, all the registered brokers are corporate entities. Stock exchange-wise breakdown of brokers as of June 30, 2014 is as under:

Stock exchange	Number of brokers as of June 30, 2013	Additions during the year	Cancellation/expiry of registration	Number of brokers as of June 30, 2014
KSE	127	3	(1)	129
LSE	72	7	(2)	77
ISE	50	2	(6)	46
Total	249	12	(9)	252

1. Agents

At the end of financial year 2014, the total number of certificates granted to agents of the stock exchanges as of June 30, 2014, is presented in the table below:

Stock exchange	Number of agents as of June 30, 2013	Additions during the year	Cancellation/expiry of registration	Number of agents as of June 30, 2014
KSE	205	21	(22)	204
LSE	62	5	(9)	58
ISE	15	2	(6)	11
Total	282	28	(37)	273

2. Investor complaints

A quick resolution of investor complaints and grievances is an important instrument in maintaining investor confidence. The details of complaints handled by the SECP during the year are presented below:

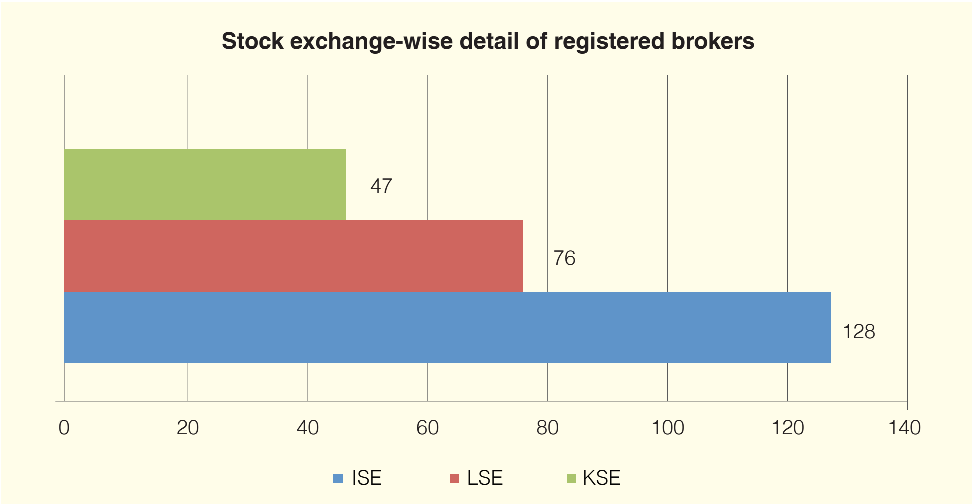
	Total
Number of complaints brought forward from previous financial year	43
New complaints received against the brokers from July 1, 2013 to June 30, 2014	34
Complaints against brokers disposed of or resolved from July 1, 2013 to June 30, 2014	(54)
Complaints outstanding as of June 30, 2014	23

3. Regulatory actions against brokers and agents

Compliance with the requirements of the 2001 Brokers and Agents Registration Rules was ensured and appropriate punitive measures were taken in case of violations. During the year under review, the following enforcement actions were taken against the brokers:

- Proceedings under section 22 of the 1969 Securities and Exchange Ordinance (Ordinance 69) were initiated, and 11 orders were passed during the year under review that imposed a total penalty of Rs4,045,000 on the brokers and their auditors. Out of the total penalty imposed Rs1,520,000 has been received by the SECP

- On observing the deficiencies and certain violations while processing the cases of registration/renewal of PMEX brokers under the 2005 Commodity Exchange and Futures Contracts Rules, the certificate of registration of one broker was refused
- On observing the deficiencies and certain violations while processing the cases of registration/renewal of broker under the 2001 Brokers and Agents Registration Rules, a penalty of Rs300,000 was imposed on a broker
- One broker was fined Rs500,000 under section 24 of the 1997 CDC Act
- Enquiry under section 21 of the Ordinance1969, and section 29 of the 1997 Securities and Exchange SECP of Pakistan Act were initiated against M/s. Highlink Capital (Private) Limited
- Criminal complaint was filed against Y.S Securities and Services (Pvt.) Ltd, an expelled member of the Lahore Stock Exchange.



Certificates granted to brokers

Details	Corporate brokers	Individual brokers	Total brokers
As of June 30, 2013	249	0	249
Cancel/expire	(9)	0	(9)
Addition	12	0	12
As of June 30, 2014	252	0	252

Certificates granted to agents

Details	Total agents
As of June 30, 2013	282
Cancel/expire	(37)
Addition	28
As of June 30, 2014	273

Certificates granted to PMEX brokers

Details	Total agents
As of June 30, 2013	189
Cancel/expire	(9)
Addition	9
As of June 30, 2014	189

Issue of share capital

During the period under review, shares of 5 companies were offered to the public as compared to 3 companies last year. New capital of Rs14.890 billion was listed in FY 2014 as compared to Rs7.606 billion in FY 2013. The details of these issues may be seen in table 1 and 2.

Similarly, during the same period, 3 issues of listed debt instruments/term finance certificates (TFCs) were offered to the public as compared to same number of TFC issues last year. The TFC-1 and TFC-2 issues offered by Pakistan Refinery Limited were offered to retail investors only, and there was no pre-IPO placement, whereas TFCs by NIB Bank Limited were offered to both IPO and pre-IPO Investors. The details of these issues may be seen in table 3.

Furthermore, during the period under review, 5 issues of listed sukuk were offered to the public. All 5 issues, i.e. Sukuk 1, 2 and 3 offered by K-Electric Limited (formerly Karachi Electric Supply Company Limited) and Sukuk 1 and 2 offered by Engro Corporation Limited were offered to retail investors only, and there was no pre-IPO placement. The detail of these issues may be seen in table 4.

In addition, between July1, 2013 and June 30 ,2014, 8 debt securities issued through private placement were reported. The break-up of these privately placed corporate debt issues may be seen in table 5.

Furthermore, as of June 30, 2014 a total of 121 corporate debt securities were outstanding with an amount of Rs555.62 billion. The details are tabulated in table 6.

1. Employees stock option scheme

The employees' stock option schemes are issued by public companies to reward employees, and also as a retention tool to earn long-term loyalty of their employees.

In order to facilitate and encourage offer of the employees' stock option schemes by public limited companies, the SECP is formulating guidelines for the issue of employees' stock option schemes in line with best international practices. These guidelines will provide the procedure for structuring and approving employees' stock option schemes by providing the minimum information required to be disclosed therein. During the period under review, employee stock options schemes of Avanceon Limited, and Bank Alfalah Limited were approved.

2. Registration of debt securities trustees

Debt securities trustees are registered under the 2012 Debt Securities Trustee Regulations. During the period under review, due to adverse findings, the application of First Dawood Investment Bank Limited for registration as a debt securities trustee was refused under regulation 8(1) of the 2012 Debt Securities Trustee Regulations. The list of 15 registered debt securities trustees is available on the SECP website *http://www.secp.gov.pk/IPO.asp.*

3. Regulatory actions under section 18 (A) of the 1969 Securities and Exchange Ordinance

The submission of fictitious and multiple applications (more than one application by the same person) are prohibited under section 18A of the 1969 Securities and Exchange Ordinance, and such applicant's money is liable to confiscation. During FY2014, a total of 27 cases comprising 60 applications were reported to the SECP by three different companies, namely Engro Fertilizers Limited, Avanceon Limited, and Hascol Petroleum Limited. All these 60 applications were rejected and no shares were allotted to the applicants.

4. Complaints resolved pertaining to issuers/companies

The department entertained various complaints pertaining to IPOs, a non-receipt of dividends by the shareholders, non-verification of transfer deeds, and against share registrars/transfer agents etc. The status of these complaints is as follows:

Complaints status FY2014	
Brought forward from previous FY 2013	15
New complaints received during FY 2014	93
Total dealt with during FY 2014	108
Disposed of during FY 2013-14	(82)
Under process as of June 30, 2014	26

Developmental activities

1. Code of conduct for credit rating agencies

The credit rating agencies (CRAs) play a vital role in the financial system of a country particularly in the development of a debt market. In order to review the role and responsibilities of CRAs, the SECP constituted a committee having representation from the SECP, State Bank of Pakistan (SBP), and both the domestic CRAs i.e. Pakistan Credit Rating Agency Limited (PACRA) and JCR-VIS Credit Rating Company Limited. In light of the recommendations of the committee the SECP has revised the existing code of conduct for CRAs. The revised code dated January 13, 2014 has been formulated in line with international best practices and has replaced the earlier code of conduct for CRAs dated February 17, 2005.

2. Formulation of regulations for the issue of commercial paper

Commercial paper (CP) is an unsecured short term debt instrument issued by highly rated companies in the form of a promissory note. In 2002, the SECP had issued guidelines for issuance of commercial paper. In order to appropriately regulate CP issues and to facilitate the CP issuers, the guidelines have been reviewed and replaced with the 2013 Commercial Papers Regulations.

3. Regulatory framework for listing of small and medium enterprises on the stock exchange

Small and medium enterprises (SMEs) play vital role in the development of a country. SMEs are considered to be an important segment of the economy as they have the potential to create economic as well as social growth. It is therefore essential to provide a conducive environment for the growth and development of SMEs and to minimize constraints. Further, availability of cheaper source of funds is crucial for the growth as well as survival of SMEs.

The SECP has approved the regulations for listing of SMEs for the Islamabad Stock Exchange. The regulations in addition to certain pre-requisite conditions provide a set of procedures for issuing, listing and trading of shares of SMEs. Now SMEs can raise funds from the capital market for meeting their financial needs, and for executing new projects and expansion of their existing businesses.

4. Implementation of e-IPO

In order to facilitate the general public during IPOs, the SECP has introduced the concept of e-IPO, i.e. electronic submission of subscription form: e-IPO facility will enable the investors to make application for subscription of shares via internet (e-Banking/ATMs). The e-IPO aims to facilitate simultaneously, both the companies that intend to raise fund from the capital market through IPO and the general public applying for subscription of shares. Further, e-IPO will bring transparency and efficiency in the IPO process.

The e-IPO facility was first used successfully in the offer for sale of shares of Aisha Steel Mills Limited, where United Bank Limited for the first time provided e-IPO facility to its account holders. Later the same bank has successfully offered e-IPO facility in the IPOs of Lalpir Power Limited, Engro Fertilizers Limited, Avanceon Limited and Hascol Petroleum Limited. For further development of e-IPO facility and broadening the e-IPO facility network, a committee has been constituted with participation of representatives from the SECP, CDC, banks, share registrars and the stock exchanges. The committee in coordination with CDC and banks is in the process of devising a centralized system for handling IPO applications.

5. Formulation of rules for underwriters, balloters and transfer agents

The 2001 Balloters, Transfer Agents and Underwriters (BTU) Rules were promulgated to regulate the affairs of the balloters, transfer agents and underwriters. These rules had a very limited scope as they provided merely the eligibility criteria for these intermediaries and there were no licensing/registration requirements, neither did they contain any penalty clause in case of default and non-compliance.

In order to build up investors' confidence, and to safeguard their interests, the SECP with the approval of the federal government has reviewed the BTU rules, and has drafted two separate sets of regulatory frameworks i.e. the draft Underwriter Rules and the draft Balloters and Transfer Agents Rules.

6. Formulation of regulations for issue of sukuks

The sukuk market is an important segment of our capital market and is considered a viable and efficient alternative to raise funds. Over the last few years our market has witnessed the floating of a number of sukuk issues by various companies. An efficient, broad-based and well-regulated sukuk market will greatly help in the development of our capital market. In order to develop the sukuk market, regulations for the issue of sukuk have been developed. The purpose of making the sukuk regulations is to facilitate the issuers, and to provide comfort to the sukuk investors. The said regulations are being reviewed by a committee constituted by the Shariah Advisory Board.

7. Formulation of rules for the consultant to a public issue of securities

The consultants to a public issue play a vital role in the floatation of securities. They are not only involved in the preparation of prospectus and other related documents but also act on behalf of their clients, i.e. the issuers/offers' in getting necessary approvals from the regulatory authorities and conducting road shows etc. For regulating the affairs of consultants, the department in consultation with other departments of the SECP has drafted the 2012 Consultants to a Public Issue of Securities Rules.

It is expected that with the implementation of these rules the quality of prospectuses and other documents drafted by consultants will improve. This will help in saving time and early finalization of the issues. The said rules have been approved by the SECP and forwarded to the Ministry of Finance for approval.

8. Review of the 1996 companies (issue of capital) rules

Companies (Issue of Capital) Rules (CI Rules) were promulgated on February 8, 1996, containing a set of requirements and procedures for the companies proposing to offer share capital to the public. Since then, no amendments have been made to the CI Rules. Pursuant to changes to market dynamics and introduction of the book-building process, it was felt necessary to make certain amendments to the CI Rules. Consequently, the CI Rules were amended and circulated for public comment. At the same time, the opinions of some key stakeholders were also obtained. After considering their valuable feedback, the said rules have been revised in light of comments of the stakeholders, and were submitted to the SECP for approval. The SECP decided to convert the draft amended CI Rules into a new set of Capital Issue Rules, which will replace the old rules. The new rules will soon be submitted to the Ministry of Finance for its approval.

9. Unclaimed/undelivered shares and unclaimed cash dividend lying with listed companies

In order to ascertain the quantum of shares lying with various listed companies as unclaimed/undelivered, an exercise has been initiated and necessary information/data has been obtained from Registration Transfer Agents and listed companies. The analysis of data/information revealed that more than 211.85 million shares were lying as unclaimed/ undelivered as of September 30, 2013, with 520 listed companies and Registration Transfer Agents, which include shares offered/issued through IPOs, right issues, and bonus issue. It is also reported that as of September 30, 2013, Rs. 24 billion are held by companies as unclaimed cash dividend. The details of shares lying unclaimed may be seen at table 7.

Future plans

Developmental activities are being undertaken for the forthcoming fiscal year 2014-15 for the development of the capital market, especially the primary market in the following areas:

1. Review of the existing rules/regulations/guidelines that will include:

i. Review of the 1999 Companies (Asset Backed Securitization) Rules

ii. Review of the guidelines for issue of TFCs

iii. Amendments to the 1995 Credit Rating Rules

iv. Enhancement of the rating universe for Credit Rating Agencies

v. Guidelines for the employees stock option schemes

vi. Review of the existing 2001 Public Companies (Employees Stock Option Schemes) Rules

2. Development of new rules/regulations/guidelines will include:

i. Regulations for the issue of convertible debt securities

ii. Regulations for the issue of call warrants

iii. Regulations for the issue of redeemable, perpetual, convertible and exchangeable debt securities by companies

iv. Review of the listing regulations of the stock exchanges with the view to making the listing process easy and efficient

v. Review of the regulatory framework for delisting of companies from the stock exchanges

3. Automation

i. Development of debt market reporting system (DMRS);

ii. Further development of e-IPO facility;

iii. Promotion of e-dividend; and

iv. Efforts for shifting towards demat culture

4. Standardization

i). Development of a model prospectus and standardization of supporting documents for equity/debt issues; and

ii). Development of the model employees stock option scheme.

Statistics

Issue of capital

Table 1: Equity: Retail portion

Sr. No.	Name of company	Sector	Sub-scription date	Total paid-up capital (In million rupees)	Already paid-up capital (In million rupees)	Offered Capital (In million rupees)	Premi-um per share (rupees)	Offered capital (in-cluding premium, if any) (in million rupees)	Sub-scription received (including premium if any) (in million rupees)	Times sub-scribed
1	Engro Fertilizers Limited	Chemicals	16-17 Dec., 2013	12,978.000	12,228.000	187.500	18.25	262.000	1,815.750	6.93
2	Avanceon Limited	Technol-ogy	7-8 Jan, 2014	1,006.660	755.000	62.920	4.00	88.080	110.230	1.25
3	Hascol Petroleum Limited	Oil & gas	08-09 April, 2014	906.000	656.000	62.50	46.50	353.130	508.060	1.44
4	United Bank Limited	Comm. Bank	N/A	Already listed			No retail offering			
5	Pakistan Petro-leum Limited	Oil and gas	N/A	Already listed			No retail offering			
Total				14,890.660	13,639.000	312.92		703.21	2,434.04	

Table 2: Equity: Book building portion

Sr. No.	Name of company	Bidding date	Total paid-up capital (in million rupees)	Already paid-up capital (in million rupees)	Floor price/ price band (ru-pees)	Num-ber of shares offered through book build-ing (in million)	Num-ber of shares bid for through Book Build-ing (in million)	Strike price (ru-pees)	Premi-um per share (rupees)	Offered capital (at floor price) (in million rupees)	Times sub-scribed (in shares)
1	Engro Fertiliz-ers Limited	19-21 Nov., 2013	12,978.000	12,228.000	20	56.250	219.967	28.25	18.25	1,125.000	3.91
2	Avanceon Limited	27-28 Nov., 2013	1,006.660	755.000	14	18.875	19.441	14.00	4.00	264.250	1.03
3	Hascol Petro-leum Limited	04-05 March, 2014	906.000	656.000	20	18.750	132.546	56.50	46.50	375.000	7.07
4	United Bank Limited	11 June, 2014	Already listed		155	241.922	394.00	158.00	148.00	37,497.910	1.63
5	Pakistan Petroleum Limited	26-27 June, 2014	Already listed		205	70.055	143.071	219.00	209.00	14,361.275	2.04
Total			14,890.660	13,639.000		405.852	909.025			53,623.44	

Number of equity issues to public during the fiscal years 1998-2014

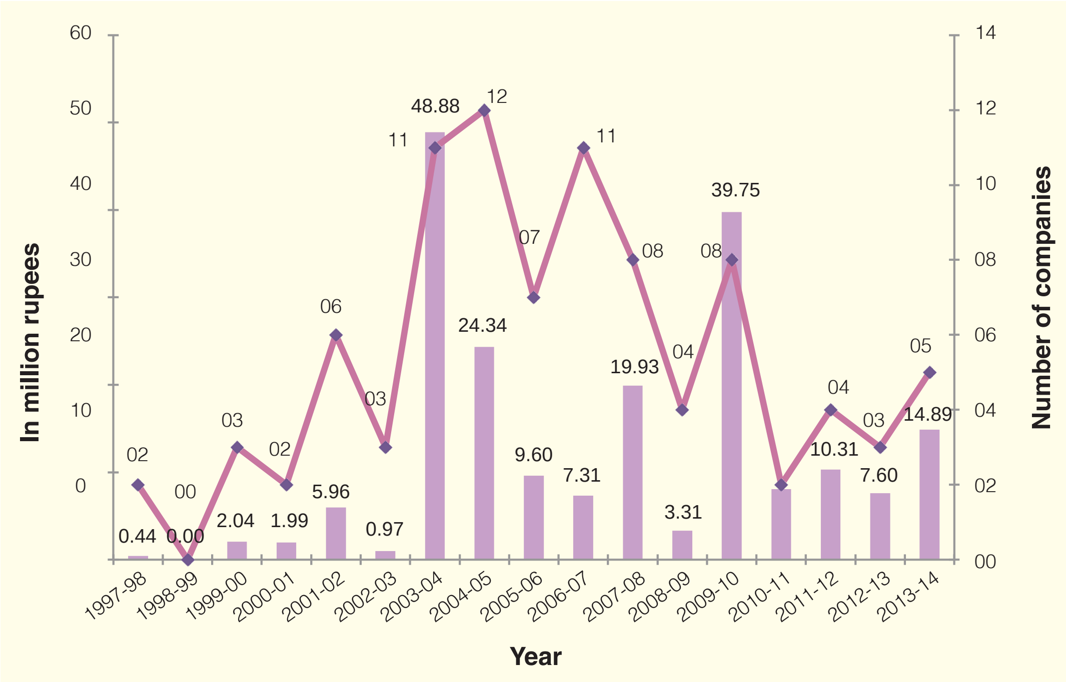


Table 3: Debt issues: listed TFC

Serial number	Name of company	Subscription period	Listed at	Amount (In billion rupees)
1	Pakistan Refinery Limited (PRL Taraqqi TFC 1)	Aug-16-Nov 15, 2013	KSE	2,243.630
2	Pakistan Refinery Limited (PRL Taraqqi TFC 2)	Aug-16-Nov 15, 2013	KSE	535.790
3	NIB Bank Limited	June 18-19, 2014	KSE	5000.000
	Total			7,779.420

Table 4: Debt issues: listed sukuk

Serial number	Name of company	Listed at	Issue size (In million rupees)
1	K-Electric Limited (KE Azam Sukuk 1)	KSE	750.000
2	K-Electric Limited (KE Azam Sukuk 2)	KSE	3,750.000
3	K-Electric Limited (KE Azam Sukuk 3)	KSE	1,500.000
4	Engro Corporation Limited (Engro Islamic Rupiya- 1)	KSE	3,000.000
5	Engro Corporation Limited (Engro Islamic Rupiya- 2)	KSE	1,000.000
	Total		10,000.000

Table 5: Privately placed debt securities

Serial number	Name of security	Number of issues	Amount (In billion rupees)
1	Term finance certificates	3	10.577
2	Sukuk	3	13.000
3	Commercial papers	2	0.650
	Total	8	24.277

Table 6: Corporate debt securities outstanding

Serial number	Name of security	Number of issues	Amount (in billion rupees)
1	Listed term finance certificates (L-TFCs)	28	39.600
2	Privately placed TFCs (PP-TFCs)	42	72.910
3	Sukuk	50	442.610
4	Commercial papers	01	0.500
	Total	121	555.62

Graph 2: Number of TFCs floated - FY 1995-2014

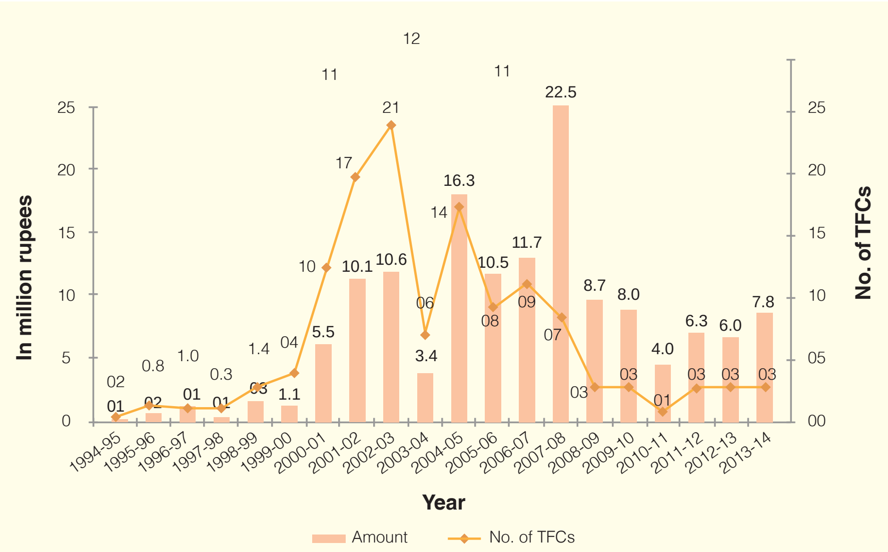


Table 7: Summary of shares lying unclaimed with listed companies/RTAs

(As of September 30, 2013)

As of	Number of companies listed and approached	Number of companies responded	Number of companies reported Nil unclaimed shares	Type of unclaimed/ undelivered shares (number in million)	Total unclaimed Shares (No. in million)	Offered capital (in million rupees)	unclaimed Dividend (in billion rupees)	Offered capital (including premium, if any) (in million rupees)	Subscription received (including premium if any) (in million rupees)
Sept 30, 2013	520	337 65%	87 17%	3.69	66.49	29.96	111.72	211.85	24.09

Policy, Regulation and Development Department

The Policy, Regulation and Development Department (PRDD) is responsible for developing and improving legal, regulatory and operational frameworks for the securities market of the country. This includes devising legal framework for new products and services and amending the prevailing rules, regulations and guidelines.

Waqar Ali, Danish Raza, Asif Iqbal, Mateen ullah Khan, Imran Iqbal Panjwani (ED), Muhammad Imran Sajid, Tariq Naseem, Sajjad Ali and Benazir Nasir

The objective of introducing reforms is to develop a robust, efficient and transparent secondary capital market where investors and businesses have multiple viable options, and are able to make informed decisions in a timely manner. Investor protection is the core objective of these reforms so as to foster a climate of increased investor confidence to achieve sustainable capital market growth. Efficient capital market operations with wide range of products and services, effective risk management regime, reliable and secure systems, good governance and increased transparency are the other areas of focus of the PRDD.

Key achievements

Development of laws and regulations

In order to respond to the ever-changing market conditions and to enhance investor protection, risk management and good governance, the SECP strives to introduce structural and legal reforms in the capital market. The regulatory reforms carried out during the fiscal year 2013-2014 are summed up below:

1. Approval of the rule book

Subsequent to the demutualization of the stock exchanges, a need was felt to revamp the regulatory framework of the stock exchanges, as the same was scattered in multiple sets of regulations which resulted in redundancies and overlaps. In this connection, Rule Book for the Karachi Stock Exchange (KSE) was approved, which was aimed at compiling all the existing regulations of the KSE in one single document while ensuring harmonization and consistency among the different regulatory requirements. It also incorporates changes consequent to the demutualization process and structural changes at the KSE, including recognition of the role of the Regulatory Affairs Committee and the Chief Regulatory Officer in the regulatory, enforcement and arbitration processes. The Rule Book also introduces refined and more stringent eligibility criteria for the Trading Rights Entitlement Certificate (TREC) holders.

2. Regulatory framework and platform for trading of government debt securities

In order to stimulate growth in the debt market, efforts were made for launch of trading of government debt instruments at the stock exchanges in coordination with the federal government. The regulatory framework and necessary system development were finalized with extensive efforts by the SECP, the State Bank of Pakistan (SBP), KSE and the Central Depository Company (CDC). Regulatory framework was approved for the purpose and soft launch of trading in Treasury Bills (T-Bills), Pakistan Investment Bonds (PIBs) and GOP ijara sukuk was successfully made on January 31, 2014. The formal launch was made by the federal minister for finance and revenue on February 18, 2014.

3. Amendments to the regulatory framework of the stock exchanges

i. Measures were taken to promote listing of small and medium enterprises (SMEs) and regulations were approved for the Islamabad Stock Exchange (ISE) for the creation of separate trading counter to enable listing and trading of shares of the SMEs at the stock exchange. This measure will facilitate the SMEs by allowing them to raise funds through capital market in a cost-effective way by offering their securities to qualified institutional investors.

ii. Regulations governing stock index futures contracts were approved for the Lahore Stock Exchange (LSE) and ISE thereby enabling the launch of index futures contracts at these exchanges.

iii. Amendments were approved to the regulations governing risk management, general regulations and regulations governing default management of the ISE, to introduce the concept of base minimum capital as an alternative to the membership cards for catering to scenarios of default in the post-demutualization environment.

iv. Amendments were approved to the listing regulations of the stock exchanges to give effect to changes in the code of corporate governance for listed companies to facilitate listed companies in improved implementation of the same.

v. Amendments were approved to the regulations governing system audit (regulatory compliance) of the brokers of the LSE and ISE in order to revamp the entire regulations with major changes to the brokers' audit process and scope.

vi. Amendments relating to eligibility criteria for provisional listing and position limits for trading were approved for Futures Trading in Provisionally Listed Companies Chapter of the KSE Rule Book.

vii. Amendments were approved to the Listing of Companies and Securities Chapter of the KSE Rule Book to improve disclosure requirements relating to floor price for the issue/offer under the book building.

4. Amendments to regulatory framework of the National Clearing Company of Pakistan Limited

i. Post-demutualization, members of stock exchanges have been given the status of TREC holders against their membership cards; accordingly requisite amendments were approved to the 2003 NCCPL Regulations to cater to this aspect.

ii. Amendments were approved to the NCCPL regulations to incorporate operational changes relating to change in transmission of capital gains tax related data by the CDC from a daily basis to a weekly basis.

iii. Pursuant to amendments to 2001 the Income Tax Ordinance the scope of section 233AA has been enhanced and the NCCPL is now empowered to collect advance tax from the brokers of the stock exchanges on the profit or mark-up or interest earned on margin trading system (MTS) and securities lending and borrowing (SLB) transactions. Accordingly, appropriate changes were made to NCCPL regulations to incorporate the same.

iv. Amendments were approved to the NCCPL regulations to facilitate clearing and settlement of trades executed by brokers on behalf of investors availing direct settlement service introduced by the CDC for its investor accountholders.

5. Amendments to the regulatory framework of the CDC

i. To bring about further efficiency and transparency in the clearing and settlement process by eliminating the need for the investor to open a sub-account with a broker, regulatory amendments were approved to enable the CDC to offer direct settlement service (DSS) to its investor accountholders wherein the CDC, in addition to custody service, will directly settle their trades executed through brokers. This initiative will also encourage in achieving the goal of segregation of trading and clearing brokers.

ii. To further facilitate deposit of physical securities into the Central Depository System (CDS), the process of sending copies of securities' deposit forms and print-outs of deposit request transaction was revised. The objective is to eliminate unnecessary documentation and reduce cost of doing business.

iii. In order to safeguard the interests of account-holders against unauthorized pledging of their securities and to empower the CDC to take disciplinary actions against non-compliant pledgees, the banks are now required to ensure that each pledge transaction is supported by a separate authorization from the relevant account-holder on a defined format.

6. Amendments to regulatory framework of the Pakistan Mercantile Exchange Limited

i. Amendments were approved to general regulations of the Pakistan Mercantile Exchange Limited (PMEX) to allow for utilization of services of microfinance banks besides the already approved commercial banks as clearing banks of the exchange. The addition of new clearing banks is expected to facilitate the investors and thereby encourage growth, development and outreach of the commodities futures market in Pakistan.

ii. Under the regulations governing system audit of brokers at the PMEX, which had been introduced to provide for regular inspections/audits of the members to check and ensure their compliance with the regulatory framework, a criteria for selection of auditors was approved. The criteria ensure that only reputable audit firms that comply with certain minimum standards shall be eligible for conducting system audit of PMEX brokers.

iii. In order to improve the governance structure at the PMEX and to reduce any conflict of interest that may arise due to prioritizing its commercial and regulatory objectives, the SECP has approved a plan for segregation of commercial and regulatory functions at PMEX. In terms of the plan, the Regulatory Affairs Committee of the PMEX shall oversee all regulatory functions and act as a Chinese wall between the regulatory and commercial operations of the PMEX.

Development of new products/systems/markets

1. Introduction of stock index futures at LSE and ISE

In order to develop the derivatives market at the smaller exchanges, regulations governing stock index futures contracts were approved for the LSE and ISE. These regulations enable the LSE and ISE to provide a platform for trading in stock index futures contracts with the KSE-30 Index as the underlying index, as per agreements signed by these exchanges with the KSE

2. Introduction of SME board at ISE

Small and medium enterprises (SMEs) play a vital role in the development of a country and its economy as they have the potential to create economic as well as social growth.

Keeping the above in mind, the SECP had constituted a technical committee to suggest measures for increased listings, with special emphasis on the SME sector. In line with recommendations of the said committee, regulations governing listing and trading of shares of small and medium enterprises were approved for the ISE. This approval has paved the way for listing and trading of SMEs at the ISE, which will encourage SMEs to raise funds through the capital market in a cost-effective manner by offering their equity securities to qualified institutional buyers. The availability of inexpensive capital is crucial to the SMEs' growth and survival. Providing an avenue of listing and trading is expected to result in better valuation and wealth creation for the promoters and the investors of these SMEs. Similar regulations will also be approved for the KSE and LSE in due course of time.

3. Revamp of the system audit of brokers of LSE and ISE

In order to strengthen monitoring and compliance by market intermediaries with the applicable regulatory provisions and to improve enforcement power of the regulators, regulations governing system audit (regulatory compliance) of the brokers of LSE and ISE were revamped with major changes in the brokers' audit process and scope, along the lines of the amendments earlier approved for the KSE.

4. Code of Corporate Governance

The SECP had earlier revised the Code of Corporate Governance for the listed companies to raise governance benchmarks for the corporate sector. In light of feedback from listed companies and other quarters the code was further revised to remove practical difficulties and to facilitate improved compliance. Provisions of the ode pertaining to eligibility requirements for chief financial officer and head of internal audit for the listed companies were amended to facilitate new entrants and to assist in increasing the pool of professionals in the country.

Approval was also granted to two additional institutions for offering the Directors' Training Program (DTP), raising the total institutions offering the DTP certification in Pakistan to six. It is expected that the addition of well-reputed and renowned institutions would result in the delivery of high quality DTPs and improve DTP standards by increasing competition for the already existing DTP providers.

5. Development of the commodities market

To fulfill the hedging requirements of lower income class of investors in the commodities market and in pursuit of enhancing the product suite at the PMEX, approval was granted to the Milli Tola Gold Futures Contract.

Future plans

The SECP's future roadmap, as outlined below, envisages introduction of key structural and regulatory reforms, development of equity, derivative, debt and commodities markets, and measures for improving governance, risk management, efficiency and transparency in the capital market operations. Measures include:

1. Post-demutualization reforms

In collaboration with the stock exchanges, the SECP is in the process of introducing consequential reforms, which are essential for taking the exchanges forward in the demutualized setup. The stock exchanges are in the process of bringing in strategic investors, which will enable the exchanges to benefit from their extensive expertise and technological assistance, apart from bringing foreign investment and broadening the investor base. Simultaneously, efforts will be made for listing of the stock exchanges so their shares are offered to the general public in terms of the demutualization law. The possibility of integration of the three stock exchanges is also being explored to benefit from operational synergies in line with the best international practices.

2. Framework for public interest institutions

In order to safeguard public interest, the SECP is in the process of introducing a concept where companies/corporations/institutions having significant level of interest/stake in financial and capital markets, investing public and general public, would be notified as public interest institutions. Such notification would in addition to the requirements provided in their respective laws, also require such entities to comply with special conditions, which may, inter alia, include requirements pertaining to enhanced corporate governance, structure and functions of the board of directors, role and independence of the management, risk management, profit/dividend distribution etc.

3. Establishment of securities investor protection corporation

The collapse of brokerage houses results in a large number of investor complaints. The stock exchanges strive to settle these investor complaints through limited recourse on the assets of defaulting brokers such as by disposing their trading rights and other collaterals deposited with the exchanges. It is envisaged that the Securities Investor Protection Corporation (SIPC) should be established to cater to such situations. The SIPC maintains an adequate pool of funds to compensate investors to the maximum extent in the event of default of their broker/custodian. The SIPC is expected to bring efficiency in the claim settlement process by eliminating any conflicts of interests and reducing the time that is normally taken for satisfying investor claims. Moreover, the SIPC with its own bench of judges and professionals well versed in the capital markets would be able to resolve ongoing investor complaints/claims more expeditiously.

4. Launch of national custodial service

Protection of investor assets is the paramount objective of the SECP. Accordingly, a product titled “National Custodial Services” will be launched from the platform of NCCPL whereby the NCCPL will act as the custodian and clearing agent of the investor. This facility will enable investors to hold securities and cash under custody of NCCPL and settle trades executed at stock exchanges without the need of maintaining sub-account or cash account with the brokers; thus minimizing the chances of misuse of investor’s assets by the brokers.

5. Regulations for research analysts

The SECP is working to develop a set of regulations for regulating activities of research analysts and persons disseminating investment recommendations. There is a need to bring homogeneity and enhance integrity in the research, analysis and insight offered by such professionals by making such activities subject to pre-defined standards, policies and procedures that enable a greater level of reliance, accountability and enhanced investor confidence.

6. Commodities market development

Default management procedures of PMEX are being comprehensively looked into to address any gaps in an attempt to strengthen risk management. Further, proposal for introduction of foreign currency pairs futures contracts at the PMEX is in the final phase whereby no-objection certificate is being sought from the SBP. Also, the Shariah Advisory Board of the SECP is actively working on options to introduce Shariah-compliant commodity futures contracts.

7. Development of new products and systems

Regarding new product/system development, the future SECP agenda includes introduction of Sharia-compliant investment alternatives, bringing reforms in inter-exchange trading, listing and trading of call warrants on stock exchanges, listing and trading of stock options, cross listing of foreign and domestic indices at Pakistani and foreign stock exchanges, activation of the market for exchange traded funds (ETFs) and boosting activity in the index futures and index options market. Further, avenues are being explored for introducing the latest risk management techniques including introduction of the standardized portfolio analysis of risk (SPAN) margining regime in the derivatives’ market segment.

Market Surveillance and Special Initiatives Department

As part of its mandate to develop an efficient, effective and transparent stock market and to inculcate integrity and fairness in the trading activity, the Market Surveillance and Special Initiatives Department (MS&SID) works to identify abusive, manipulative and irregular trading practices. The primary focus is on revealing complex schemes of market abuse which are detrimental to investors' interest, e.g., insider trading, front running, price manipulation etc.

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Market overview

The year 2013-2014 witnessed a significant growth in the stock market indices with and unprecedented peaks being achieved. The KSE-100 index which began the year at 21,005.69 points reached 29,652.53 points by close of trading on June 30, 2014, i.e., an increase of almost 41% since the start of the year. Average daily turnover increased to 215.52 million shares by June 30, 2014, i.e., an increase of 7.38% over last year. A total of 557 companies with total paid up capital of Rs1,160.34 billion were listed on the Karachi Stock Exchange. Market capitalization stood at Rs7,022.69 billion as on June 30, 2014, which reflects a 36 percent increase over last year. Foreign investment in the stock market exhibited net inflow of $256.16 million during the year, which reflects a decrease of 55% over last year.

Some of the more important developments that have contributed to this outstanding performance of the Pakistani stock market are: significant interest shown by businesses in China to invest in Pakistan; strengthening of the Pakistani rupee against the US dollar; steady foreign interest in stocks; increased confidence shown by the multilateral donor agencies such as the Asian Development Bank's allocation for energy sector development; etc. However, over the last two months the market has made several corrections and stabilized just under the 30,000 level. Major reasons for this being uncertainty surrounding the post-elections scenario in India and Afghanistan as well as uncertainty about the law and order situation.

Key achievements

In order to ensure the orderly execution of the market operations, significant measures have been taken. Similarly, in 40 instances of non-compliance with regulatory provisions, warning letters were issued to the brokers of stock exchanges and individual investors. The summary of the enforcement actions taken during the year is presented below:

Orders	
Violation	**Number of cases**
Insider trading/front-funning	1
Brokers and Agents Registration Rules, 2001	1
Violation of listing regulations	1
Total	3

Warning letters	
Violation	**Number of cases**
Wash trades	25
Blank sales	3
Listing regulations	6
Erroneous trades	4
Other	2
Total	40

Cases in progress	
Violation	**Number of cases**
Inquiries in progress	5
Show cause notices issued	12
Total	17

Future plans

- **Regulation of off-market**

Off-Market being an important segment of the stock market requires active regulation. For this purpose, the SECP intends to negotiate with the exchanges for setting minimum threshold limits per scrip on the basis of Value at Risk based past traded quantity.

- **Detection of money laundering in equity trading**

The SECP intends to develop procedures which can lead to detection of money laundering practices conducted on the exchanges. For this purpose assistance from other regulatory entities like the Federal Investigation Agency (FIA), State Bank of Pakistan (SBP), National Database and Registration Authority (NADRA), Federal Board of Revenue (FBR), Pakistan Telecommunications Authority (PTA), etc., will be sought.

Explore this next great frontier where the boundaries between work and higher purpose are merging into one, where doing good really is good for business.

Richard Branson

Specialized Companies Division

Specialized Companies Division

The Specialized Companies Division (SCD) comprises of 2 departments:

- Policy, Regulation and Development Department
- Supervision Department

Policy, Regulation and Development Department

The Policy, Regulation and Development Department (PRDD) is headed by an executive director, who has also been delegated the additional responsibility of Registrar Modaraba. The PRDD is responsible for licensing, registration, provision of comprehensive regulatory framework and granting necessary regulatory approvals for non-banking finance companies (NBFCs) and modarabas. The regulatory ambit of NBFCs is extensive and includes investment finance companies, leasing companies, housing finance companies, asset management companies (managing mutual funds, pension funds and also providing investment advisory services), fund management companies providing private equity and venture capital fund management services, and REIT management companies. Plans are underway to further expand the NBFC sector to include micro-lending NBFC's, discount houses and corporate advisory services.

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Non–banking financial services

The non-bank financial (NBF) sector is divided into two clusters, i.e., non-bank financial services (engaged in the business of deposit taking and financing) and fund management services. This section deals with the entities engaged in providing non-banking financial services.

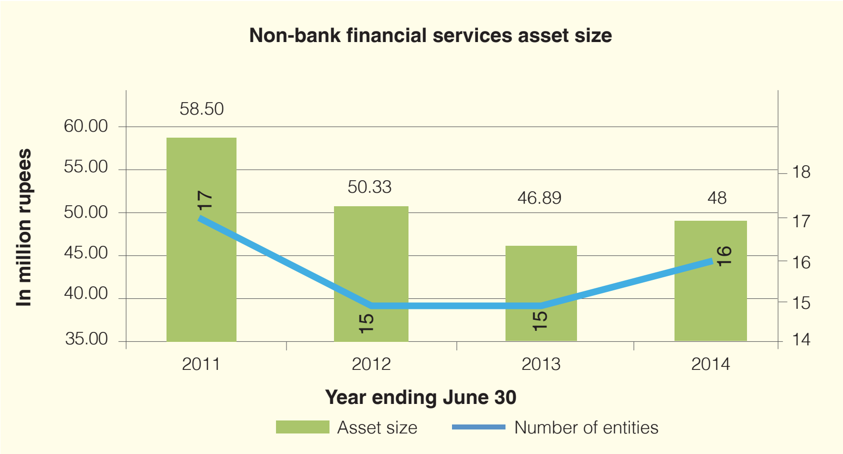
Non-banking finance services are being provided by leasing companies, investment finance companies (investment banks) and housing finance companies. As of June 30, 2014, there were 9 leasing companies and 7 investment banks. Currently, no NBFC is operating as a housing finance company. During the financial year, a new leasing company, i.e. Sindh Leasing Company was incorporated after a gap of 10 years. The names of entities engaged in non-banking financial services are as under:

Leasing companies	Investment finance companies
• Orix Leasing Pakistan Limited	• IGI Investment Bank Limited
• Pak Gulf Leasing company Limited	• Escort Investment Bank Limited
• Grays Leasing Limited	• Security Investment Bank Limited
• Saudi Pak Leasing Company Limited	• Invest Cap Investment Bank Limited
• NBP Leasing Limited.	• First Dawood Investment Bank Limited
• Security Leasing Company Limited	• Trust Investment Bank Limited
• SME Leasing Limited	• First Credit Investment Bank Limited
• Standard Chartered Leasing Limited	
• Sind Leasing Company Limited	

Leasing and investment finance companies are mainly involved in lending activities and provide funding in the form of lease finance and term loans. These entities are an important source of financing for the SME sector in the country. Leasing companies have deployed more than 70% of their assets in lease finance whereas investment finance companies have deployed their assets in providing financing facilities, and investment in securities.

During the previous years, the asset size of entities engaged in non-banking financial services was on a continuous decline. However, the trend has been reversed during the financial year, and the asset size has increased from Rs46.89 billion as of June 30, 2013 to Rs 48 billion as of June 30, 2014. This increase is attributed to an increase in asset size of leasing companies, which increased by Rs2.15 billion or 6.23 percent from Rs34.51 billion as of June 30, 2013 to Rs36.66 billion as of June 30, 2014.

A graph of the asset size of non-banking financial services for the years 2011- 2014 is given below:



Although the asset size of the entities engaged in non-banking financial services has started to grow, it is still diminutive. The tiny size can be attributed to the multitude of challenges being faced by the entities which include limited resource mobilization capacity, absence of level playing field, dearth of skilled human resource, and liquidity problem owing to significant mismatch between assets and liabilities, etc.

Future plans

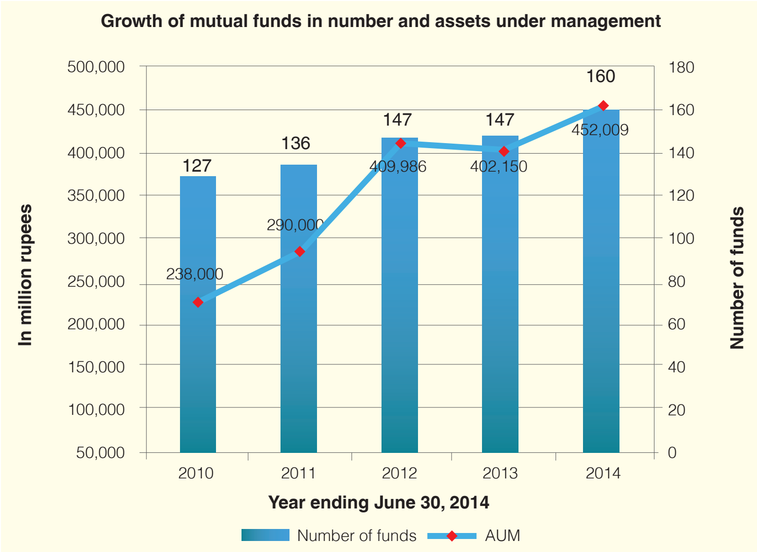
The SECP is committed to promoting and developing entities engaged in non-banking financial services in this regard changes are being made in the regulatory framework. The significant changes proposed in the regulatory framework are as follows:

- A regulatory regime with significantly reduced equity requirements to encourage non-deposit taking NBFCs
- A comprehensive regulatory framework for NBFCs for conducting their business in accordance with Islamic Shariah principles
- Regulatory framework has been developed for NBFCs intending to engage in the business of providing finance to poor persons and microenterprises. This will also enable the unregulated microfinance institutions to come under a regulated structure
- A new set of regulations for discount houses
- The scope of housing finance companies broadened to undertake commercial housing finance activities
- The investment finance services model to be revamped
- The scope of leasing companies enhanced to include leasing of residential buildings
- The concept of financial services to be undertaken as ancillary business by companies other than financial institutions introduced
- Introduction of measures such as capital adequacy ratio, capping of deposit taking activities, reduction in exposure limits, rationalizing leveraging capacity, etc. to protect investors interests and the general public

Asset management and investment advisory

Mutual funds play a key role in helping their clients to reach their investment objectives, while providing saving/investment opportunities and contributing to the economy of the country. Mutual funds provide an important link between investors and corporations, banks and government agencies to help them meet their objectives. In Pakistan, mutual funds have evolved significantly over the past decade and are a vital part of a variety of channels to promote financial inclusion and financial participation. Notwithstanding the progress made in the past, there is significant scope for further expansion of the mutual fund industry; growth over the period 2010-2014 is presented in the following graph:

The asset size of mutual fund industry swelled up by Rs50 billion and stood at Rs452 billion as of June 30, 2014 compared to Rs402 billion as of June 30, 2013, representing a growth of 12% during the period ending June 30, 2014. The asset allocation of the industry shows that equity funds (both conventional and Shariah compliant) dominated the assets under management (AUM) of the industry with the largest share of the mutual fund industry at 34.74%. Money market funds (both conventional and Shariah compliant) held the second largest market share at 29.31%, followed by Income funds (both conventional and Shariah compliant) with market share of 24%. Moreover, the total number of funds has reached the level of 160 during the period as compared to 147 on June 30, 2013.



Portfolio management industry in Pakistan is steadily growing with the rise in assets under management. This is evident in the expanding asset base of the portfolio management industry, where discretionary/non-discretionary portfolios of the industry showed an annual growth of 29% due to large inflows of Rs16 billion and stood at Rs72 billion on June 30, 2014.

The financial year 2013-14 proved to be an eventful year for mutual funds, bringing about various changes aimed at re-energizing growth, development, and regulation of the mutual fund industry. These changes exemplified the philosophy of the SECP, fusing development, regulation and investor protection.

Significant milestones

The SECP continues to play a facilitative and collaborative role in the growth of the mutual fund industry. Our developmental agenda for the year continued to be driven by an emphasis on promoting sustainable and inclusive growth of the market. In doing this, the SECP' efforts have ranged from introducing new products, and creating a facilitative environment for the asset management industry. Initiatives undertaken include:

- In order to introduce new low-risk products in mutual fund industry, the SECP has allowed the launching of Collective Investment Schemes (CIS) based on constant proportion portfolio insurance (CPPI) methodology with direct exposure in equities and money market instruments
- The SECP has prescribed detailed requirements for outsourcing of functions performed by an asset management company (AMC) on behalf of CIS. The SECP has provided flexibility to AMCs in terms of delegating certain functions to a third party service provider, except for some core duties such as investment decision making, risk management and compliance. This flexibility would allow AMCs to opt for outsourcing of their basic functions, resulting in better focus on its core business operations
- To curb mis-selling of units of mutual funds, the SECP has prescribed norms/details for selling of units of CIS. The circular issued in this regard, prohibits AMCs to involve, directly or indirectly in mis-selling of units of the CIS, or making any false or misleading statement for selling of units, concealing or omitting material facts about the associated risk factors of the CIS
- In order to bring about consistency in valuation methodology of GOP ijarah sukuks among the industry participants, and to make it in line with the regulatory requirements, the SECP has directed the AMCs to use PKISRV rates for valuing the GOP ijarah sukuks to determine true value of the net assets of CIS under their management
- In order to bring uniformity and consistency in minimum rating requirement for conventional and Islamic capital protected fund, necessary clarifications were issued by the SECP. It was clarified that the minimum rating for placements of funds with banks/DFIs and exposure against debt securities by a Shariah-compliant capital/principal protected and/or principal preservation scheme shall not be lower than AA-(double A minus), the same as for a conventional capital protected scheme

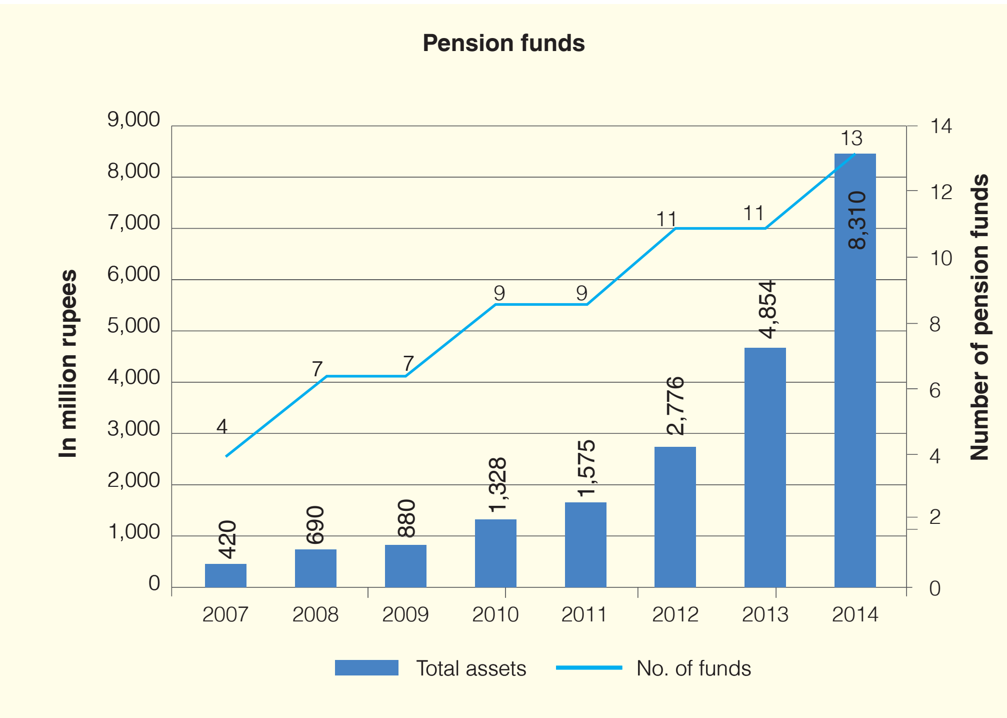
Future plans

Over the last decade, as a consequence of globalization, changing demographics and income growth, the mutual fund industry has evolved from a platform for basic fund raising to a mechanism for inter-generational wealth creation. In line with this, the SECP constituted the NBF reforms committee to undertake a holistic review of the sector, so as to assess the impediments that hinder the sector and to unleash its true potential.. The report prepared by the NBF reform committee was disseminated to the public and professional bodies for views and comments. In light of the feedback received, the recommendations of the NBF reform committee report, and in-house deliberations, the SECP undertook a comprehensive review of the NBFC and Notified Entities Regulations, 2008. Based on the review, the SECP will introduce the necessary amendments in the NBFC regulatory framework in the following areas

- Charging distribution expense to fund, as a percentage of net asset and making it mandatory for AMCs to establish their own distribution network
- Reduction in annual regulatory fee provided more than 50% of fund's net assets are held by retail clients
- Introduction of concepts of expense ratio
- Code of conduct for fund managers and other risk management requirements
- Introduction of regulatory framework for private funds
- The NBF reform committee in its report proposed various measures to address the issues and irritants, and to facilitate equity investment in private equity and venture capital funds. In line with the committee's recommendations and in house deliberations, the SECP drafted the new regulatory framework, namely for private equity (PE), venture capital (VC) and alternative funds for local market. The regulations require private equity funds and alternative funds to register with the SECP. The regulations endeavor to extend the perimeter of regulation to unregulated funds, enhance systemic stability, increase market efficiency, and encourage formation of new capital and investor protection.

Voluntary pension system

Under the 2005 Voluntary Pension System (VPS) Rules private pension funds were introduced in 2007. The size of pension funds remained stagnant during the initial years mainly due to adverse market conditions, a lack of awareness about the product and fiscal inconsistencies. However, since 2010, pension funds have shown significant growth which can be attributed to favorable market conditions, positive changes in the tax regime, launch of new pension funds and an increase in number of participants (investors). During the current year, assets of pension funds have shown remarkable progress and increased from Rs4.854 billion on June 30 2013 to Rs8.31 billion as of June 30, 2014. At present, 13 pension funds are operating in the market, being managed by 7 pension fund managers. The pension funds asset size from 2007-2014 is reflected in the table below:



During the year, 1 new AMC was registered as a pension fund manager (PFM) under the 2005 VPS Rules. The total number of PFMs now stands at 8. The number of pension funds increased to 13 with the launch of 2 new pension funds during the year. Furthermore, 2 commodity sub-funds were launched during the fiscal year.

The SECP has been endeavoring to bring about parity among retirement schemes and a number of measures have been introduced to this effect in the tax regime governing the VPS and other retirement schemes. However, certain aspects are yet to be reformed. In this regard, the SECP has proposed the following changes to clarify the outstanding issues:

- Applicability of withholding tax on payments received from an income payment plan
- Applicability of withholding tax on withdrawal of balance transferred from a recognized provident fund
- Tax rebate to the employee on the contribution made by an employer on his behalf in VPS

Future plans

The SECP is confident that VPS has a bright future and great potential for growth provided that the right types of regulatory and fiscal policies are implemented. So far, the government has been cooperative in bringing gradual improvement in the fiscal treatment of retirement schemes, which in turn has enabled the private pension funds to gain foothold. The SECP hopes that the government's patronage shall remain available for popularizing the culture of long-term savings through pension funds to serve the dual purpose of increasing saving rates, while providing social security to the senior citizens.

The SECP will continue to benefit from the experiences of other jurisdictions in the field of pension funds. To this end, it will incorporate necessary changes in the rules, if so required, update investment and allocation policies, specify requirements for ensuring prudent management of pension assets and keep track of activities of Pension Fund Managers through monitoring and enforcement.

Real estate investment trusts (REITs)

Real estate investment trusts (REITs) provide an opportunity to the investor with small capital base to invest in real estate assets. The REIT regulations were notified in 2008 to provide an enabling environment for retail investors to invest in real estate as well as help reduce the housing gap in the country. Currently, there are three REIT management companies (RMCs).

As the REITs industry is in the nascent stage, the regulator is conscious about the quality of the schemes. In order to foster growth of the NBF sector, the SECP in close coordination with the market participants is considering reforms in the REITs regulatory framework. After consultation with the market players the following reforms are likely to take place in the REIT regulatory setup:

- Reduction of equity requirements for RMC to Rs50 million
- Alignment of size of the REIT fund and public offer with the listing regulations of stock exchanges
- Reduction of RMC mandatory holding in a REIT scheme to 10%; RMC may fulfill this requirement alone or in alliance with an investor
- Usage of customer advances by REITs up to 70% of the sale value of the project against the prevailing limit of 30%
- Introduction of concept of unsecured borrowings by REITs up to 30% of initial value of land
- Increase in the number of REIT eligible cities
- Allowing AMCs to manage REITs
- Rationalizing fee of RMC for developmental REITs
- Introduction of concept of performance fee for RMC
- Simplification of processes for the launch of REIT schemes

Future plans

It is expected that the amendment to the REIT Regulations will attract not only retail investors but will provide an enabling environment for institutional investors. The Specialized Companies Division will raise awareness among the stakeholders about the new REIT regulations and how the new regulatory structure can facilitate corporates in securitizing real estate asset.

Modarabas

Modaraba is an Islamic contract of doing business in which one party participates with his money (rabbul-maal or investor) and the other with skills and efforts (the modarib or manager). The profit earned from the venture is distributed in accordance with the ratio agreed between the parties, whereas the financial loss is borne by the rabbul-maal and the modarib is the loser of his labor/efforts. It is one of the prime modes of Islamic financial system.

In the late 1970s, the government strived to lay the foundations of an interest-free economy and promulgated the 1980 Modaraba Companies and Modarabas (Floatation and Control) Ordinance. Under this Ordinance the SECP's Modaraba Wing has been working for the elimination of riba and growth of Islamic finance for the last three decades. The success of Islamic economic system lies in the principles of Shariah; and the Maqasad-al-Shari'ah is to promote the well-being of the people by safeguarding their faith (din), their lives (nafs), their intellect (aql), their posterity (nasl) and their wealth (mal). The ultimate objective of the Maqasid-al-Shari'ah is to serve the public interests and to save them from harm (daf al mafasid).

In line with the objectives of Shariah, the regulatory framework of modarabas is providing a platform to the corporate sector to conduct its business activities without adversely affecting the principles of Shariah. The modarabas, being financial services, trading and manufacturing entities, are providing a wide range of financial services and products that cater to the needs of a true Islamic society and Islamic capital markets.

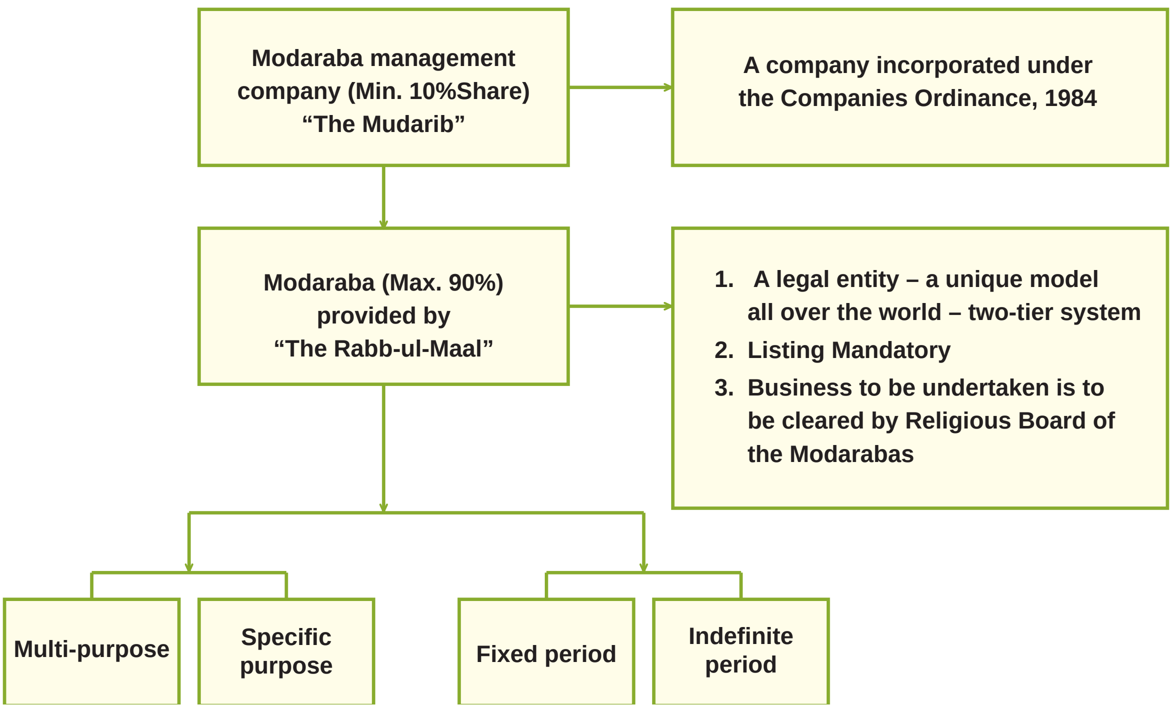
During the current financial year the performance of the modaraba sector remained consistent and the key statistics of the modaraba sector as of June 30, 2014 (unaudited) are as under:

In million rupees	
Number of modaraba companies	43
Number of modarabas (in operation)	27
Number of modarabas under winding-up	05
Number of modarabas under floatation	03
Total assets	31,365
Total paid-up fund*	9,422
Total equity	15,269

**Figure based on the financial statements (27 modarabas) as of June 30, 2013.*

1. Basic structure of modarabas

The basic structure of a modaraba operating in Pakistan is given in the following diagram.



2. Regulatory framework of modarabas

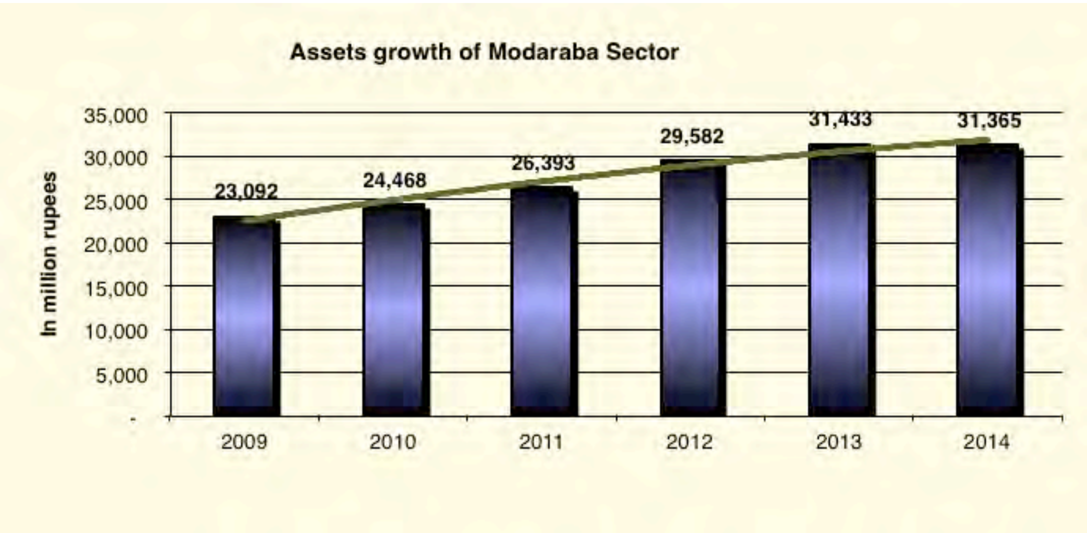
The modaraba companies and modarabas are working under the regulatory framework provided in following laws, rules and regulations.

- Modaraba Companies and Modaraba (Floatation and Control) Ordinance,1980
- Modaraba Companies and Modaraba Rules,1981
- Prudential Regulations for Modarabas
- Shariah Compliance and Shariah Audit Mechanism

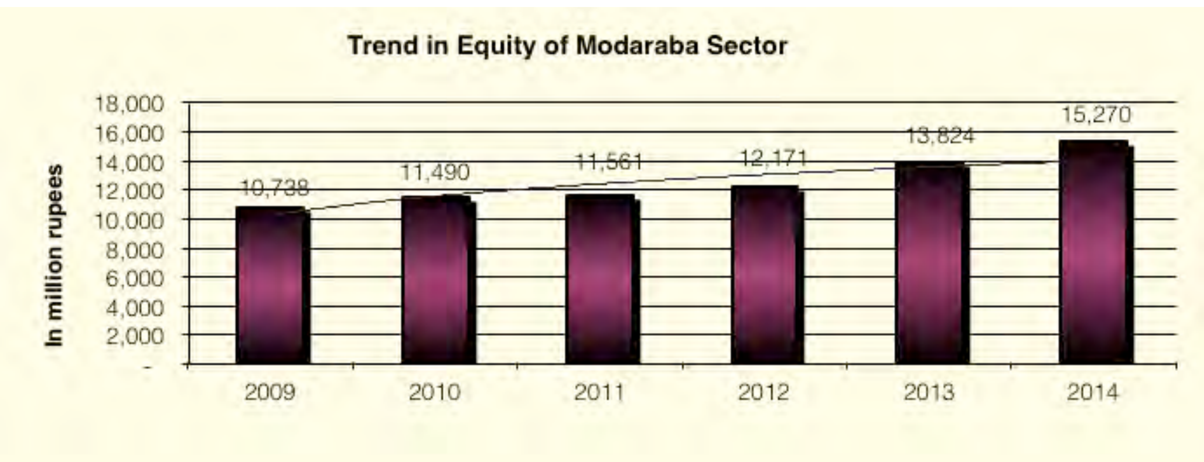
Major business of the modarabas is to provide financial services. Out of 27 operational modarabas, 23 are engaged in the business of financial services, 3 in trading business, whereas one is a full-fledged manufacturing modaraba. The modarabas are conducting their businesses on the basis of model Islamic financial agreements, namely ijarah, musharakah, diminishing musharakah, murabaha, etc., duly approved by the Religious Board for Modarabas.

Major sources of funds for modarabas consist of equity, borrowing from banks and financial institutions and deposit raised from the general public through the issuance of certificates of musharakah. As of June 30, 2014, total funds raised through certificates of musharakah were at Rs5.790 billion.

Assets growth of the modaraba sector is steady, which has been exhibited in the following graph:



Equity growth in the modaraba sector has not compromised its profitability, and hence we can see a similar trend in total equity of the modaraba sector in the following graph:



3. Enforcement actions

Enforcement is one of the core functions of the modaraba wing which is mainly initiated on the basis of onsite and offsite enquiries.

Onsite Enquiries and offsite reviews of the affairs of Modarabas

Periodical onsite enquiries and offsite reviews of the financial statements of the modarabas is a regular feature which is undertaken in order to protect the interest of certificate holders, and to gauge the true financial health of the modarabas. Through such enquiries and reviews the performance of the management and level of their compliance with the prevailing regulatory framework is assessed. On the basis of the onsite enquiry reports and offsite reviews, the following regulatory actions were initiated during the year 2013-14:

- Five show-cause notices were issued to the modaraba companies and their CEOs/directors; after completing the due process of law, penalties were imposed to ensure meticulous compliance with the regulatory framework in future
- Based on the regulatory observations and non-compliance of minor nature, explanation and warning letters were issued to a number of modaraba companies

4. Revival of Modarabas

During the period under review, the operations of following modarabas have been revived:

- **First IBL Modaraba:** The modaraba had extended financing facilities to most of its associates, which were not earning a reasonable return for the certificate holders and were in non-compliance with the regulatory framework. The department put in rigorous efforts to recover the money of the certificate-holders from the associates of the modaraba company, and recovered over 90% of misappropriated funds of the modaraba in cash and through possession of immovable earning assets. It is expected that the modaraba will be back on track and will be able to generate returns for its investors in the near future.
- **First Punjab Modaraba:** The modaraba was facing operational problems due to its classified portfolio of over Rs1 billion. As a result of continual persuasion by the Registrar Modaraba, its management has been able to recover almost Rs400 million out of its classified portfolio and for the remaining, it is making serious efforts. A new chief executive has been appointed to accelerate the recovery efforts and revive the modaraba within the shortest possible time.
- **First Islamic Modaraba:** First Islamic Modaraba was a dormant modaraba as its management company, i.e. Islamic Investment Bank Limited (IIBL) was under liquidation by the order of the Peshawar High Court. The Registrar Modaraba took the initiative to revive the modaraba. The liquidator of IIBL was approached to sell and transfer its certificate holding to an interested party. After completing the bidding process, the court awarded the management of First Islamic Modaraba to Popular Islamic Modaraba Management Company (Pvt.) Limited. The modaraba has since been relisted on the stock exchange and started its business operations.

5. Investors' complaints

The department received varied complaints from investors. They pertained to:

- Non-receipt of dividend warrants
- Delay in transfer of certificates
- Non-receipt of annual and periodical accounts
- Reservation on the performance of the modarabas

The complaints were duly taken up with the respective modaraba companies, which have been resolved and there are no pending complaints.

6. Developmental activities

During the period under review, the following developmental activities were performed:

Capacity building of modarib

During the year training was provided as under:

- Training workshop by the SECP: In order to raise awareness about Islamic finance, a two-day workshop was organized on "Islamic financial products and risk management for Islamic financial institutions" in collaboration with the Islamic Research and Training Institute of Islamic Development Bank in Karachi in November 2013. The theme of the workshop was sharing the knowledge and experience. Renowned local and international Shariah scholars shared their practical experiences with the attendees.

- Training workshop by the Modaraba Association: The SECP also facilitated the NBFI and Modaraba Association of Pakistan to conduct various workshops/seminars to train the senior management of modarabas in the areas of Islamic business and finance, especially the Islamic financial products being used by the modaraba industry.

New modaraba rules

In order to remove practical difficulties and strengthen the existing regulatory framework, the 1981 Modaraba Companies and Modaraba Rules were thoroughly reviewed, and a new set of rules namely, the Modaraba Companies and Modaraba Rules, 2014, have been drafted, which include the following major structural changes:

- Enabling provisions for empowering the certificate holders of a modaraba have been introduced which inter alia include the following:
  - (a) The concept of holding annual general meeting (AGM) by the certificate holders
  - (b) Approval of the accounts in AGM by the certificate holders
  - (c) Change of the modaraba company or its chief executive or any of its directors by the certificate holders if they are not satisfied with their performance
  - (d) Voluntary winding up of a modaraba
  - (e) Change of name of a modaraba
  - (f) Change in the object clause of the prospectus of the modaraba
  - (g) Change of registered office to other city/province
  - (h) Appointment of auditors of a modaraba
  - (i) Issue of modaraba certificates other than right allotment
  - (j) Issue of modaraba certificates at discount
  - (k) Increase the authorized fund of a Modaraba
- Enabling provisions have been introduced for the Registrar Modaraba to:
  - (a) Allow a modaraba to invest in its associated companies
  - (b) Change the modaraba company of a modaraba if the accumulated losses exceed 50% of the paid-up fund, or in case of loss for 3 consecutive years
  - (c) Allow voluntary change of the modaraba company of a modaraba
  - (d) Conduct external Shariah audit of a modaraba
  - (e) Eligible modarabas to raise deposit on the basis of musharakah, modaraba etc.
- Creation and building up of mandatory/statutory reserves by a modaraba
- Mandatory distribution of 90% of the net profit available for appropriation after charging the management fee and appropriation to the mandatory reserve
- Restricting a modaraba company that it shall not charge any fee if no dividend is distributed to the certificate holders due to any reason whatsoever

New prudential regulations for modarabas

The existing Prudential Regulations for Modarabas, issued as an additional condition to the Modaraba Authorization Certificate, have been thoroughly reviewed in light of the regulations for NBFCs. A new set of statutory regulations, i.e. Prudential Regulations for Modarabas, 2014, were prepared for issuance under section 41A of the 1980 Modaraba Ordinance. The salient features of the revised regulations are as under:

i. Introduction of new definitions of various terms in light of NBFCs regulations and bringing them in line with Shariah principles

ii. Revised exposure limit of a modaraba to a person and group

iii. Dispensation from current ratios

iv. Rationalization of different weightages for calculation of exposure

v. Introduction of the concept of maintaining capital adequacy ratios (CARs) and liability limits for deposit taking modarabas

vi. Procedure for availing facilities by associated concerns other than the modaraba company from the modaraba

vii. Embargo on investment in unlisted shares

viii. Introduction of revised procedure for housing finance facilities by a modaraba

ix. Introduction of revised criteria for classification and provisioning of the classified portfolio

x. Revised limits on liabilities

xi. Requirement of approval of the BOD on re-election

Revival of the Modaraba sector

The federal government has constituted a high-level steering committee for the promotion of Islamic banking. It is headed by the State Bank deputy governor, and its members include the federal finance secretary. In its second meeting held on January 31, 2014, it was decided to constitute a subcommittee comprising the Registrar Modaraba and representatives of modaraba association and the State Bank to develop reform proposals for the modaraba sector. The subcommittee has completed its work and made a number of recommendations for revival of the modaraba sector. The SECP extended full cooperation in this regard.

Review of model islamic financial agreements

In order to standardize ijarah financing agreement and to bring it in line with other Islamic financial institutions, the existing ijarah financing agreement has been reviewed and appropriate changes have been made to it with the approval of the Religious Board for Modarabas. The revised agreement has been circulated for adoption.

Launch of new resource mobilization products

In order to meet the liquidity requirements of the modarabas, the SECP has developed two new Shariah-compliant fund raising products, i.e. Certificate of Investment (Modaraba) and Commodity Finance Certificate (Musharakah), which are under legal scrutiny before the issuance.

Risk Management Guidelines for Modarabas

The final draft of the Risk Management Guidelines has been shared with the NBFI and Modaraba Association of Pakistan. The association is ready to adopt them in the best interest of the modaraba sector. The guidelines are under discussion within the SECP and are expected to be issued in the near future.

The concept of microfinance Modarabas

The concept of microfinance modarabas is under discussion and will be finalized after consensus within the SECP. The draft regulations have also been prepared which are under discussion.

Future plans

Amendments to the modaraba ordinance

Keeping in view the practical difficulties and to bring about operational flexibility further review of the 1980 Modaraba Ordinance has been undertaken in light of the recommendations of NBF reform committee, as well as of the subcommittee of the steering committee constituted by the federal government for promotion of Islamic banking and revival of the modaraba sector. The exercise is expected to be completed during the next financial year.

Adoption of further islamic financial accounting standards

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has so far approved 26 accounting and 5 auditing standards for the Islamic financial institutions. However, in Pakistan only 3 accounting standards (murabaha, ijarah and profit-and-loss sharing on deposit), have so far been adopted by the SECP. The possibility will be explored to adopt remaining IFAS to bring the accounting and reporting framework of modarabas in line with AAOIFI standards.

Detailed financials of Modarabas for the year 2013-14 are as under:

Sr. No.	Name of modaraba	(Rupees in million)		Dividend for 2012-13
		Total assets	Equity	
1	Allied Rental Modaraba	5,166.00	3,121.99	30% (Cash) 5% (Bonus)
2	B.F. Modaraba	141.00	109.51	-
3	B.R.R. Guardian Modaraba	2,326.00	782.59	3.10%
4	Crescent Standard Modaraba	159.00	121.55	1.50%
5	Elite Capital Modaraba	196.00	135.16	5.50%
6	First Equity Modaraba	693.00	663.09	-
7	First Al-Noor Modaraba	386.00	334.50	5.00%
8	First Fidelity Leasing Modaraba	374.00	348.87	-
9	First IBL Modaraba	215.00	159.03	3.35%
10	First Imrooz Modaraba	272.00	115.86	100.00%
11	First Paramount Modaraba	320.00	180.19	11% (cash) 10% (bonus)
12	First Punjab Modaraba	1,338.00	127.45	-
13	First Treet Manufacturing Modaraba	1,691.00	1,585.57	9.50%
14	First Habib Modaraba	5,393.00	3,133.74	20.00%
15	KASB Modaraba	1,323.00	287.99	-
16	Modaraba Al-Mali	218.00	171.15	1.25%
17	First National Bank Modaraba	1,722.00	270.20	-
18	First Pak Modaraba	82.00	77.45	1.20%
19	First Prudential Modaraba	587.00	515.65	2.30%
20	Standard Chartered Modaraba	6,082.00	1,088.36	20.00%
21	Trust Modaraba	420.00	308.41	6.00%
22	First UDL Modaraba	922.00	538.24	20.00%
23	Unicap Modaraba	4.00	(0.42)	-
24	First Habib Bank Modaraba*	883.13	716.41	14.75%
25	First Islamic Modaraba**	125.330	120.221	-
26	First Tri Star Modaraba**	252.553	187.424	-
27	First Constellation Modaraba***	73.978	69.591	-
Total		31,364.991	15,269.78	

* Financial position as of June 30, 2013
** Financial position as of June 30, 2012
*** Financial position as of June 30, 2011

Supervision Department

Aamir Qureshi, Ahmer Majeed Fareedi, Shahid Nasim (ED), Muhammad Asif Paryani and Atif Ejaz Ahmed

The Supervision Department of Specialized Companies Division (SCD) is primarily responsible for Offsite surveillance, onsite inspections and enforcement of non-banking finance companies, notified entities, and modarabas. In order to ensure effective and smooth functioning, the department has been divided into three wings:

- Offsite Surveillance Wing
- Onsite Inspections Wing
- Enforcement Wing

Offsite Surveillance Wing

This wing oversees the financial health and assesses regulatory compliance level of the NBFCs and modaraba sector on the basis of information/data received electronically through the Specialized Companies Returns System (SCRS) and by way of published information. The SCRS is an online system through which NBFCs, including pension fund managers and modaraba companies' file their returns on a monthly basis. The submitted returns along with published information are reviewed for all entities for an assessment of their financial health and level of regulatory compliance. These quarterly reviews cover the following main areas:

- Performance of collective investment and pension schemes
- Risk concentration with respect to asset class and single entity
- Maturity mismatch on the balance sheet of lending institutions
- Examination of classified assets and recoveries made
- Liquidity related issues
- Assessment of capital adequacy
- Examination of profitability
- Composition of board, audit committee and other committees, etc.
- Compliance with regulatory framework

In addition to offsite review of every entity, sector reports are prepared on a monthly basis for the use of SCD and other divisions/departments of the SECP which cover vital statistical information on various aspects of NBFCs and modarabas, such as:

- Overall size of the sector
- Activity wise size of the sector
- Asset allocation of mutual funds
- Mutual funds' exposure in financial institutions
- Asset, liability and equity position of asset management companies (AMCs)
- Details of investments made by financial institutions
- Size of assets under management of AMCs
- Asset allocations and leverage outlook of investment banks, leasing companies and modarabas
- Non-performing assets of sectors
- Variation of NAV on a month-on-month basis
- Brief profile of pension funds, etc.

During the year 2013-14, the Offsite Surveillance Wing covered all entities of NBFC and modaraba sectors; high-risk entities were reviewed on a quarterly basis, while entities carrying lower risk were reviewed twice a year. The wing also generated leads for conducting inspections on the basis of findings made during the course of offsite examination and reported these findings to the Enforcement Wing for further action.

In order to enhance its surveillance capacity the wing took the following development initiatives:

- A monthly report of NBFCs and modarabas sectors highlighting trends of growth in total assets of the NBF sector, lending NBFCs and mutual funds, asset allocation and category-wise growth of mutual funds and pension funds, share of Shariah-compliant funds in mutual and pension funds sectors and their growth trends, etc., is now being posted on the SECP website; this will serve as a resource of information about Pakistan's NBFC and modaraba sector for local and international stakeholders as well as for the academia
- Determined approximate number of investors of mutual and pension funds industry on a semiannual basis as of June 30 and December 31, 2013 by using unique value methodology
- A project aimed at improving the current SCRS framework was started in 2013-14. In this regard necessary formats were devised and shared with the IT Department and development work is in progress
- Existing supervision procedures of the wing were reviewed in detail in light of the IOSCO principles for CIS supervision and necessary improvements were made accordingly
- In-house training sessions were conducted in the areas of fund management under Constant Proportion Portfolio Insurance (CPPI) strategy; tools to examine performance of mutual funds; and advanced excel

Onsite Inspection Wing

This wing conducts inspections of NBFCs and modarabas, playing a vital role in ensuring that the supervision department efficiently and effectively monitors the entities within its regulatory ambit. Selection of entities for inspection is based on risk assessment that is carried out by offsite surveillance wing of the Supervision Department, which examines the available financial information of entities on a continuous basis. Onsite inspections mainly focus on the following areas:

- Review of an entity's financial health and its business performance
- Examination of financial records of the entity
- Evaluation of internal controls, including policies and procedures adopted by the entity
- Assessment of the level of corporate governance structure in the entity
- Compliance with the applicable regulatory framework

The observations and violations noted during the inspection are shared with the management of the entity in the form of a draft inspection report; comments are obtained thereon and discussed with the management of the respective entity. The final inspection report after discussion with the concerned entity is sent to the Enforcement Wing for further necessary action.

During the year 2013–14, the on-site inspection wing inspected 15 entities out of a total of 65 entities within its regulatory ambit. These included, eleven asset management companies (including 73 mutual funds), two investment banks, one modaraba, and one leasing company covering more than 49% of total assets of NBFCs and modaraba sector. Furthermore, during the year 2013–14, the manual for inspection of lending NBFCs was revised focusing on systematic documentation. In addition, a standard format for the inspection report has also been developed, as part of the standardization of inspection function.

Enforcement Wing

This wing is vested with the responsibility of taking appropriate actions mainly on the basis of reviews of reports on the NBFCs and NEs, prepared by offsite surveillance and onsite inspection wings. A thorough scrutiny of offsite and onsite reports is carried out and the observations/violations reported therein are independently assessed on the basis of relevant facts and evidence. Consequently, appropriate enforcement actions are initiated as per applicable rules and regulations on the respective observations/violations. Enforcement actions are also initiated on the basis of complaints/market intelligence, independent observations, and/or issues highlighted by the trustees of the funds.

During the year 2013-14, the wing reviewed and independently assessed the observations/violations/issues highlighted in all the quarterly offsite reports and onsite inspection reports received from the offsite surveillance and onsite inspection wings respectively, and necessary enforcement actions were taken. In addition, monthly sector reports were also reviewed and necessary enforcement actions were taken to address the issues highlighted.

Based on thorough independent scrutiny of the issues, the following major enforcement actions were taken against the regulated entities:

- A warning was issued to Ernst & Young Ford Rhodes Sidat Hyder (E&Y), Chartered Accountants, the auditors of Dawood Income Fund, Dawood Islamic Fund, and First Dawood Mutual Fund for not exercising due care in their audits as per applicable auditing standards
- A show-cause notice (SCN) was issued to M/s Pak Oman Asset Management Company Limited for failure to meet the minimum equity requirement
- A show-cause notice was issued to one of the directors of National Investment Trust Limited for simultaneously holding directorship in the asset management company and trustee of funds; the director tendered resignation from the trustee company and a warning was issued
- A warning was issued to M/s. Anjum Asim Shahid Rahman in the matter of system audit report of Central Depository Company, as the system auditor had failed to disclose the common directorship of the said director
- A warning was issued to UBL Fund Managers Limited for unilaterally discontinuing regular profit option for the existing unit holders of UBL Government Securities Fund (UGSF); during the pendency of the SCN, the decision was reversed by the AMC and regular profit option was restored
- National Asset Management Company's (NAMCO) license to undertake asset management services was suspended for its failure to maintain minimum equity requirement and minimum fund size of an open-end scheme under its management, while trustee of the funds under NAMCO management was directed to take both the funds under its effective control with immediate effect; the trustee was also directed to arrange for the transfer of these funds to another asset management company to better serve the interests of the unit holders
- A penalty of one million rupees was imposed on NAMCO for its failure to convert Namco Balanced Fund (NBF) into an open-end scheme within the stipulated timeline and willful delay in the appointment of the CEO and directors of the company; further, a penalty of Rs150,000 was imposed on each of its directors and ex-directors for the above non-compliance; the company has filed an appeal before the SECP Appellate Bench
- A show-cause notice was issued to NBP Fullerton Asset Management Limited and its officers for conducting sale/purchase of equity securities between managed funds without obtaining consent of trustee and approval of the AMC's board of directors
- A show-cause notice was issued to MCB Arif Habib Savings and Investment Limited and its officers for violation of the constitutive documents of MCB Dynamic Allocation Fund

Future plans

The department aims to further enhance its efficiency and effectiveness through the following measures:

- Enhance efficiency of offsite surveillance function by improving current SCRS framework and bringing automation in the function's various activities
- Further improve upon monthly sector summary, posted on the SECP website
- Review existing SOPs/manual/documents used by offsite Surveillance Wing and making necessary amendments, keeping in view regulatory changes, etc
- Digitalization of enforcement record
- Revision of delegation of powers
- Development and deployment of Excel based application for checking statutory and regulatory limits during the inspection of mutual funds
- Conduct analysis of trading data of mutual funds industry for at least two quarters on consolidated basis to further improve monitoring of the sector

It takes 20 years to build a reputation and 5 minutes to ruin it. If you think about that you'll do things differently.

Warren Buffet

Insurance Division

Insurance Division

The SECP, being the apex regulator of the insurance industry, has a strategic priority and commitment to strengthen and maintain an effective regulatory environment in which insurance and takaful businesses can flourish and prosper. In order to strengthen the SECP's role as an effective facilitator for sound development of insurance and takaful and to achieve the objective of raising the insurance penetration level, the following key areas have been the focus of SECP's efforts:

- Protection of the interest of insurance policyholders.
- Amendments in the regulatory framework to strengthen SECP's role as an apex insurance regulator.
- Enhancement of regulatory framework for Takaful Insurance.
- Availability of insurance protection to less privileged segment of the society (Microinsurance).
- Insurance Awareness Programs.
- Enhanced public image of the insurance industry.

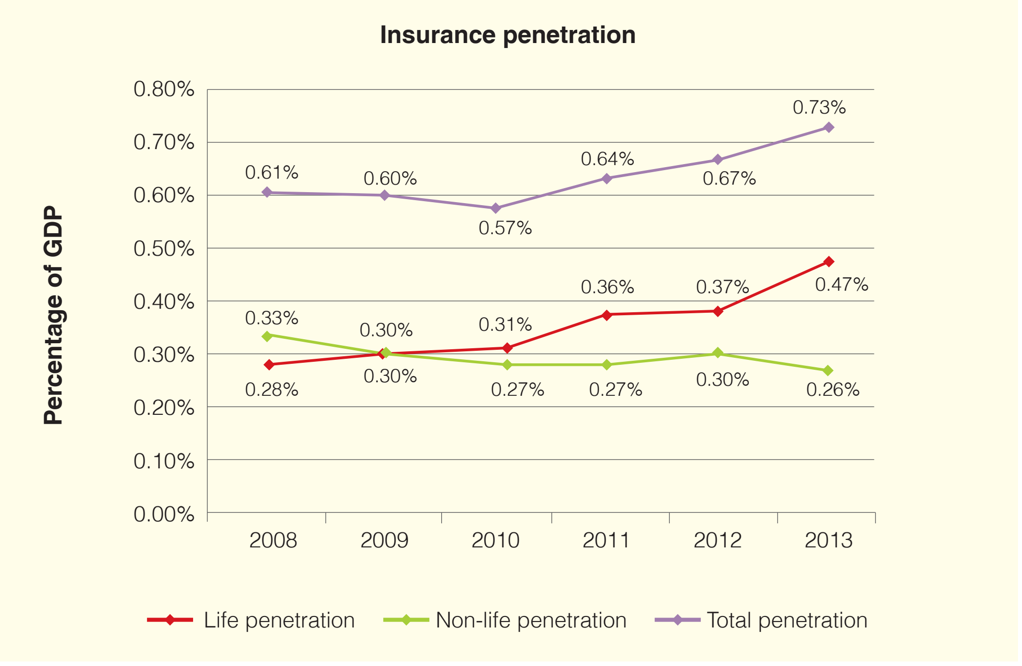
Insurance Division has been divided into two main departments:

- Policy, Regulation and Development Department
- Supervision and Enforcement Department

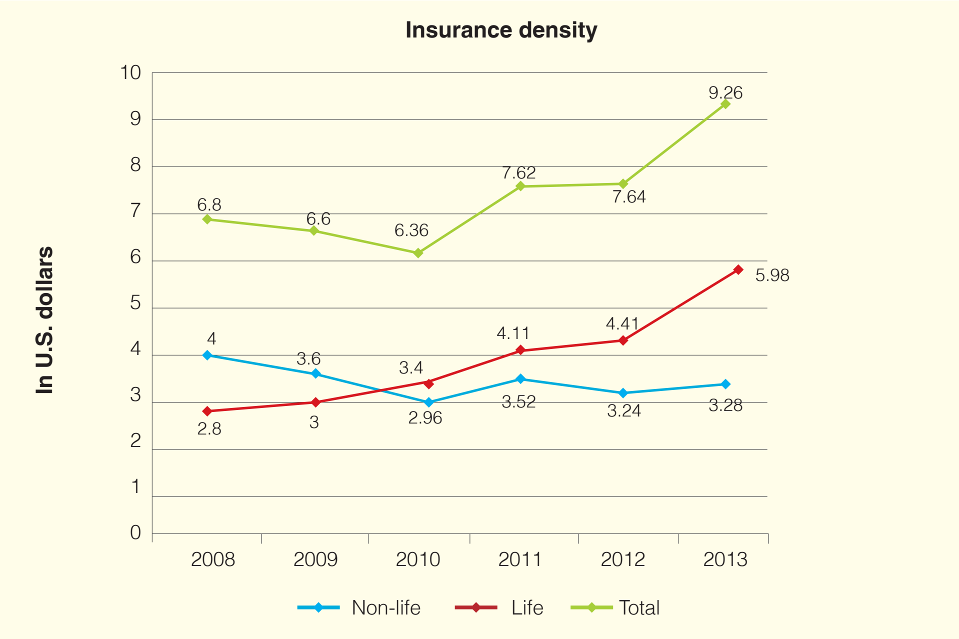
Shamsuddin Memon, Tariq Hussain, Nayyar Hussain, Asif Imtiaz, Naveed Anwar and Sabahat Ul Ain.

Sector overview

The insurance industry in Pakistan has shown signs of reasonable growth over last few years. And with modern distribution channels and product innovation, the potential for its growth has increased manifold. As of December 2013, the industry's total premium revenue stood at over Rs174 billion or $1.74 billion.



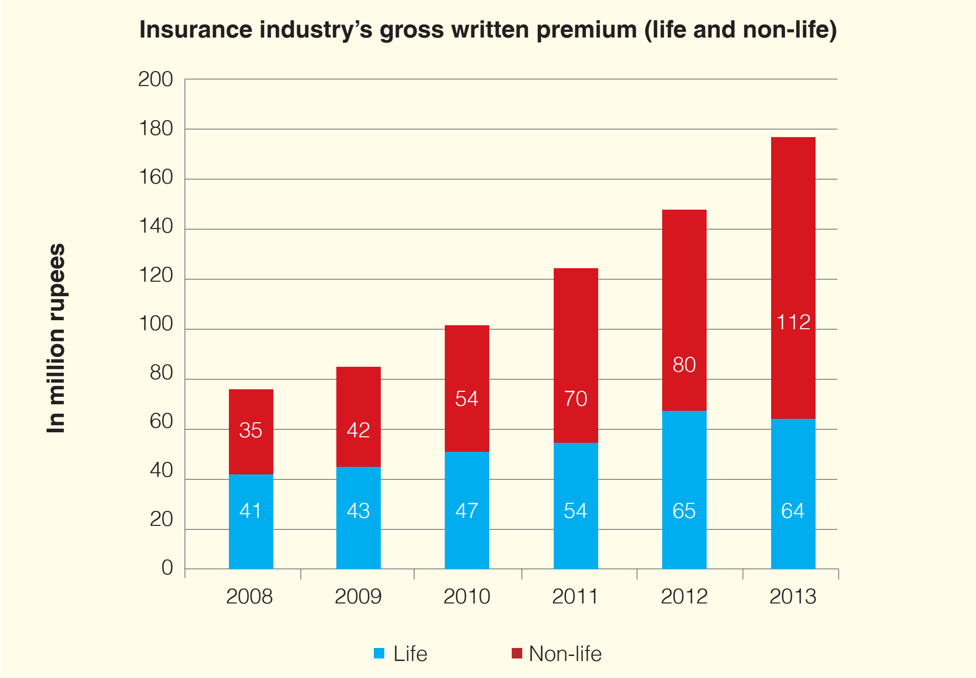
The market is fairly liberalized as 100% foreign ownership and control of insurance companies is permitted with paid-up capital requirement of $4 million, with the condition of bringing in at least $2 million in foreign exchange and raising the balance from the local market. The minimum capital requirements have been increased in a phased manner, though they still remain modest by international standards, at Rs300 million for non-life and Rs500 million for life insurers.



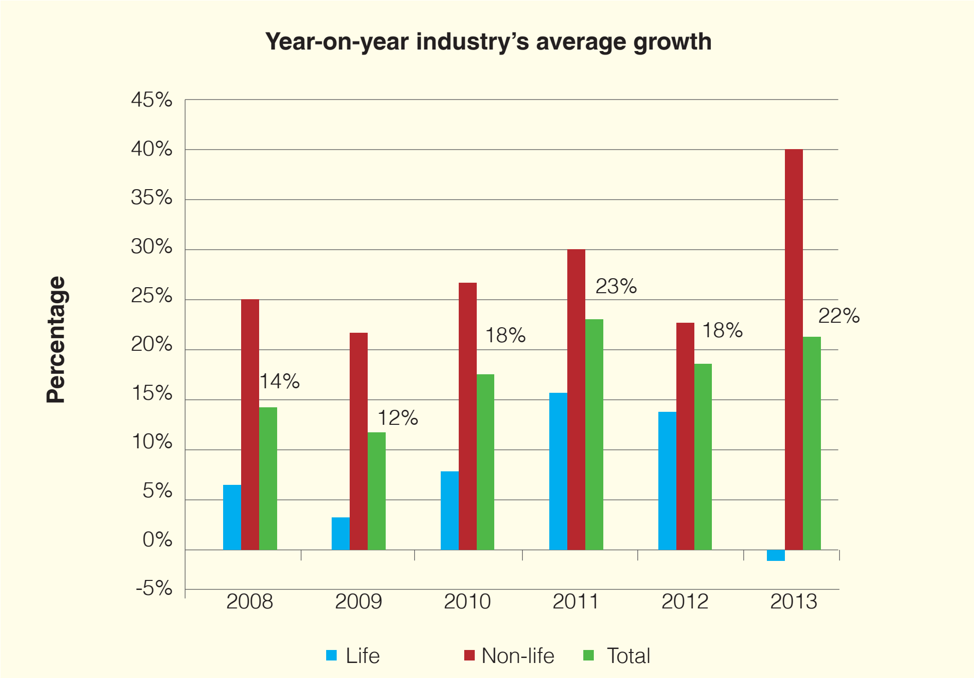
Currently, there are 40 non-life insurers operating in the market, including 3 general takaful operators and one state-owned insurer. About 65% of the market share in gross written premium rests with the top three players. In 2013, the sector grew by 13%, whereas the total premium of non-life insurance sector stands at Rs73.5 billion. In addition, the state-owned reinsurer continues to benefit from a mandatory minimum 35% share in the treaties of non-life insurers.

There are 9 life insurers, including 2 family takaful operators and one state-owned insurer in the life insurance sector. In 2013, the life insurance market grew by 30%, whereas the total premium stood at Rs104 billion.

In the areas of health, crop and livestock insurance, new products have been introduced. New distribution channels such as bancassurance, websales and telesales are also growing rapidly.



In order to achieve its primary objectives of protecting the interests of policyholders and facilitating an orderly development of the insurance industry, including takaful segment, the SECP's Insurance Division focused on various areas, a brief synopsis follows:



Policy, Regulation and Development Department

1. Promulgation of microinsurance rules 2014

In February 2014, the SECP notified the 2014 SEC (Microinsurance) Rules, which put special focus on consumer protection, adequate disclosure requirements and transparent regulatory reporting by insurers so as to enable growth of the microinsurance segment in a disciplined manner; this was made possible with the support of the World Bank/ FIRST Initiative, The rules were finalized by the private sector-led working group comprising of professionals from diverse backgrounds, including the insurers, insurance brokers, development organizations such as the Pakistan Poverty Alleviation Fund (PPAF) and UK Aid, microfinance banks and the Pakistan Microfinance Network (PMN), which is the association of all microfinance institutions in Pakistan. A strategic framework for development of microinsurance sector was also drafted, envisaging the following points:

- 200% growth of microinsurance outreach in five years, measured by number of policyholders and value of sum insured
- Institutionalization of diversified and sustainable microinsurance models
- Development of tailored microinsurance products to cater to multi-peril risks
- Development of client awareness and ensure client protection of the target segment

Development of microinsurance has been one of the SECP's top priorities as a means to enhance financial inclusion in the country. The idea is to enable individuals, particularly low-income consumers currently without any access to formal financial services, to use, on a sustained basis, financial services that are appropriate to their needs and provided by registered financial service providers, duly regulated and supervised by the SECP. Apart from the development of regulatory framework for microinsurance, the SECP has been working with stakeholders to develop innovative solutions for the delivery of microinsurance. Certain technology-driven models have been prepared for local indigenous solutions, and it is expected that with the support from international and multilateral agencies, modern intermediary models shall soon be introduced for the provision of microinsurance to the remote and rural populations. Regular interactions are underway with stakeholders, including multilateral donor agencies such as the World Bank, Asian Development Bank (ADB) and local stakeholders like Benazir Income Support Program (BISP), PPAF, PMN, etc.

2. Second SAARC insurance regulators meet and international conference

The SECP hosted the Second SAARC Insurance Regulators Meet and International Conference (April 14-16, 2014) in Karachi. The conference was attended by representatives of insurance regulatory authorities of SAARC countries and eminent professionals, regulators and practitioners from around the world. The event featured an exclusive meeting of insurance regulators of the SAARC member countries whereby the SECP's commissioner (insurance), Mr. Mohammed Asif Arif, was elected the chairman of the SAARC Insurance Regulators Forum for 2014-15.

Apart from the SAARC countries, the representatives of insurance regulatory authorities of other countries such as Turkey and Kenya also attended the event. The representatives of the World Bank, Asian Development Bank (ADB) German Development Cooperation (GIZ) and the International Labour Organization (ILO)'s Microinsurance Innovation Facility also actively participated. The practitioners from diverse institutions compared notes and expressed their intent to collaborate for meeting the challenges inherent in the insurance industry regulation. It was decided that the Third SAARC Insurance Regulators' Meet and International Conference would be held in Kathmandu in 2015, under the aegis of Bima Samiti (Insurance Board) of Nepal.

3. Third party administrators (TPA) for health insurance regulations, 2014

The health insurance market in Pakistan is in its infancy compared to other regional economies. The insurers in Pakistan have been experiencing higher management cost for a lack of modern technological infrastructure, low business volume and lack of expertise. In order to address these issues, the SECP issued Third Party Administrators (TPA) for Health Insurance Regulations, 2014, for TPAs specializing in the processing of medical insurance claims and carrying out administrative duties which are usually not seen to be the core competencies of an insurer, and hence can ideally be outsourced. The emergence of TPAs is expected to play an important role in the development of health insurance market by ensuring better services to policyholders and would result in addressing the cost and quality issues of private healthcare providers.

4. Insurance industry reform committee

In February 2014, the SECP launched the proposed roadmap of reform and development of the insurance industry. It was prepared by a committee with representation of stakeholders from insurance, banking and business segments. The committee was tasked with making specific recommendations for the growth and development of insurance industry and to resolve the issues faced by it.

Globally, the insurance business is experiencing dramatic changes that pose unprecedented challenges both for insurers and regulators. This necessitates greater efficiency through organizational and operational restructuring, stronger focus on core competencies and avoiding greater financial risks and uncertainties in the minds of various stakeholders. The committee deliberated on the potential reform areas, including regulatory reforms, operational challenges in life and non-life insurance, market development issues, insurance education and awareness, and technological development.

Mian Riaz Hussain Pirzada, Federal Minister for Inter-provincial Coordination, with Mr Tahir Mahmood, the SECP Chairman, during the inaugural session

Listening to the national anthem

Mr. Craig Thorburn, Insurance Team Leader, World Bank, speaking at the Regulators' Meet

Mr. Selamat Yazici, Deputy Director General, Directorate of Insurance, Turkey, addressing the Regulator's Meet. He is accompanied by Mr Erdal Altancu of the Directorate of Insurance, Turkey

The Second SAARC Insurance Regulators' Meet was held on April 14, 2014, in Karachi.

Flanked by Dr Fatta Bahadur, Chairman, Insurance Board Nepal (left) and Mr Sultan ul Abedine Molla, Member, Insurance Development and Regulatory Authority, Bangladesh, Mohammed Asif Arif, commissioner (insurance) SECP, speaking during the SAARC Insurance Regulators' Meet

The pace of development is prompting numerous regulatory and market reforms as there is a strong need to deliberate on the policy and regulatory issues to accommodate the market changes and bring local insurance industry on a par with the international standards. The report has been drafted with research and learning from international experiences, stakeholders' consultation and representation, and is meant to provide direction for future reform process. The report, which is a milestone in the reform process, has been shared with stakeholders for their input and suggestions for future reform work, especially for necessary amendments to the regulatory framework.

5. Centralized information sharing solution for life insurance industry (CISSI) directive

The Insurance Industry Reforms Committee (IIRC) has recommended a formal sharing mechanism among the life insurers that contains critical information regarding postponed or declined risk claims, agents, group life insurance, etc. Accordingly, the SECP facilitated a memorandum of understanding (MOU) among life insurers and the CDC to design the centralized information sharing solution for life insurance industry (CISSII). It is a significant project for the life insurance segment, which will provide information sharing mechanism to the life insurers so that they can take informed decisions in the areas of underwriting, pricing, agency and claims management. The overall objective of the CISSII is to reduce systematic risk, enhance the policyholders' protection and promote sound development of the life insurance market through promotion of formal information sharing mechanism between the life insurers. The SECP issued a directive, requiring all life insurers to join the CISSII mechanism.

6. Amendments to rule 35 to resolve the matter of long outstanding premiums

Insurance premiums receivable by the insurers, as analysed by the SECP, show huge outstanding amounts, with a high potential of default, which is also posing a large systemic threat, especially to the solvency of the insurers and generally to the financial strength of the insurance industry. This phenomenon also seems abnormal when compared with the practices in comparable jurisdictions. Anecdotal evidence shows that before the enactment of rule 35 of the 2002 SEC (Insurance) Rules, the outstanding premium figures of the insurers remained historically low and according to usual norms of the business of insurance. Therefore, in order to strike a balance between the interests of policyholders and insurers and upon repeated requests of the Insurance Association of Pakistan (IAP), the SECP moved to replace the provisions of the existing rule 35 with a new rule as a prudent method of market practice, which will be called "Manner of receipt of premium and claims payment". The amendment has been submitted to the SEC Policy Board for its approval.

7. Circular on unclaimed insurance benefits payment mechanism

The SECP has observed that significant sums are lying with the insurers on account of unclaimed insurance benefits, of which the larger chunk relates to the unclaimed life insurance maturity benefits. In order to address these issues, the SECP issued a Circular outlining detailed procedure to be followed by insurers to ensure timely payment of the unclaimed insurance benefits. The Circular required the insurers to disclose the unclaimed insurance benefits separately in their financial statements, while also requiring that as a matter of accounting policy, no insurer can resort to write-back or remove its liabilities on account of unclaimed insurance benefits. A format of the regulatory reporting has also been introduced to encourage the insurers to dispose-off such unclaimed life insurance benefits in a timely manner.

8. Directive on life insurance product submission mechanism

It was brought to the Insurance Division's attention that a lack of standardized format for the life insurers to submit their products to the SECP seeking approval causes delay in product registration. Considering this, the SECP issued a regulatory directive in November 2013 through which, detailed product submission requirements were prescribed after taking a holistic view of the entire legal and regulatory framework pertaining to the life insurance sector. The existing insurance regulatory framework describes the broad type of product-related information to be submitted at the time of registration of a life insurer or the introduction of new products or amendments to existing products. In order to bring standardization to the product submission process, the new regulatory directive is also aimed at ensuring that products sold to the insurance customers are consistent with the product features and parameters submitted to the regulator. The directive is expected to enhance the efficiency and effectiveness of product submission process.

9. Enhanced regulatory powers under section 60 of the 2000 Insurance Ordinance (draft amendments to Insurance Rules, 2002)

The 2000 Insurance Ordinance (the ordinance) empowers the SECP to give specific directions which has a restrictive scope. In addition, the SECP also has powers to give direction under Section 60 the ordinance which has a broader scope of issuing directions. However, the Commission has to follow certain procedures to be provided by the rules to be made by the federal government in this respect in concert with the proviso to this section. Hence the SECP formulated the necessary procedures so that it will have the required power to take a range of regulatory actions. For this purpose, the draft rules have been notified to elicit the public opinion whereby it has been proposed that an addition be made to the 2002 Insurance Rules to provide for the procedure under section 60 (4) of the 2000 Insurance Ordinance.

10. Growth rate scenarios for life insurance and family takaful illustration for 2014

The SECP specified growth rate scenarios for life insurance and family takaful illustration for the year 2014 whereby the life insurers and family takaful operators use three growth rate scenarios to demonstrate projected benefits to the potential life insurance or family takaful policyholders. The SECP specifies these scenarios based on long-term interest rate outlook prevalent in Pakistan after consultation with the Pakistan Society of Actuaries (PSOA).

11. Rationalization of maximum management expense limits

The SECP had earlier specified the maximum management expense limits for the life insurers that take into account the year of operations and type of business at aggregate statutory fund level. The maximum management expense limits framework is a strong regulatory tool that envisages the policyholder's protection by capping the maximum expenses which can be charged to policyholders' funds. A strong need was felt to rationalize these limits further due to the various trends in the insurance industry that emerged, such as the emergence of bancassurance, telco-based distribution channels, etc. Through a Circular, the SECP prescribed, in a phased manner, the maximum management expense limits for the year 2013 to 2015 under sections 22 (9) and 23 (9) of the 2000 Insurance Ordinance.

12. Circular on maintenance of securities and other deposits

It was observed that certain insurers and insurance brokers were adhering to the provisions of section 226 of the 1984 Companies Ordinance with respect to the security deposits and cash margins against guarantee business and/or any other such deposits which they receive. The insurers and brokers receive and maintain these security deposits and cash margins against guarantee business and/or any other such deposits in their normal operational accounts, hence, the true essence of the provisions of section 226 of the ordinance was not seen to be complied with. Taking cognizance of this, the SECP issued a Circular in order to enforce that all insurers and insurance brokers are required to observe strict compliance with the said provisions of the law and that no such deposit shall be received or utilised except in accordance with a contract in writing. However, if any money is received as a result of any contract in writing, then all such deposits shall be kept in a special account with a scheduled bank and no portion thereof is allowed to be utilised, except as stated in the underlying contract.

13. New mortality table - SLIC (2001-05)

The SECP has circulated a new mortality table, namely the SLIC (2001-05) Individual Life Ultimate Mortality Table. This mortality table is to be used by the life insurers to determine the minimum actuarial reserve for the insurance policyholders' liabilities for the purpose of solvency regulations as well as for financial reporting purpose. It is the first time that a large-scale study has been conducted by the Pakistan Society of Actuaries (PSOA) with support from the State Life Insurance Corporation of Pakistan (SLIC). The latest mortality table is based on the most recent data available for the study and thus incorporates the latest trends and mortality improvement that has occurred over the last few decades. The adoption of new mortality table is likely to improve the solvency position of life insurers, whereby the SECP expects them to pass on the potential benefit to policyholders in the form of improved bonuses, surplus or reduction in premium rates.

14. Review and revision of insurance regulatory framework

A comprehensive project for review and revision of the existing insurance regulatory framework has been initiated, with technical assistance from the World Bank and FIRST Initiative. The project aims at identifying the gaps and shortcomings inherent in the existing regulatory framework and substituting these with the best practices in insurance supervision and regulation worldwide. The project also seeks to bring the areas that have not been addressed by the law within the regulatory ambit. For this purpose, the World Bank/ FIRST Initiative has hired technical and legal consultants, both from Pakistan and abroad. The project is underway and is expected to present the first draft of the legal framework by end of 2014.

15. Licensing and registration of insurance companies

During the period under review, a wholly-owned subsidiary of a provincial government has applied for a license to act as a non-life insurer. The license application of the Company is under processing while ensuring that all prescribed requirements of the law are duly met. Last year, the SECP issued license to an insurer, which is a wholly-owned subsidiary of a national institution, to transact the non-life insurance business in the country. With this addition, the total number of active non-life insurers in Pakistan will reach 41, while the total number of active insurers (life and non-life), including Pakistan Reinsurance Company Limited (PRCL), will reach 50. The applications for licenses by 2 insurers consecutively for the last 2 years indicate an encouraging trend for the non-life insurance industry. However, there has been no addition to the number of life insurance companies since 2009 when the last license was issued to a life insurance company, except a recent takeover of a life insurer by an existing non-life insurer.

16. Licensing and registration of insurance brokers

During the financial year, the SECP renewed the licenses of 9 direct insurance brokers and issued fresh licenses to two insurance brokers, which raised the total number of registered direct insurance brokers to 11. This indeed is an encouraging trend, especially in the non-life insurance industry.

17. FATCA implementation for insurance sector

Foreign Account Tax Compliance Act (FATCA), a statute of the United States, requires all foreign financial institutions including the specified insurers to get registered with the Internal Revenue Service (IRS), and report information of all financial assets held by its citizens. The SECP, upon the advice of the Ministry of Finance, worked on the course of implementation of provisions of FATCA so as to avoid the negative repercussions of its non-compliance, which essentially include the withholding of 30% of payment from US-source income resulting in financial losses to the financial institution along with the reputational damages.

The SECP facilitated the insurers to assess their legal status as per FATCA through a checklist containing indicative questions so that insurers can analyse and decide on the matter of registration and reporting, as the need may be. A Circular has recently been issued guiding the insurers about FATCA, its requirements, implications and directing them to assess the status of their entities on their own or through formal consulting services, as deemed appropriate.

18. AML/CFT compliance by the insurers

During the period under review, the insurers complied with the updated Gazette of Pakistan Statutory Notifications, forwarded to the SECP by the Ministry of Foreign Affairs, advising the implementation of the sanction measures (funds freeze) within its jurisdiction against the individuals and entities placed on the UN Security Council, Al-Qaida and Taliban Sanctions Committee Consolidated List. In this context, the quarterly compliance reports by the insurers are also being monitored.

Supervision and Enforcement Department

Supervision features the monitoring of processes and checking the compliance level of all insurers, including reinsurer, as well as takaful operators and insurance brokers, through offsite examination of returns filed with the SECP and the onsite inspections. Offsite examinations of all regulated entities were carried out during the year and non-compliances noted were forwarded to the enforcement section for necessary actions. A snapshot of the efforts made by the supervision function while supervising the insurance industry during the year 2013-14 is as follows:

Examination letters	48
Offsite reports (including inter-office memorandums)	113
Extensions and approvals	63
Approval of appointment of directors and CEOs	139
Onsite inspections	9

Simultaneously, enforcement actions play an integral role in making the regulated entities compliant with respect to the laws that are applicable to those entities. Enforcement actions were taken against the non-compliant insurers and insurance brokers while following the due process. A summary of enforcement actions taken during the year under review are as follows:

Orders	21
Hearing notices	69
Show-cause notices	49
Notices u/s 143 of Insurance Ordinance	4
Warning letters	58

1. Revision of the panel of approved auditors for insurance companies

Pursuant to section 48 (1) (a) of the 2000 Insurance Ordinance, the SECP revised the list of approved auditors to conduct the audits of the insurers, including the reinsurance and takaful entities. Previously, 14 audit firms were on the approved panel, of those 6 were put in category A and 8 were placed in category B. The revised list consists of 18 audit firms, of these 11 have been placed in category A and 7 in category B.

2. Knowledge sharing on window takaful applications

In coordination with the Insurance Association of Pakistan (IAP), sessions were conducted by the SECP in Karachi and Lahore whereby insurers were invited to attend the knowledge sessions related to the applications to be filed for seeking approval of the SECP for window takaful operations. The sessions were delivered with the intent of disseminating important aspects related to filing of applications, which was very well received by the participating insurers. The presentation also helped in bringing a clear understanding of regulatory expectations of Takaful operators.

3. Improvements in the online system

During the year, the Insurance Companies Reporting System (ICRS), which is an online system for regulatory reporting by the insurers, was also reviewed to remove the discrepancies in the database. Four new reporting formats have been created in the reporting module, while significant improvements have been made to enhance the relevance and reliability of reports being generated by the system.

4. Insurance surveyors' licensing

During the year, second series of examinations of candidates for new registrations as authorized surveying officers were conducted. The following is a reflection of the registration and licensing of authorized surveying officers as well as insurance surveyors:

Registration of authorized surveying officers	344
Licenses to insurance surveyors	220

5. Policyholders' complaint and grievance handling

Policyholders' complaints were received pertaining to claim-related issues such as short-payment, delays in settlement or outright repudiation of insurance claims. The SECP attempted to address the complaints at its level without interfering in the business matters of the insurers; however, in case the complainants remain unsatisfied, it was suggested to them to file the complaints at the suitable forums in a formal way as prescribed in the 2000 Insurance Ordinance.

Complaints handled	160
Approval for proceedings before insurance tribunal	25
Provision of comments and litigation/court matters handled	29

6. Collection and reconciliation of the annual supervision Fee

A sum of Rs227.52 million was collected on account of annual supervision fee for the calendar year 2014. Here is a summary of sector-wise collection:

Sector	Life insurers	Non-life insurers	Total for year 2014	Total for year 2013	Total for year 2012
Private sector					
Conventional insurers	62.63	91.36	153.99	131	111.2
Takaful operators	7.69	2.95	10.64	6.5	4.4
Sub-total: Private sector	70.32	94.31	164.63	137.5	115.6
Public sector	50	12.89	62.89	63	62.9
Total	120.82	107.20	227.52	200.5	178.5

Chairman Secretariat

Chairman Secretariat


Salman Hayat, Shaukat Mahmood Malik, Umar Yahya, Aamir Khan (ED), Khalida Habib, Shakil Chaudhary and Sajid Gondal

The Chairman Secretariat spearheads SECP's efforts of coordinating and managing all work related to inter-governmental coordination, building bilateral relationship with domestic regulators and coordination with international financial institutions including ADB, World Bank, IMF, IFC, USAID, DFID, etc. for undertaking structural reforms in the SECP regulated sectors, and securing technical assistance and grants for the SECP.

The Chairman Secretariat has three departments:

- Chairman's Office
- Strategy Development and External Relations Department
- Media and Corporate Communications Department
- Transformation and Knowledge Management Department

The SECP is mandated to liaise with regulatory standard setting organizations for ensuring adherence to international standards for securities regulation and with entities external to the SECP, both at the national and international levels, including multilateral agencies, counterpart regulators, and the federal government. Here are the key achievements for FY 2013-14:

1. Coordination with international standard setting bodies

The SECP is a member of international regulatory standard setting bodies for the securities, insurance and pension sector, i.e., the International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS), International Organization of Pension Supervisors (IOPS) respectively. It is actively involved in the standard setting forums of IOSCO, IAIS and IOPS.

It has been contributing to policy and standard setting work of IOSCO through its role as IOSCO Board member; member of Growth and Emerging Markets Steering Committee; Asia Pacific Regional Committee (APRC); vice-chair Policy Committee 3 on regulation of Market Intermediaries; member of IOSCO Assessment Committee (AC) established for global implementation of IOSCO Standards and Principles; and Multilateral Memorandum of Understanding (MMoU) Monitoring Group.

2. SECP self-assessment of IOSCO principles

The IOSCO principles provide an international benchmark for securities regulation practices against which progress of member jurisdictions towards effective regulation can be measured. During FY 2013-14, the SECP successfully completed its self-assessment of implementation of International Organization of Securities Commissions (IOSCO) objectives and principles of securities regulation.

IOSCO provided a detailed assessment methodology and criteria in respect of assessment of these principles. The SECP had formed an internal committee to assess the IOSCO principles. The main sources of information used in undertaking the self-assessment were relevant legislation and existing practices regarding the regulation of securities markets. The processes used during our work consisted of desk research, questionnaires to various stakeholders, reports, Pakistan 2004 FSAP assessments, the regulatory and surveillance arrangements adopted by SECP, systems and procedures adopted by intermediaries and SROs in complying with the law, and other public or non-public documents.

SECP was last assessed against 30 IOSCO Principles in 2004 by the World Bank, under the World Bank Financial Sector Assessment Program (FSAP). Since 2004, significant changes have taken place in Pakistan's capital market in terms of market development and upgrading of the regulatory framework.

In addition, various steps have been taken towards compliance with the IOSCO principles. On the basis of review by the internal committee, the compliance status of the SECP to the IOSCO principles has been adjudged as follows:

- Fully implemented 17 Principles
- Broadly Implemented 14 Principles

- Partly Implemented 4 Principles
- Not implemented 2 Principles

The assessment report which sets out the detailed assessment of principles as well as a recommended roadmap for full implementation of all principles was approved by the Commission and submitted to the IOSCO Assessment Committee (AC) for an independent third party review in November 2013. The AC formed a review team consisting of regulators from Australia, Dubai, Turkey, Saudi Arabia, Luxemburg and the IOSCO Secretariat for conducting a desk-based review of the SECP's report. Once completed, further interaction with various stakeholders within Pakistan will take place to better understand the regulatory framework of securities markets within the country. A final version of the report is expected to be placed for approval of the IOSCO Board in 2014 for onward publication.

3. Thematic review of IOSCO principles 16 and 26

The IOSCO Assessment Committee (AC) is mandated to conduct thematic reviews of particular IOSCO principles and standards across IOSCO's membership. These reviews provide implementation status of specific principles and assist in identifying implementation gaps, good practices and issues experienced during implementation. As member of the AC, the SECP participated in the review of IOSCO principle 16 (There should be full, accurate and timely disclosure of financial results, risk and other information that is material to investors' decisions), and principle 26 (Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme).

The thematic review aims to describe the current range of regulatory approaches of IOSCO members to implement IOSCO principles 16 and 26 relating to the timeliness and frequency of disclosures to investors, and to identify any significant differences in regulatory approaches and the reasons for such differences.

4. IOSCO 2020 survey

In September 2013, IOSCO created the "IOSCO 2020 working group" to focus on developing a strategic plan for IOSCO from 2015-2020. A comprehensive survey was provided to the entire IOSCO membership for feedback on the following areas:

- IOSCO's performance against the strategic plan for 2010 to 2015 (measured against IOSCO's objectives and priorities)
- Member participation in IOSCO's activities from 2010 to 2015 and performance against those activities
- Member engagement with the IOSCO General Secretariat and other forms of contact with IOSCO
- Key challenges faced by members within their jurisdiction and globally which will impact on their regulated markets and activities (and the role of IOSCO in addressing these challenges) over the next 5 years
- Priorities, changes or improvements to IOSCO's current activities

The SECP's response to the questionnaire will assist in developing the future road map of IOSCO. The 2020 exercise is expected to be completed within the first half of 2015.

5. IOSCO committee 3

In April 2013, the SECP became the Vice-Chair of IOSCO Committee 3 on Regulation of Market Intermediaries. The Committee consists of 30 counterpart regulators primarily from developed jurisdictions. As a C3 member SECP contributed on ongoing mandates including:

- Automated advice
- Use of social media
- Alternatives to the use of credit ratings to assess creditworthiness
- Intermediary business continuity and recovery planning
- Crowdfunding activities

6. Growth emerging markets steering committee

The Growth Emerging Markets (GEM) Committee of the IOSCO consists of developing jurisdictions and is primarily responsible for targeting issues faced by emerging markets. During FY 2013-14, the GEM Committee formed a steering committee (SC) to act as supervisory board for all activities pertaining to emerging markets. Being a part of the IOSCO Board, the SECP became member of the growth emerging markets steering committee (GEM-SC). The GEM-SC consisting of 16 jurisdictions is primarily focused on 3 aspects of work pertaining to emerging jurisdictions namely, capacity building and technical work relating to emerging markets and risks and vulnerabilities assessment. The SECP has been mandated to work on the capacity building work stream alongside India, Nigeria, Trinidad & Tobago and Turkey. The key focus area of the SECP would involve prioritization and identification of capacity building needs within the Asia-Pacific region.

7. MMoUs

IOSCO and IAIS have established international protocol for cooperation and information exchange between supervisors in the form of MMoUs as under:

IOSCO MMoU: The SECP is a signatory to IOSCO MMoU and worked on various requests for information under the IOSCO MMOU with foreign jurisdictions in connection with investigations and legal proceedings

IAIS MMoU: The SECP has submitted its application for accession to IAIS MMoU. During FY 2013-14 the IAIS validation team contacted SECP for assessment of the IAIS MMoU application and raised various queries that were appropriately answered.

8. Committee on commercial and economic cooperation (COMCEC)

The Organization of the Islamic Cooperation (OIC) Standing Committee for Economic and Commercial Cooperation (COMCEC) has been established for strengthening cooperation among the member states.

In 2011, the COMCEC Capital Market Regulators (CMR) Forum was established as a cooperation platform for COMCEC capital market regulatory bodies. Its main focus is to support market development and reinforce the capabilities of capital markets regulatory bodies of OIC countries. The CMR Forum in its first meeting in September 2012, created four task forces to work on capacity building, market development, financial literacy, and Islamic finance respectively.

9. Task force on market development

The SECP was given the task to Chair the task force on market development with the SEO Iran as Vice-Chair in 2012. The task force aims to reinforce capital market regulators to support financial markets in operating effectively for the best interests of investors and market participants. At present, SECP is working on two different work streams mandated to the task force.

- Development of capital market infrastructures in OIC member states
- Transparency requirements and public disclosure systems in OIC member states

The SECP has prepared a draft final report on the first mandate and shared it with the COMCEC secretariat for approval. The report is based on responses to the survey received from 9 COMCEC member jurisdictions and provides a set of recommendations/ guidelines to COMCEC regulators for developing appropriate capital market infrastructures categorized under the following heads:

- Structural framework
- Legal and regulatory framework
- Governance and transparency
- Investor protection
- Risk management
- Increasing market outreach
- Product and system development initiatives
- Capacity building and international cooperation

In addition to the above, the SECP has developed ToRs for the second mandate on transparency and disclosure, as well as an outline of the questionnaire for the second mandate which is expected to be completed by the end of 2014. The aim of the mandate is to:

i. Assist the members of the COMCEC Capital Markets Regulators Forum to understand different practices and regulations concerning transparency and disclosure requirements in place in member jurisdictions;

ii. Identify useful regulatory elements that could be adopted by members that may help to improve their regulatory frame works, and different approaches used by members taking in to account the evolving technological spectrum and how it effects or aids transparency and disclosure requirements as well as requirements for confidentiality; and

iii. Develop recommendations or best practices for appropriate disclosure requirements which will lead to enhanced investor protection and access to all relevant information for the general public.

10. Capacity building and islamic finance task force

SECP is also a member of the capacity building and Islamic finance task force of COMCEC. The two task forces focus on determining and developing the capacity of regulators within the COMCEC member states to address their issues, and develop and improve the penetration of Islamic financial products within member states as well as share know how and experience about Islamic products. During FY 2013-14, the SECP provided its feedback on documents and surveys created by both task forces.

Federal Minister for Finance, Senator Muhammad Ishaq Dar, at the MOU signing ceremony between FBR, SECP and EOBI in Islamabad on December 19, 2013

11. MoU between SECP, FBR and EOBI

The Securities and Exchange Commission of Pakistan (SECP), Federal Board of Revenue (FBR) and Employees Old-age Benefits Institution (EOBI) signed a memorandum of understanding to establish virtual One-Stop Shop (OSS) to facilitate entrepreneurs and investors to register online with SECP/FBR/EOBI. A web portal will be developed to provide a single interface for investors intending to get their company registered with SECP, obtain NTN/tax registration from the Federal Board of Revenue (FBR), and register with Employees Old-Age Benefit Institution (EOBI), without the need for physically visiting the offices of the said authorities.

12. Cooperation with the World Bank

Deliberations were held with the World Bank to explore the possibilities for funding of new development projects for SECP's regulated regime.

During FY 2013-14, a concept note on SECP's proposal for receiving funding under South-South Experience Exchange Trust Fund amounting to US$100,000 was approved by the federal government. The proposal includes knowledge sharing with Securities Commission Malaysia in the securities markets area, and with the Insurance Regulatory and Development Authority India (IRDA) for the Insurance sector. The SECP's proposal for collaboration with the IRDA for the insurance sector will be shared with the World Bank for final approval and execution.

MOU Signing ceremony between the SECP and EOBI in Islamabad on December 30, 2013

13. MoU between SECP and EOBI

On December 30, 2013, the SECP and Employees Old Age Benefits Institution (EOBI) signed a memorandum of understanding (MoU) to enhance cooperation and coordination in pursuance of mutual objectives. The MoU mainly calls for sharing of information of mutual interest, utilization of services of field staff of EOBI and consultations on matters of common regulatory, supervisory and overseeing interest. The information sharing arrangement is expected to greatly enhance the efficiency and effectiveness of both organizations.

14. Compliance of foreign account tax compliance act (FATCA)

FATCA is a global initiative of the US Treasury in the form of an intergovernmental agreement (IGA) between the governments of the United States and Pakistan aimed at preventing abuse of the voluntary tax compliance system in the US and to counter US taxpayers from hiding taxable income in offshore accounts. A number of countries have already signed an IGA with the US Treasury, while others are in the final stages of signing.

A foreign financial institution (FFI), if subject to FATCA must enter into an agreement with the U.S. Treasury to report certain information about its "United States accounts". If an agreement is not entered into, a 30% withholding tax may be imposed on interest, dividends and gross proceeds from U.S. securities. It may be noted that FATCA imposes detailed due diligence and reporting obligations on foreign financial institutions.

Due to its international relevance and strict penalties such as 30% withholding on non-compliance, and the possibility that international financial institutions may decide not to deal with Pakistani financial institutions, the SECP requested its SROs to consider the possibility of studying the impact of FATCA on their respective sectors and develop SOPs and action plans for compliance and preparedness. Accordingly, directives were issued by SECP operating departments to their regulates to carry out entity classification tests to determine their FATCA reporting and registration status and results were obtained. Work on determining the most appropriate model of IGA for Pakistan to be signed with US Treasury is in progress, and the SECP is actively assisting the MoF in this regard.

15. ESMA- AIFMD, MOUs

SECP coordinated with European Securities Markets Authority (ESMA) for signing the MoU on cooperation and exchange of information with the EU national competent authorities for supervision of the Directive on Alterna-tive Investment Fund Managers (AIFMD). MoUs were signed by the SECP after approval of the Commission with 21 EU jurisdictions including Netherlands, Ireland, Portugal, Romania, Luxembourg, Cyprus, Sweden, Denmark, Latvia, Estonia, Poland, United Kingdom, Bulgaria, Greece, Lithuania, Malta, Slovak Republic, Hungary, Iceland, Norway and Liechtenstein.

16. Cooperation with FMU and ministries for anti-money laundering regime

The SECP is responsible for strengthening the anti-money laundering (AML) regime in Pakistan in the areas under its ambit including NBFC, brokers and insurance companies, and maintain regular liaison with the MoF and the Financial Monitoring Unit (FMU) to deliberate on international AML requirements and assist in implementing the measures within its regulated areas. During FY 2013-14, 35 supervisory inspections were conducted by SECP to effectively implement the AML regime in SECP-regulated sectors of brokerage, NBFI and insurance.

Furthermore, to effectively implement the AML/CFT requirements the SECP has identified its training needs in the sectors regulated by the SECP. Training sessions on anti-money laundering (AML) and combating financing of terrorism (CFT) topologies were organized by the World Bank on April 14-15, 2014 and May 6-9, 2014, at Islamabad and on April 10-11, 2014 at Lahore, whereby the SECP employees and industry participants were trained on KYC/CDD and suspicious transaction reporting (STR) requirements.

17. Coordination with FBR for improvements in fiscal regime

SECP in continuation of its strategy encompassing continued reforms in the capital markets and corporate sector, deepening of structural reforms through removal of anomalies constraining economic activity, and to provide a level playing field to all the stakeholders, recommended various amendments in the Income Tax Ordinance, 2001 and Federal Excise Act 2005 to the Federal Board of Revenue for implementation through the Finance Bill 2014-15. Detailed deliberations were held with industry stakeholders, SECP's concerned departments and the FBR on these recommendations.

18. Cooperation with the planning commission for vision 2025

SECP contributed to the development of Planning Commission's Vision 2025, particularly the theme of "Private Sector Development" and led the working group on corporate governance. Vision documents on corporate governance and capital market development were shared with the Planning Commission after engaging the stakeholders both internally and externally through comprehensive consultation process.

19. MoU between SECP and the Undersecretariat of Treasury, Turkey

SECP and its Turkish counterpart in the insurance sector the Undersecretariat of Treasury, Turkey have agreed to mutual cooperation, exchange of information ,and experience sharing in the area of insurance regulation and supervision. The MoU was signed in September 2013, during the Prime Minister's visit to Turkey; it provides for exchange of information regarding the insurance sector, and to enhance transparency, understanding and operational coordination between the insurance regulators of the two countries.

20. MoU between SECP and Emirate Securities and Commodities Authority

SECP and its counterpart Emirate Securities and Commodities Authority, UAE have agreed to have mutual cooperation in order to increase investor protection by providing a framework for co-operation, increased understanding, exchange of information and investigative assistance, to the extent permitted by the laws and practices of the respective authorities. The MoU was signed in November 2013.

Future plans

1. IOSCO

As a member of the IOSCO Board, Vice-Chair of Committee 3, GEM Steering Committee and member of various other committees of IOSCO, SECP will continue to be an integral part of IOSCO's policy making, and support IOSCO's progress towards developing a global framework for securities markets.

2. Self-assessment of IOSCO principles

The SECP will assist the AC review team in finalizing the recommendations and road maps for SECP's adherence to all IOSCO principles of securities regulation. Stakeholder consultation will take place to finalize the report, and once completed, the AC in collaboration with the SECP will aim to enhance capacity of various stakeholders in Pakistan and address the gaps identified in the review process.

3. IAIS MMoU

After approval by the IAIS implementation committee of SECP application to become signatory to the IAIS MMoU, SECP plans to:

i. Initiate self-assessment of international regulatory standards for Pension

ii. Address the gaps in implementation of IAIS core insurance principles identified in the assessment report.

4. COMCEC

The SECP will complete its mandate on transparency and disclosure and submit the same to the forum for publishing as a COMCEC report.

5. MoU with IFC

The SECP will finalize a MoU with the IFC focusing on development of corporate governance regulatory capacity of both the SECP and the exchanges.

6. New projects with donor agencies

The SECP will explore opportunities with the Investment Facility for Utilizing UK Specialist Expertise (IFUSE), in order to enhance the regulatory capacity of the SECP. In addition, the SECP will aim to finalize its proposal under the South-South Experience Exchange Trust Fund with the World Bank.

7. Compliance with FATCA

SECP will review its legal framework as to its suitability or gaps for allowing the regulatees to share information with FBR, and for SECP to issue appropriate guidelines to its regulatees.

8. Statistics Act

The Chairman Secretariat is supporting the review process currently being undertaken to improve the existing law.

Transformation and Knowledge Management Department

The Transformation and Knowledge Management Department (TKMD) was created in April 2012. Its objectives are to:

Develop standard operating procedures (SOPs), systems (IT and other) and operations to enhance organizational effectiveness

- Ensure implementation of SOPs and systems
- Automate procedures
- Improve efficiency and effectiveness of procedures with a view to reduce turnaround time and simplify procedure
- Carry out continuous audit and analysis of processes and systems in terms of efficiency
- Develop a central knowledge bank to preserve institutional memory and decrease time required in retrieving and accessing historical and current data and& information regarding various departments of the SECP
- Ensure that appropriate reading material is available to all the SECP employees in the form of print resources including books, journals and periodicals etc., and online resources including subscription to different online and off line resources from national and international organizations

Arshad Javed Minhas (ED), Uzma Khan, Maria Bostan, Nabila Aslam, Amir Waheed, Furqan-ud-Din and Harima Mubeen

Commission Secretariat

Commission Secretariat

Commission Secretariat is responsible for performing the duties and responsibilities of secretariat nature as entrusted to it under the Securities and Exchange Commission of Pakistan (Conduct of Business) Regulations, 2000 and the Securities and Exchange Policy Board (Conduct of Business) Regulations, 2000 under the supervision of Secretary to the Commission.

Bushra Aslam, Secretary to the SECP with Syed Muhammad Safdar, Altaf Hussain, Adil Jamal and Chaudhary Abdul Rasheed Nasir

Commission Secretariat is mandated to:

- Issue notice, agenda and working papers of the meetings of the Securities and Exchange Commission Policy Board and of the Commission
- Accept service of all notices and other documents on behalf of the policy board and of the Commission
- Communicate to the relevant quarters, all decisions made in the meetings of the Commission, and the board
- Represent the Commission on any forum
- Sign a decision made by the Commission as a result of a hearing, if so authorized by the Commission
- Certify a decision made by the Commission, or a document used in connection with a hearing by the Commission
- Monitor implementation of the previous decisions of the board, committee's and of the Commission
- Issue SRO/Notifications on behalf of the Commission and maintain record thereof
- Act as custodian of record of declaration of assets/IT Returns/statements submitted by the Chairman, Commissioners and officers of the Commission as required under the provisions of the HR Handbook
- Issue number in chronological order of Circulars and maintain record thereof
- Exercise such other powers and perform all other duties as assigned by the Chairman from time to time

Conduct of Business of the Commission

During the period under review, Commission Secretariat convened 17 emergent and regular meetings of the Commission, wherein 288 working papers of departments/divisions were considered and decided appropriately. Besides, the Commission also constituted committees consisting of the senior management of different departments/divisions for thorough review of the draft rules and regulations prior to their finalization. The Commission also passed 38 resolutions by circulation and decided emergent matters of departments/divisions. During the period, the Commission Secretariat, on behalf of the Commission, issued 33 Statutory Regulatory Orders/Notifications and facilitated issuance of 29 Circulars of the Commission.

Appellate Bench Registry

The Appellate Bench of the SECP is statutorily mandated to hear appeals against the orders passed either by a Commissioner or any other officer authorized by the SECP. It comprises of two Commissioners. The Appellate Bench Registry is headed by the registrar, Appellate Bench, who works under general superintendence of the Appellate Bench. Administratively, the registrar reports to Commissioner, Company Law Division. Section 33 of the 1997 Securities and Exchange Commission of Pakistan Act, and the 2003 SECP Act (Appellate Bench Procedure) Rules, provide the legal basis for the functioning and administration of the Appellate Bench and the Appellate Bench Registry.

During the year 2013-2014, the Appellate Bench disposed of 46 appeals. The regulated entities and lawyers based in Lahore and Karachi have expressed their gratitude to members of the Appellate Bench for arranging the hearing at the SECP's regional offices.

Future plans

The Appellate Bench Registry has to dispose of 168 appeals pending with the Registry since 2005. We plan to ensure that this year all appeals are disposed of by holding two hearings a month.

The Appellate Bench Registry intends to launch e-Appellate Bench by end of 2015; this will be the first electronic appellate forum in Pakistan. The initiative shall facilitate the corporate sector by enabling them to file appeals online.

Shariah Advisory Board

The Commission has established the Shariah Advisory Board in exercise of the powers conferred by section 9 of the 1997 Securities and Exchange Commission of Pakistan Act, read with the Policy Guidelines for appointment of advisers and consultants made by the Commission in consultation with the Securities and Exchange Policy Board. The board's objectives are to advise the Commission on all matters relating to the development and promotion of Islamic financial market as well as capital market and to function as a reference center for all Islamic financial market and capital market issues within the regulatory ambit of the Commission.

It is to consist of 9 members to be nominated by the Commission, out of which five have to be Shariah scholars, 2 have to be technical members and 2 members have to be from among the employees of the Commission. One of the Sharia scholars has to be appointed by the Commission as chairman of the board.

The scope of the board is broadly aimed at addressing the following:

i To advise the Commission on any issue relating to Islamic financial market business or transaction. Islamic financial market includes Islamic mutual funds, Islamic pension funds, takaful operators, modaraba companies and other Islamic financial institutions within the regulatory ambit of the Commission.

ii To facilitate the development of Islamic financial products in the country.

iii To ascertain the application of Shariah principles on any matter pertaining to Islamic capital and financial market business or transaction and issue opinion upon reference made to it by the Commission, and

iv To perform any other functions that may be assigned to it by the Commission.

As of June 30, 2014, the Shariah Advisory Board consisted of the following:

1.	Mufti Muhammad Hassaan Kaleem	Chairman
2.	Mufti Muhammad Najeeb Khan	Shariah scholar
3.	Mufti Irshad Ahmad Aijaz	Shariah scholar
4.	Mufti Syed Sabir Hussain	Shariah scholar
5.	Mufti Shabbir Hassan Lakhani	Shariah Scholar
6.	Mr. Omar Mustafa Ansari	Technical Member
7.	Mr. Sultan Mazhar Sher	Technical Member
8.	Mr. Tariq Naseem	SECP nominee
9.	Vacant	SECP nominee

Commission Secretariat provides secretarial support to the board and Ms. Bushra Aslam, Secretary to the Commission, also acts as Secretary to the board.

During the period under review, 6 meeting of the board were held wherein 23 agenda items and 11 other business items were taken up and decided appropriately. The major issues regarding the draft 2014 Sukuk Regulations and the Course Content of Certified Finance and Capital Market Professional (CIFCMP) to be introduced by the Institute of Capital Market came under discussion and appropriate advice was given to the Commission.

Internal Audit and Compliance Department

The objectives of Internal Audit and Compliance Department (IACD), include the following:

- To provide independent appraisal of all the SECP activities aiming to add value, improve operational efficiency, risk management and internal control systems
- To examine and evaluate whether the SECP's framework of risk management, control, and governance processes is adequate and functioning properly
- To advise and recommend to the senior management improvements in internal control and risk management systems

Haider Waheed Khan (Director/HOD) with Zahida Rafiq, Rizwan-ul-Haq and Samar Fatima

Audit committee meetings

The IACD provides secretarial support to the Audit Committee and convenes its meetings as per its assigned responsibility. The committee discharged various responsibilities under the Audit Committee Charter and recommended appointment of external auditors to the SECP. During the financial year 2013-14, the Audit Committee frequency of meetings and attendance details are as follows.

Members	Meetings attended	Attendance percentage	Eligible to attend
Mr. Imtiaz Haider (Chairman)	4	100%	4
Commissioner, SCD			
Mr. Muhammad Asif Arif (Member)	4	100%	4
Commissioner, Insurance			
Mr. Abdul Rehman Qureshi (Member)	4	100%	4
Advisor to the SECP			

Activities

During the period under review, the IACD performed 8 audits under the approved annual plan for 2013-14, and carried out 7 other assignments under the instructions of the Commission/competent authority. The IACD also kept the committee informed about the compliance status of audit reports issued in the past.

The IACD also identified various divisions/departments where preparation or improvement of existing standard operating procedures was required to keep them abreast with changing practices. Compliance under this area was also regularly followed by IACD.

In line with its mandate, the IACD also pre-audited final payments on account of pensions, provident fund, gratuity, bonus to the outgoing employees and leave encashment. The observations, as emanating from the scrutiny were communicated to the respective departments for taking appropriate corrective actions. Besides, IACD also made necessary recommen dations with respect to SECP's asset disposal mechanism and for its further upgrade and improvement.

All the assigned tasks were completed in a timely manner. The final internal audit reports along with recommendations and actions required to be taken by the auditee divisions/departments on the deficient areas were presented before the Audit Committee and the Commission for their consideration and approval. After obtaining approval, the suggested actions were communicated to the respective divisions/departments for corrective measures and ensuring complete compliance within the given timeframes.

Litigation, Legislation and
General Counsel Division

Litigation, Legislation and General Counsel Division

The Litigation, Legislation and General Counsel Division (LLGCD) provides independent legal analysis and advice to all departments and relevant functionaries of the SECP. It is also entrusted with the task of drafting new rules, regulations and proposing amendments to the administered laws. In addition, it defends and represents the SECP in various courts of law. It has two departments:

- Litigation Department
- Legislation and General Counsel Department

Ibrar Saeed, Muhammad Maroof Bhatti, Shahzad Ali Rana, Syed Sajjad, Naveed Ihsan, Syed Irfan Ali Shah and Muzzafar Ali Mirza (Director/HOD)

Litigation Department

The Litigation Department has the primary responsibility to represent and defend the SECP before the courts of law. It manages cases pending before the courts in their respective jurisdictions, including preparation and finalization of pleadings. It is also given the task to initiate civil and criminal proceedings on the recommendations of the SECP. It strives to protect the SECP's interests and assists the courts in dispensation of justice.

The department maintains complete litigation records, including follow-up on all the cases. It also assists the SECP in appointing and liaising with external lawyers where required. Efforts are being made to regularly update the Court Cases Information System (CCIS) so that prompt and easy access to the current status of court cases is available to all SECP officers.

Currently, the department is managing 815 cases pending before various courts and tribunals across the country. In addition, the SECP is also conducting 401 prosecutions on behalf of the federation of Pakistan under the 1974 Companies (Appointment of Legal Advisers) Act filed against the non-compliant companies. One hundred and ninety-six cases were filed against the SECP which include the constitutional petitions and appeals against its enforcement actions and orders passed by the SECP. Out of the 815 cases mentioned above, 40 cases are before the Supreme Court, 625 cases before the High Courts, 150 cases before the district and civil courts and other tribunals. Furthermore, 546 cases are inter-party disputes in the regulated sector where the SECP has been made a party, but there is no direct relief sought against it.

Significant cases and judgments of the year

1. Muhammad Nadeem Anwar v. SECP: civil petition No. 304 of 2012:

This case was of utmost importance to the SECP, particularly regarding the double jeopardy issue since the judgment in this case will have its impact on all the matters where the National Accountability Bureau has taken cognizance. After perusing the available record and hearing the learned counsel for the parties, the petition was dismissed by the Supreme Court. It was clarified in the judgment that the petitioner committed offences under two different enactments, which do not fall within the ambit of same offence at all.

2. Royal services management company v. SECP and others: constitution petition No. D-3158 of 2010 – in the High Court of Sindh, Karachi

After extensive deliberations, the court upheld, section 5(5) of the 1997 Securities and Exchange Commission of Pakistan Act as a valid piece of legislation, particularly after enactment of the 2013 SECP (Amendment) Act, whereby all previous actions of the SECP were validated by the Parliament.

3. Engineer Ghazanfar Ali Khan etc. W.P No. 1627-2012 – in the Lahore High Court, Lahore

One of the substantive questions in this case was whether the federal government had any authority to initiate and to finalize the appointment process of CEOs of public limited companies wholly owned by the federal government. The court deliberated in detail on the regulatory framework enforced by the SECP to control government involvement in the management of public sector companies. It was observed that the 2013 Public Sector Companies (Corporate Governance) Rules are tailored to regulate governance of companies that are directly or indirectly controlled by the government or any instrumentality, agency or statutory body thereof. Referring to a recent judgment of the Supreme Court given in Khawaja Muhammad Asif vs. Federation of Pakistan and others (2013 SCMR 1205), the Lahore High Court observed that to the extent that the rules provide details that are consistent with the principles laid down in the judgment by the Supreme Court, these rules may be treated as a code of practice for public sector companies.

Legislation and General Counsel Department

The Legislation and General Counsel Department (LGCD) strives to ensure the provision of effective legal services to the SECP in the performance of its regulatory objectives and functions.

Legislative role

The department drafts new laws and reviews existing laws, rules and regulations administered by the SECP. In addition, the department reviews and draft laws to be enacted by the federal government and other statutory bodies. It vigilantly examines the laws administered by the SECP and proposes amendments, wherever necessary.

During the year, the department remained actively involved in the ongoing exercise to revamp the existing primary, as well as secondary administered legislation of the SECP. The department drafted and reviewed the following:

Primary legislation

- Draft Corporate Rehabilitation Bill, 2014
- Draft Futures Trading Bill, 2014
- Draft Securities Bill, 2014
- Draft Securities and Exchange Commission of Pakistan (Regulation and Enforcement) Bill, 2014

Secondary legislation

- Draft Third Party Administrator For Health Insurance Regulations 2014
- Draft Brokers and Agent (Registration and Inspection) Rules, 2014
- Draft Commercial Paper Regulations, 2014
- Draft underwriters Rules, 2014
- Draft Transfer Agent (Registration and Regulations) Rules, 2014
- Draft Micro Insurance Rules, 2014
- Draft Employees Provident (Fund) Rules, 2014
- The Advisors, Consultants and Lead Managers to the Public Issue of Securities Regulations, 2014
- Directive for establishment of CISSII
- Draft rules under section 60 of Insurance Ordinance, 2000
- Draft Practicing Company Secretary (Registration and Practice) Regulations, 2014

Proposed amendments to the existing laws

- Amendments to Credit Rating Companies Rules, 1995
- Amendments to CRO Regulations, 2013
- Amendment to First Schedule of the Companies Ordinance, 1984
- Amendment to 5thSchedule of the Companies Ordinance, 1984
- Draft Amendments to Second Schedule of the Companies Ordinance, 1984.
- Draft Amendments to Code of Conduct for Credit Rating Companies, 2014
- Draft Whistleblower Laws for Listed Companies, 2014

Legislative assignments referred to the SECP by federal government

- Draft Mutual Legal Assistance Act, 2014
- Draft Deposit Protection Fund Act, 2014
- Draft Credit Bureau Act, 2014
- Draft Regulations of Foreign Contribution Bill, 2014
- The Religious Scholars, Ulema and Peshimams (prayers leaders) Bill, 2014
- The Islamabad Capital Territory (ICT) Destitute and Neglected Children Bill, 2014
- Reviewed and commented on NDMC proposal of MDMA to establish the Insurance Fund
- AIFMD agreement with EU
- Model BIT
- FATCA review
- Motor vehicle for cargo purposes of SAARC members
- Reviewed and commented on 4 bilateral investment treaties between Pakistan and other countries
- Draft Amendments to Financial Institution (Recovery of Finances) Ordinance, 2001

Innovation distinguishes between a leader and a follower.

Steve Jobs

Market Development
and Investor Education
Department

Market Development and Investor Education Department

Investor education

Investor education focuses on issues relevant to the education and information needs of individuals who participate, or are considering participating in the financial markets, commonly referred to as “retail investors.” A well-structured and efficiently implemented Investor Education Program (IEP) has the potential to help improve financial outcomes for retail investors. The key benefits of such a program include informed saving and decision making, better financial and retirement planning, greater confidence and higher level of participation in the financial markets, greater wealth accumulation, and increased awareness of investor rights and responsibilities. In addition, investor education can also help investors better assess the appropriateness and suitability of investment advice, investment products and services, detect and avoid suspicious and fraudulent activity, and distinguish between regulated and un-regulated activities.

Usman Syed, Naseeruddin Hamayun, Akif Saeed (ED) and Kamal Ali

Regulators across the globe have adopted investor education as a key strategy to enhance investor protection, promote investor confidence and foster investor engagement in financial planning and decision-making. It is complementary to the traditional tools of regulation, supervision and enforcement. The need for investor education came under the spotlight after the global financial crisis in 2008 as investors were exposed to complex products posing multiple risks.

Pakistan’s capital market, non-bank financial, and insurance sectors have immense potential; however, investors’ involvement has remained at a low level due to lack of investor confidence and awareness about non-banking financial sector. In order to address this issue and as part of its wider goal towards protecting investors, the SECP has marked investor education as a priority area. During the fiscal year 2013-14 (FY 2013-14), a comprehensive IEP was formulated and approved by the Commission under which knowledge will be imparted about financial markets and products to different segments of society. The IEP covers capital market, insurance and NBFC sectors, including investment banks, asset management companies, unit trusts and private pension. In addition to these regulated sectors, information will be provided on company registration and entrepreneurship.

The objectives of the program are:

i. Educate and create awareness among the general public about saving and investment, including financial planning and budgeting

ii. Increase awareness about the financial markets (capital market, non-banking financial and insurance sectors) and how to go about making an investment

iii. Educate target groups about different financial products, risks involved, rights and responsibilities and investor protection services

iv. Build investor confidence in capital market, non-banking financial and insurance sectors

The main theme of the message under IEP will be financial planning and budgeting, market setup and operations, product features and risks, rights and obligations of user and providers of financial products, and dispute resolution.

It is expected that IEP, apart from creating awareness will help the investors to take prudent measures before entering into a contractual agreement with a financial services provider, educate investors on strategies to mitigate risks associated with various investment products, engender investor confidence, and lead to an effective investor protection regime.

Under the program, education will be imparted through digital means–web portal, text messages and social media– and physical interaction via seminars and investor days. Web portal is envisioned to play a pivotal role in the overall IEP as it will act as a single point learning resource for existing and potential users of financial products offered in capital market, mutual fund, pension fund insurance industry and corporate sector.

Web portal will be interactive, user-friendly and dynamic so that users remain engaged while knowledge is imparted about financial markets and products. The portal will have ‘public’ and ‘member areas’; to gain access to member area, visitors will have to register with certain minimum information capturing their name, location (city), cell number, email, etc. while providing information about economic profile (profession, income, etc.) will be optional. This information will enable the SECP to profile the users and keep them engaged through email and SMS follow-up educational messages and alerts on new developments and ongoing investor education seminars.

The basic information about the SECP, regulated markets and investor protection will be available in the public area of the web portal to all the visitors. Each registered user will be able to personalize the presentation of the portal as per his/her choice by selecting themes or content layouts. The registered users will be able to collaborate with other users from the community and can provide their valuable contribution by participating in ongoing discussions and threads through moderated comments. The main features of web portal will include different calculators, mutual fund and insurance demonstrators, facility to conduct mock trading, stock market competition, quizzes, risk profiler, scam meter, webinar facility, web TV, podcasts in national and regional languages, educational videos, etc. During FY 2013-14 procurement process for development of the portal was started and it is expected to go live in December 2014.

At present, Pakistan has over 130 million mobile phone users making SMS the fastest growing mode of communication. Apart from being a direct mode of communication with the end user, the SMS is cheaper and efficient. With the increased number of users of smartphones in Pakistan and introduction of 3G and 4G technologies, social media and other mobile applications are greatly in demand particularly among the youth.

Under the IEP, SMS services will be set up to communicate with registered users for investor alerts, saving and investment quotes, awareness messages regarding the financial market, rights and obligations of the investors; guiding them to investor education web portal, investor profiling; and conducting polls and surveys. A digital media company has been hired to provide these services from their platform, and it is expected to be rolled out in September 2014.

In order to take advantage of new mobile technologies, presence on social media like Facebook and Twitter will be established by hiring digital marketing companies. Additionally, web portal will be made available through a mobile application along with other educational applications.

Given the diversified target market consisting of youth, housewives, businessmen, professionals, traders, salaried persons, etc. and wide range of financial products; it is critical for the success of the program to communicate with these target groups in a language and manner that is most convenient for them and also easy to register and recall. Therefore, leading advertising agencies are being hired to develop complete program branding guidelines along with designing and development of SMS messages, print material, etc.

With regards to physical interaction, a comprehensive youth outreach program is being put in place under which collaboration with universities and schools will be formalized to conduct regular awareness sessions in educational institutions. On a similar pattern, arrangements are being made with professional bodies of accountants, doctors, and lawyers, chambers of commerce, traders associations, members of various clubs, etc. as well as market intermediaries like Mutual Fund Association of Pakistan and Insurance Association of Pakistan. During these sessions, tailored training material will be shared with the participants in the shape of booklets, leaflets, etc.; while for further learning participants will be encouraged to visit the web portal.

A guidebook will be developed for the presenters which will not only ensure quality of education imparted, but also help in eliminating conflict of interest in cases where presenters are from the market. Prior to engaging outside presenters, train the trainer sessions will be held.

Apart from initiation of implementation work as elaborated above, during FY 2013-14 a strategic partnership with the Central Depository Company of Pakistan Limited (CDC) was developed to conduct investor education seminars for existing capital market investors. In the first round, seminars were held for existing capital market investors in Faisalabad, Lahore, Gujranwala, Rawalpindi and Islamabad. On a similar pattern, efforts toward arranging seminars for mutual fund and pension fund unitholders in collaboration with the Mutual Fund Association of Pakistan (MUFAP) are underway. Thereafter, the existing insurance policyholders will be targeted in a similar manner, i.e., in collaboration with the Insurance Association of Pakistan.

Furthermore, an agreement was reached with the Institute of Cost and Management Accountants of Pakistan (ICMAP) to conduct a series of seminars for the ICMAP members under their continuous professional development (CPD) requirement. Logistics and contents for the seminars are being finalized with the first seminar planned to be conducted in August in Lahore followed by fortnightly seminars at other locations of the ICMAP in Pakistan. In order to implement the youth segment of IEP, strategic partnerships are being developed with the Higher Education Commission (HEC), accredited universities and leading schools in major cities.

Service desk

The SECP has set up a service desk to respond to stakeholders' queries and investor complaints. It can be accessed through email, online submission or by telephone. A dedicated team of trained facilitation officers is available during the office hours. In order to ensure timely and accurate response to the various queries/complaints received, back-end support by identified officers in operating departments (point of contact) is available to the service desk facilitation officers.

During FY 2013-14, the service desk handled over 11,000 calls, which were handled well by the facilitation officers. These calls mostly pertained to e-Services, an online company incorporation and filing module of the SECP. Efficient handing of queries by the service desk team apart from facilitating existing users is encouraging corporate sector to go for online incorporation and filing. Similarly, 211 complaints were lodged through the service desk pertaining to various regulated entities, out of which 182 were resolved in conjunction with the designated officers from the relevant departments, while the remaining are under process.

Institute of Capital Markets

The SECP is also working on human resource capacity building and setting standards of ethical conduct for professionals working in market intermediaries. For this purpose, the SECP has set up the Institute of Capital Markets (ICM) a nonprofit company as a certification body for the development of human capital in the capital markets and the insurance sector.

At the start of the year, ICM was offering two certification programs, i.e. Stock Broker Certification (SBC) applicable to brokerage house employees undertaking the function of brokerage, trading, sales agents and professionals providing buying and selling investment advice to clients; and Mutual Fund Distributors Certification (MFDC) applicable to employees of asset management companies and third party distributors undertaking activities related to sale of collective investment schemes or pension funds.

In addition, the ICM during FY 2013-14 developed 13 new certifications for the financial industry professionals. Out of these, the first four certifications have already been launched, while remaining 9 are expected to be launched by September 2014. New certifications developed include:

i. Pakistan Markets and Regulations Certification

ii. Fundamentals of Capital Markets Certification

iii. Financial Derivative Traders Certification

iv. Financial Advisors Certification

v. Compliance Officer Certification

vi. Commodity Brokers Certification

vii. Insurance Agents Certification

viii. Capital Budgeting and Corporate Finance Certification

ix. Investment Banking and Analysis Certification

x. Analyst Certification

xi. Risk Management Certification

xii. Clearing and Settlement Staff Certification

xiii. Islamic Finance and Capital Markets Certification

The details of exams held for the 6 certifications between July 1, 2013 and June 30, 2014 are given in the table below.

Certification	Exams held	Registration	Appearance	Passed
SBC	4	12	12	03
MFDC	4	211	202	117
FCM	1	7	7	1
PMR	1	6	6	2
Financial Advisors	1	2	2	1
Derivative Traders	1	0	0	0
All examinations		238	229	124

Pakistan Markets and Regulations (PMR) and Fundamentals of Capital Markets (FCM) are overarching certifications for the capital markets. These certifications cover regulatory and operational aspects of the capital markets and shall improve the quality of human resource working in or related with capital markets, leading to better self-compliance, higher investor protection and investor confidence in the capital market, and reduction in market abuse.

In view of the above, towards end of the financial year, the SECP made it mandatory for professionals working with various market intermediaries and performing identified activities to obtain PMR and FCM certifications by June 30, 2016. Similarly, given the importance of sales function, the scope of existing two mandatory certifications, i.e. Stock Brokers Certification (SBC) and Mutual Fund Distributors Certification (MFDC) have been expanded to include all those engaged in the sales function, i.e., engaged in advising clients about investments and work with or for a brokerage house, mutual fund or a pension fund.

In addition, in collaboration with CFA Association of Pakistan, the ICM held series of seminars in Karachi, Lahore and Islamabad for market participants and financial journalists on the following topics:

- Ethics Training for various industry entities
- Financial Literacy Training for journalists

Future plans

Under Investor Education Program (IEP), MOUs with leading universities and schools across the country will be signed to conduct seminars for students, and train the trainer activity for teachers and parents' outreach program. Similar MOUs will be signed with various professional bodies to conduct seminars for their members along with train the trainer activity for market professionals.

Upon completion of the development process, web portal, SMS services and social media activities will be rolled out along with distribution of print material to existing investors and potential target groups. Here it is pertinent to highlight that to achieve its stated objectives; the IEP needs to run in perpetuity. Therefore, continuous funding is required not only to expand the outreach of the program, but also to upgrade and enrich both delivery modes and message contents.

Once rolled out, the implemented program would be exhibited to the market stakeholders, including exchanges, depository, clearing company, associations of market intermediaries, listed and large unlisted companies, multilateral agencies, etc., to seek their contributions towards the Investor Education Fund (IEF). The proposed IEF will be in a trust structure with a third party acting as trustee to ensure that utilization of funds is for the stated objectives. Only returns generated by the IEF will be used to meet expenses of investor education program while original contribution (principal amount) would stay in the IEF, so that this source is available in perpetuity.

The scope of the service desk will be expanded to include responding to queries about investor education along with installation of a toll-free number to encourage the public to approach this facility to seek guidance and clarity on various investment-related issues.

In case of the ICM, the implementation of mandatory certifications will be done during the year along with development of a comprehensive continuous professional development (CPD) program, covering general knowledge and other market developments in particular areas covered under mandatory programs.

Small opportunities are often the beginning of great enterprises.

Demosthenes

Support Services Division

Support Services Division

Human Resources and Training Department

Human Resources and Training Department is ensuring a diverse, qualified and highly motivated human resource focused on achieving SECP's vision, mission and strategic objectives through continuous learning and development. It handles all core HR operations/functions, i.e. strategic human resource planning, recruitment and selection, training and development, performance appraisal, rewards and compensation, safety and health, communication, and employee relations. Its mandate includes:

Madiha Hyder, Tooba Akram, Syed Zargham Haider, Arshad Kamal, Muhammad Faiz-ur-Rehman, Ubaidullah Khalid, Khalid Iqbal (HOD), Syed Ali Adnan, Usman Khalid and Dr. Rubina Tahir

i. Promoting corporate culture, fostering strong work ing relationships and competitiveness among the employees

ii. Providing a working environment that is conducive to professional development, and creating opportunities for building a long-term career in the organization

iii. Ensuring fair and competitive compensation pack age for employees, recognition of individual con tribution and competence of every employee

iv. Assisting in the development of positive attitude and opinion of employees towards management

v. Developing human resource through knowledge sharing and training

vi. Ensuring employee engagement and development activities to enhance and sustain the motivation and performance levels of the organization as a whole

Administration Department

The Administration Department is tasked with managing the office of the organization in an efficient and effective manner. The department is responsible for:

i. Ensuring that general procurement processes are completed within the timeline and in Compliance with the related procurement rules and regulations

ii. Acquiring assets against approved requisitions, managing assets, i.e. maintenance of appropriate record and physical verification of all assets of the SECP recommending disposal of unused or obsolete assets, and ensuring appropriate insurance cover for all assets of the SECP

iii. Managing all property of the SECP, including buildings and land, acquiring land, negotiating lease agreements, and the construction and maintenance of office buildings;

iv. Managing office gym, library, daycare and driver's waiting room

v. Managing a medical wing to look after the health-related issues of employees, maintenance of employees' medical records, and arranging annual medical tests and checkups of all employees'

vi. Event management at all SECP offices

Finance Department

The Finance Department provides a wide range of financial and operating services, including treasury management, budget planning and making payments to both internal and external stakeholders. While performing these functions, it strictly adheres to Commission's guidelines and ensures compliance with statutory requirements, reporting and risk management.

The department provides management reporting information. A transparent and effective internal control system is also followed in recording and monitoring of financial transactions.

Mumtaz Ali, Raza-ur-Rehman Mirza, Arshad Mahmood (HOD), Naveed Farooq, Faisal Nawaz and Muhammad Aslam

Information Systems and Technology Department

The IS&T Department provides information technology leadership to build SECP's information infrastructure and effectively participate in making it a modern and efficient regulator. The department strives to expand technology support to create the information technology environment that the SECP needs to achieve its mission and vision.

The objective of IS&T Department is that IT performance meets the following:

- Alignment of IT's objectives with the commission's objectives and realization of the promised benefits i.e. Value addition
- Use of IT to enable the commission by exploiting opportunities and maximizing benefits
- Responsible use of IT resources and
- Appropriate management of IT-related risks

Imran Khan, Hussain Sorosh, Muhammad Sohail, Sumera Noureen, Muhammad Aqil Ismail (HOD), Sohail Najeeb and Hammad Ahmad

Financial Statements

KPMG

KPMG Taseer Hadi & Co.
Chartered Accountants
Sixth Floor, State Life Building No. 5
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Islamabad, Pakistan

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Independent Auditors' Report to the Federal Government of Pakistan

We have audited the accompanying financial statements of Securities and Exchange Commission of Pakistan (the "Commission"), which comprise the statement of financial position as at 30 June 2014, the statement of profit and loss and other comprehensive income, statement of changes in funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (here-in-after referred to as the financial statements for year then ended).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with approved accounting standards as applicable in Pakistan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 present fairly, in all material respects, the financial position of the Commission as at 30 June 2014, and its financial performance and its cash flows for the year then ended in accordance with approved accounting standard as applicable in Pakistan.

Other Matters

The financial statements of the Commission for the year ended 30 June 2013, were audited by another auditor who expressed an unmodified opinion on those statements on 16 September 2013.

KPMG Taseer Hadi & Co.

Islamabad
Date: 01 October 2014

KPMG Taseer Hadi & Co.
Chartered Accountants
Engagement Partner
Muhammad Rehan Chughtai

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Note	2014	2013	2012
			(Rupees in thousand)	
			Restated	Restated
NON-CURRENT ASSETS				
Property and equipment	5	**327,944**	385,788	252,847
Intangibles	6	**34,157**	48,649	20,608
Long term investments	7	**-**	-	300,000
Loans and advances	8	**53,298**	39,016	33,541
Deferred taxation	14	**34,249**	-	12,825
		449,648	473,453	619,821
CURRENT ASSETS				
Advances, deposits, prepayments and other receivables	9	**123,957**	215,292	177,979
Short term investments	10	**1,556,469**	3,851,972	3,245,820
Cash and bank balances	11	**374,582**	125,889	199,602
		2,055,008	4,193,153	3,623,401
CURRENT LIABILITIES				
Accrued and other liabilities	12	**(776,241)**	(759,840)	(575,749)
Payable to Federal Consolidated Fund	13	**(63,424)**	(2,306,035)	-
		(839,665)	(3,065,875)	(575,749)
Net current assets		**1,215,343**	1,127,278	3,047,652
NON-CURRENT LIABILITIES				
Deferred taxation	14	**-**	(6,428)	-
Deferred liability	15	**(131,560)**	(89,370)	(59,564)
		(131,560)	(95,798)	(59,564)
Net assets		**1,533,431**	1,504,933	3,607,909
REPRESENTED BY:				
SECP FUND		**1,533,431**	1,504,933	3,607,909
CONTINGENCIES AND COMMITMENTS	16			

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

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014	2013
		(Rupees in thousand)	
			Restated
INCOME			
Fees and other recoveries	17	1,843,608	1,635,749
Other income	18	225,903	432,536
		2,069,511	2,068,285
EXPENDITURE			
Salaries, allowances and other benefits	19	1,275,603	1,078,696
Operating expenses	20	466,596	490,346
Depreciation and amortization		130,665	118,626
Amortization of premium on Pakistan Investment Bonds		-	3,370
Bank charges		1,279	4,240
		1,874,143	1,695,278
SURPLUS OF INCOME OVER EXPENDITURE BEFORE TAX		195,368	373,007
TAXATION	21	78,615	131,659
SURPLUS OF INCOME OVER EXPENDITURE AFTER TAX FOR THE YEAR		116,753	241,348
OTHER COMPREHENSIVE INCOME /(DEFICIT) - NET OF TAX			
Actuarial gain/ (losses) on staff retirement funds	12.1.4	58,831	(58,905)
Deficit on remeasurement of available for sale investments to fair value		(2,310)	-
Related tax effect		(19,194)	20,617
		37,327	(38,288)
TOTAL COMPREHENSIVE SURPLUS OF INCOME OVER EXPENDITURE		154,080	203,060

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

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014	2013
		(Rupees in thousand)	
			Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus of income over expenditure before tax		195,368	373,007
Adjustments for:			
- Depreciation and amortization		130,665	118,626
- Amortization of premium on Pakistan Investment Bonds		-	3,370
- Provision for pension		18,469	16,048
- Provision for gratuity		64,019	54,700
- Provision for compensated absences		45,458	31,398
- Provision for/ (unwinding of) discount on long term loans to employees		(7,676)	7,101
- Interest income		(209,727)	(423,691)
- Gain on sale of property and equipment		(5,734)	(6,468)
		35,474	(198,916)
Operating income before working capital changes		230,842	174,091
Decrease/ (increase) in advances, deposits, prepayments and other receivables		40,567	(15,338)
Increase in accrued and other liabilities		93,484	139,824
		364,893	298,577
Contribution to pension fund		(29,249)	(17,282)
Contribution to gratuity fund		(71,491)	(68,104)
Compensated absences encashed		(3,268)	(1,592)
Payment to Federal Consolidated Fund		(2,368,193)	-
Taxes paid		(87,555)	(113,765)
		(2,559,756)	(200,743)
Increase in loans and advances		(6,769)	(12,576)
Net cash (used in)/ generated from operating activities		(2,201,632)	85,258
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(64,546)	(289,487)
Proceeds from sale of property and equipment		11,951	16,347
Investments - net		2,189,174	(232,695)
Interest received on investments and bank deposits		313,746	346,864
Net cash generated from / (used in) investing activities		2,450,325	(158,971)
Net increase/ (decrease) in cash and cash equivalents		248,693	(73,713)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		125,889	199,602
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	11	374,582	125,889

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

CHAIRMAN **COMMISSIONER**

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	SECP FUND					
	General reserve	Assets acquisition reserve	Reserve for loan to employees	Deficit on remeasurement of available for sale investments to fair value - net of tax	Accumulated comprehensive (deficit)/ surplus of income over expenditure	Total
	-------Rupees in thousand-------					
Balance at 01 July 2012 - as previously reported	800,000	2,600,000	-	-	240,923	3,640,923
Effect of change in accounting policy- note 4.4	-	-	-	-	(33,014)	(33,014)
Balance at 01 July 2012 - as restated	800,000	2,600,000	-	-	207,909	3,607,909
Comprehensive income:						
Surplus of income over expenditure	-	-	-	-	241,348	241,348
Other comprehensive deficit of income over expenditure	-	-	-	-	(38,288)	(38,288)
	-	-	-	-	203,060	203,060
	800,000	2,600,000	-	-	410,969	3,810,969
Transferred to reserve for loan to employees	-	-	130,000	-	(130,000)	-
Transferred to Federal Consolidated Fund - note 13 - restated	(800,000)	(1,225,067)	-	-	(280,969)	(2,306,036)
Balance at 30 June 2013	-	1,374,933	130,000	-	-	1,504,933
Comprehensive income:						
Surplus of income over expenditure	-	-	-	-	116,753	116,753
Other comprehensive (deficit)/ surplus of income over expenditure	-	-	-	(1,502)	38,829	37,327
	-	-	-	(1,502)	155,582	154,080
	-	-	-	(1,502)	155,582	154,080
Transferred to reserve for loan to employees	-	-	30,000	-	(30,000)	-
Transferred to Federal Consolidated Fund - note 13	-	-	-	-	(125,582)	(125,582)
Balance at 30 June 2014	-	1,374,933	160,000	(1,502)	-	1,533,431

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 30 JUNE 2014

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 Head office located in Islamabad, seven Commission registration offices across Pakistan and southern regional office located in Karachi.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board as are notified by the Commission to companies in Pakistan. However, the Commission is not required to comply with the requirements of IFRSs.

3. BASIS OF PREPARATION

These financial statements have been prepared on the historical cost convention except for certain financial instruments which are measured at fair value and employee retirement benefit funds including staff compensated absences which are measured at their present values as determined under the provisions of IAS-19, "Employee Benefits".

3.1 Functional and presentation currency

These financial statements are presented in Pakistani Rupees, which is the Commission's functional and presentation currency. Amounts presented in Pakistani Rupees have been rounded off to nearest thousand, unless otherwise indicated.

3.2 Significant accounting estimates

The preparation of financial statements in conformity with International Financial Reporting Standards, requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised, if the revision effects only that period, or in the period of the revision and future periods if the revision effects both current and future periods.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

Judgments made by management in the application of International Financial Reporting Standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in subsequent years are discussed in the ensuing paragraphs:

(a) Income taxes

The Commission takes into account the current income tax law and decisions taken by the appellate authorities. Instances where the Commission's view differs from the view taken by the income tax department at the assessment stage and where the Commission considers that its view on items is of material nature is in accordance with law, the amounts are shown as contingent liabilities.

(b) Staff retirement benefits

The present value of the obligation for gratuity, pension and compensated absences depends on a number of factors that are determined on actuarial basis using number of assumptions. The assumptions used in determining the charge for the year include the discount rate, expected increase in eligible salary and mortality rate. Any changes in these assumptions will impact the carrying amount of obligations for gratuity, pension and compensated absences.

(c) Property, plant and equipment

The Commission reviews the useful life and residual values of property, plant and equipment on regular basis. Further, the Commission reviews the value of the assets for possible impairment. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding affect on the depreciation charge and impairment.

(d) Provision against receivables

The Commission reviews the recoverability of its receivables to assess amount of bad debts and provision required there against, on a regular basis.

(e) Impairment

The carrying amounts of the Commission's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. Any change in the estimates in future years might affect the carrying amounts of the respective assets with a corresponding affect on the depreciation / amortization charge and impairment.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

3.3 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2014:

- IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The interpretation is not likely to have an impact on the Commission's financial statements.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not likely to have an impact on the Commission's financial statements.

- Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are not likely to have an impact on the Commission's financial statements.

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" Continuing hedge accounting after derivative novation (effective for annual periods beginning on or after 1 January 2014). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are not likely to have an impact on the Commission's financial statements.

- Amendments to IAS 19 "Employee Benefits" Employee contributions – a practical approach (effective for annual periods beginning on or after 1 July 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. The Commission is in the process of assessing the impact, if any, of this amendment.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on the Commission's financial statements.

- IFRS 10 'Consolidated Financial Statements' – (effective for annual periods beginning on or after 1 January 2015) replaces the part of IAS 27 'Consolidated and Separate Financial Statements. IFRS 10 introduces a new approach to determining which investees should be consolidated. The single model to be applied in the control analysis requires that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 has made consequential changes to IAS 27 which is now called 'Separate Financial Statements' and will deal with only separate financial statements. This IFRS is not likely to have an impact on the Commission's financial statements.

- IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2015) replaces IAS 31 'Interests in Joint Ventures'. Firstly, it carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31 and are now called joint operations. Secondly, the remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of using the equity method or proportionate consolidation; they must now always use the equity method. IFRS 11 has also made consequential changes in IAS 28 which has now been named 'Investment in Associates and Joint Ventures'. The amendments requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business are effective for annual periods beginning on or after 1 January 2016. This IFRS is not likely to have an impact on the Commission's financial statements.

- IFRS 12 'Disclosure of Interest in Other Entities' (effective for annual periods beginning on or after 1 January 2015) combines the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, into one place. This IFRS is not likely to have an impact on the Commission's financial statements.

- IFRS 13 'Fair Value Measurement' effective for annual periods beginning on or after 1 January 2015) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The IFRS is not likely to have an impact on the Commission's financial statements.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

- Amendment to IAS 27 'Separate Financial Statement' (effective for annual periods beginning on or after 1 January 2016). The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are not likely to have an impact on the Commission's financial statements.

- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a Commission can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction. The amendments are not likely to have an impact on the Commission's financial statements.

- Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after 1 July 2014). The new cycle of improvements contain amendments to the following standards:

  - IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition.

  - IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves.

  - IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition this amendment clarifies that a reconciliation of the total of the reportable segment's assets to the entity assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.

  - Amendments to IAS 16'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.

  - IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should: assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

These amendments are not likely to have an impact on the Commission's financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparation of these financial statements are set out below. The policies have been applied consistently to all years presented except a change in policy during the year as stated in note 4.4 below:

4.1 Property and equipment

Property 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 less impairment, if any.

Depreciation is calculated on straight line method to write off the depreciable amount of each asset over its estimated useful life. Rates of depreciation are specified in note 5 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 up to the date of disposal.

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

4.2 Intangibles

Intangible assets are stated at cost less accumulated amortization and impairment except for intangible assets under development which are stated at cost less impairment, if any. Amortization on intangible assets having finite useful life is calculated on straight-line basis at rates specified in note 6 to the financial statements.

4.3 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.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

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 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 date of issue of financial statements.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

4.4 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 30 June 2014.

(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 30 June 2014.

Actuarial gains/ losses arising on defined benefit plans are recognized in the Statement of Comprehensive Income as other comprehensive income.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

(iii) Change in accounting policy

International Accounting Standards (IAS) 19 (as revised in June 2011) "Employees Benefits" became effective for annual periods beginning on or after 01 January 2013. The amendments to IAS 19, change accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligation and plan assets. The amendments require the recognition of changes in defined benefit obligation and fair value of plan assets when they occur, and hence eliminate 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. Now all actuarial gains and losses are recognized immediately through other comprehensive income. Furthermore, the interest cost and expected return on plan assets used in previous version of IAS 19 are replaced with a 'net-interest' amount under IAS 19 (as revised in June 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. IAS 19 (as revised in June 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

Adoption of the amended IAS 19 amounts to change in accounting policy as per IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and effects of retrospective application of this change in accounting policy on the Commission's pension and gratuity benefit plans are as follows.

	As previously reported 30 June 2012	Effect of restatement	As restated 30 June 2012
	Rupees in thousand		
Payable to staff retirement funds	(1,592)	50,791	49,199
Advance tax - net	26,701	17,777	44,478
SECP fund	3,640,923	(33,014)	3,607,909

	2012 Rupees
Effect on other comprehensive income	
Actuarial losses	50,791
Tax effect of actuarial losses	(17,777)
	33,014

	As previously reported 30 June 2013	Effect of restatement	As restated 30 June 2013
	Rupees in thousand		
Payable to staff retirement funds	20,334	73,132	93,466
Advance tax - net	40,857	25,596	66,453
Payable to Federal Consolidated Fund	2,353,571	(47,536)	2,306,035

	2013 Rupees
Effect on other comprehensive income	
Actuarial losses	22,341
Tax effect of actuarial losses	(7,819)
	14,522

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(iv) *Compensated absences*

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

The provision for compensated absences is determined on the basis of actuarial recommendations using "Projected Unit Credit Method". The most recent actuarial valuation was conducted on 30 June 2014.

4.5 Deferred grant

Grants 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.

4.6 Revenue recognition

Fees and other recoveries are recognized on accrual basis.

All penalties/ fines recovered are not credited to income of the Commission. Rather, these are credited to and deposited in the Federal Consolidated Fund.

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

4.7 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.

4.8 Investments

Held to maturity

Investments with fixed or determinable payments and fixed maturity, that the Commission has 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.

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Available for sale

Available-for-sale investments are investments that are either designated in this category or not classified in any of the other categories. These are initially measured at their fair value plus directly attributable transaction cost and at subsequent reporting dates measured at fair values and gains or losses from changes in fair values other than impairment loss are recognized in other comprehensive income until disposal at which time these are recycled to the statement of comprehensive income. Impairment loss on investments is recognized in the statement of comprehensive income.

Investment in associate

These are accounted for using the equity method, whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Commission's share of the net assets of the associate. The statement of comprehensive income reflects the Commission's share of the results of the operations of the associate. Where there has been a change recognised in the other comprehensive income of the associate, the Commission recognizes its share of any change in its other comprehensive income.

The Commission determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Commission calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the same in the statement of comprehensive income.

4.9 Long term loans to employees

Long term loans are initially recognized at present value of loan amount disbursed. On initial recognition, the discount representing difference between loan disbursed and its present value is charged in the statement of comprehensive income. Subsequently, the unwinding of discount on present value of loans is recognized as income over the loan term using effective interest rate method.

4.10 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.

4.11 Financial instruments

Financial assets and financial liabilities are recognized when the Commission becomes 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.

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4.12 Receivables

Receivable are stated initially at the fair value, subsequent to initial recognition these are stated at their fair value as reduced by appropriate provision for impairment. Known impaired receivables are written off, while receivables considered doubtful of recovery are fully provided for.

4.13 Cash and cash equivalents

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

4.14 Payables

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

4.15 Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Commission has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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5. PROPERTY AND EQUIPMENT

	Leasehold Land	Building	Leasehold Improvements	Office Equipment	Other Equipment	Computer	Furniture & Fixture	Vehicles	Sub-total	Capital Work-in-Progress Note 5.1	Total
					----Rupees in thousand----						
Cost											
Balance at 01 July 2012	2,053	35,445	73,100	55,642	8,735	303,769	41,099	198,786	718,629	45,122	763,751
Additions	-	-	2,376	5,164	6,777	57,094	1,898	129,916	203,225	45,433	248,658
Transfers	-	3,503	310	4,294	-	46,823	-	-	54,930	(54,930)	-
Adjustments	-	-	-	-	-	-	-	-	-	(6,160)	(6,160)
Disposals	-	-	(2,337)	(3,500)	-	(28,719)	(6,830)	(58,815)	(100,201)	-	(100,201)
Balance at 30 June 2013	2,053	38,948	73,449	61,600	15,512	378,967	36,167	269,887	876,583	29,465	906,048
Balance at 01 July 2013	**2,053**	**38,948**	**73,449**	**61,600**	**15,512**	**378,967**	**36,167**	**269,887**	**876,583**	**29,465**	**906,048**
Additions	-	-	**143**	**1,483**	-	**2,380**	**193**	**52,640**	**56,839**	**1,601**	**58,440**
Transfers	-	-	**10,790**	-	-	-	-	-	**10,790**	**(10,790)**	-
Disposals	-	-	**(60)**	**(884)**	**(647)**	**(16,260)**	**(676)**	**(47,252)**	**(65,779)**	-	**(65,779)**
Balance at 30 June 2014	**2,053**	**38,948**	**84,322**	**62,199**	**14,865**	**365,087**	**35,684**	**275,275**	**878,433**	**20,276**	**898,709**
Accumulated depreciation											
Balance at 01 July 2012	-	20,187	44,923	42,218	7,778	260,938	23,436	111,424	510,904	-	510,904
Depreciation	-	1,870	10,255	7,716	1,650	28,549	2,528	47,110	99,678	-	99,678
Disposals	-	-	(2,337)	(3,500)	-	(28,719)	(6,830)	(48,936)	(90,322)	-	(90,322)
Balance at 30 June 2013	-	22,057	52,841	46,434	9,428	260,768	19,134	109,598	520,260	-	520,260
Balance at 01 July 2013	-	**22,057**	**52,841**	**46,434**	**9,428**	**260,768**	**19,134**	**109,598**	**520,260**	-	**520,260**
Depreciation	-	**1,947**	**9,942**	**7,315**	**1,536**	**35,721**	**2,397**	**51,209**	**110,067**	-	**110,067**
Disposals	-	-	**(60)**	**(884)**	**(647)**	**(15,878)**	**(676)**	**(41,417)**	**(59,562)**	-	**(59,562)**
Balance at 30 June 2014	-	**24,004**	**62,723**	**52,865**	**10,317**	**280,611**	**20,855**	**119,390**	**570,765**	-	**570,765**
Carrying amounts - 2014	**2,053**	**14,944**	**21,599**	**9,334**	**4,548**	**84,476**	**14,829**	**155,885**	**307,668**	**20,276**	**327,944**
Carrying amounts - 2013	2,053	16,891	20,608	15,166	6,084	118,199	17,033	160,289	356,323	29,465	385,788
Rates of depreciation per annum	-	5%	20%	30%	20%	20% / 25%	10%	20%			

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	2014	2013
5.1 Capital work in progress includes the following:	(Rupees in thousand)	
Leasehold land - note 5.1.1	**19,425**	19,425
Leasehold improvements	**851**	10,040
	20,276	29,465

5.1.1 This represents 5% bid money paid to Pakistan Railway for purchase of land.

6. INTANGIBLES

	Computer Software (Rupees in thousand)
Cost	
Balance at 01 July 2012	58,449
Additions	46,989
Balance at 30 June 2013	**105,438**
Balance at 01 July 2013	**105,438**
Additions	**6,106**
Balance at 30 June 2014	**111,544**
Accumulated amortisation	
Balance at 01 July 2012	37,841
Amortisation	18,948
Balance at 30 June 2013	**56,789**
Balance at 01 July 2013	**56,789**
Amortisation	**20,598**
Balance at 30 June 2014	**77,387**
Carrying amount - 2014	**34,157**
Carrying amount - 2013	48,649
Amortization rate (%) per annum	25%

7. LONG TERM INVESTMENTS

	2014	2013
	(Rupees in thousand)	
Investment in associate - Unquoted		
Pakistan Institute of Capital Markets - note 7.1	**28,000**	28,000
Less: Impairment loss on investment	**(28,000)**	(28,000)
	-	-

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7.1 Investment in Pakistan Institute of Capital Markets

This represents 73.68% investment in issued, subscribed and paidup capital of Pakistan Institute of Capital Markets (the Institute) representing 5,600 ordinary shares of Rs 5,000 each. However, the Institute is an associate of the Commission since the Commission has no controlling power over the financial and operating policies of the Institute, as the Commission has only 1 nominated director as at 30 June 2014 (2013: 1) out of a total of 12 directors.

Further, the Commission has undertaken to contribute an amount not exceeding Rs. 50,000 to the assets of the Institute in the event of its being wound up.

7.1.1 Summary financial information of the Institute based on its latest available financial statements

	2014	2013
	(Rupees in thousand)	
	Un-Audited	Audited
Assets	**6,127**	23,196
Liabilities	**1,224**	13,596
Equity	**4,903**	9,599
Revenue	**33,232**	9,807
Loss after tax	**(4,696)**	(7,352)

The information presented above for current year is based on unaudited financial information of the Institute.

8. LOANS AND ADVANCES

	2014	2013
	(Rupees in thousand)	
Loans and advances - considered good	**134,574**	118,596
Less: Current portion of loans and advances	**(60,500)**	(51,291)
	74,074	67,305
Less: Provision for imputed interest on loans and advances	**(20,776)**	(28,289)
	53,298	39,016

These represent interest free loans to employees for various purposes as per their employment terms, secured against employees' retirement benefits. Principal amount of loan is recoverable in periods upto January 2023 in monthly installments.

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9. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES	2014	2013	2012
		(Rupees in thousand)	
		Restated	Restated
Current portion of loans and advances - considered good	**60,500**	51,291	32,762
Short term loans to employees - secured, considered good - note 9.1	**2,249**	5,987	10,046
Advances	**12,514**	31,021	54,197
Deposits	**3,119**	3,110	16,621
Prepayments	**7,296**	38,053	7,379
Advance tax - net	**15,523**	66,453	44,478
Fee receivable - considered good	**8,030**	8,654	8,618
Other receivables - considered good	**14,726**	10,723	3,878
	123,957	215,292	177,979

9.1 These represent interest-free house rent advance given to employees recoverable/ adjustable on monthly basis. The amount is secured against the employees' share of post employment benefits.

9.2 For better presentation markup receivable of Rs. 253 million at 30 June 2013 and Rs. 176.5 million at 30 June 2012 has been reclassified to short term investment.

10. SHORT TERM INVESTMENTS	2014	2013	2012
		(Rupees in thousand)	
Held to maturity			
Special Savings Account - National Savings Scheme	-	-	636,930
Government Treasury Bills (T-Bills) - note 10.1	-	-	482,199
Special Notice Deposit Receipts (SNDR) - note 10.2	-	-	1,430,556
Pakistan Investment Bonds	-	-	505,725
Regular Income Certificates	-	-	190,410
	-	-	3,245,820
Available for sale			
Special Savings Account - National Savings Scheme	-	538,734	-
Government Treasury Bills (T-Bills) - note 10.1	**937,661**	2,395,953	-
Special Notice Deposit Receipts (SNDR) - note 10.2	**618,808**	562,995	-
Pakistan Investment Bonds	-	52,250	-
Regular Income Certificates	-	302,040	-
	1,556,469	3,851,972	3,245,820

10.1 Investment in Treasury Bills ranges from three months to one year. The rate of mark-up ranges from 9.98% to 9.99% (2013:8.91% to 11.95%) per annum.

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10.2 Investment in seven days "Special Notice Deposit Receipts (SNDR)" of National Bank of Pakistan carry rate of mark-up of 11.20 % per annum (2013: 11.20%).

11 CASH AND BANK BALANCES

	2014	2013
	(Rupees in thousand)	
Cash in hand	**405**	360
Cash at bank - interest bearing accounts - note 11.1	**374,177**	125,529
	374,582	125,889

11.1 These carry mark-up rates ranging from 6% to 8.25% (2013: 6% to 8.25%) per annum.

12 ACCRUED AND OTHER LIABILITIES

	2014	2013	2012
		(Rupees in thousand)	
		Restated	Restated
Accrued expenses	**254,042**	215,089	101,549
Bonus payable	**151,307**	130,620	117,916
Accounts payable	**22,022**	1,749	967
Withholding tax payable	**773**	872	2,602
Payable to staff retirement funds - note 12.1	**16,383**	93,466	49,199
Unearned income - note 12.2	**56,063**	93,962	129,145
Levies payable	**260,408**	205,162	159,400
Other liabilities	**15,243**	18,920	14,971
	776,241	759,840	575,749

12.1 Payable to staff retirement funds

Pension fund	**9,580**	44,089	15,048
Gratuity fund	**6,803**	49,377	34,151
	16,383	93,466	49,199

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12.1.1 ***The amount recognized in the statement of financial position is as follows:***

	Pension fund		Gratuity fund	
	2014	2013 Restated	**2014**	2013 Restated
	---------- Rupees in thousand ----------			
Present value of defined benefit obligation - note 12.1.5	**411,972**	397,581	**473,669**	424,298
Fair value of plan assets - note 12.1.6	**(402,392)**	(353,492)	**(466,866)**	(374,921)
	9,580	44,089	**6,803**	49,377

12.1.2 **Changes in net liability**

Opening liability	**44,089**	15,048	**49,377**	34,151
Amount charged to profit and loss account	**18,469**	16,048	**64,019**	54,700
Remeasurements charged in other comprehensive income	**(23,729)**	30,275	**(35,102)**	28,630
Contributions	**(29,249)**	(17,282)	**(71,491)**	(68,104)
Closing liability	**9,580**	44,089	**6,803**	49,377

12.1.3 ***The amount charged to comprehensive surplus of income over expenditure is as follows:***

Current service cost	**13,880**	14,167	**56,774**	50,431
Interest cost on defined benefit obligation	**45,271**	41,242	**53,287**	39,297
Interest income on plan assets	**(40,682)**	(39,361)	**(46,042)**	(35,028)
	18,469	16,048	**64,019**	54,700

12.1.4 ***The amount charged to other comprehensive surplus of income over expenditure is as follows:***

Remeasurement gain/ (loss) - Experience adjustment	**19,866**	(25,616)	**40,091**	(27,509)
Return on plan assets, excluding interest income	**3,863**	(4,659)	**(4,989)**	(1,121)
	23,729	(30,275)	**35,102**	(28,630)

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	Pension fund 2014	Pension fund 2013	Gratuity fund 2014	Gratuity fund 2013
	---------- Rupees in thousand ----------			
12.1.5 Changes in present value of defined benefit obligation				
Opening balance	**397,581**	343,411	**424,298**	321,685
Current service cost	**13,880**	14,167	**56,774**	50,431
Interest cost	**45,271**	41,242	**53,287**	39,297
Benefits paid	**(28,802)**	(26,948)	**(20,599)**	(14,624)
Amount received from Government of Pakistan	**3,908**	93	**-**	-
Actuarial (gains)/ loss	**(19,866)**	25,616	**(40,091)**	27,509
Closing balance	**411,972**	397,581	**473,669**	424,298
12.1.6 Changes in fair value of plan assets				
Opening balance	**353,492**	328,363	**374,921**	287,534
Interest income on plan assets	**40,682**	39,361	**46,042**	35,028
Contributions	**29,249**	17,282	**71,491**	68,104
Benefits paid	**(28,802)**	(26,948)	**(20,599)**	(14,624)
Amount received from Government of Pakistan	**3,908**	93	**-**	-
Return on plan assets, excluding interest income	**3,863**	(4,659)	**(4,989)**	(1,121)
Closing balance	**402,392**	353,492	**466,866**	374,921

The expected charge for next year on account of defined benefit pension and gratuity amounts to Rs. 15,088 thousand (2013: 69,507 thousand) and Rs. 63,050 thousand (2012: Rs. 64,486 thousand) respectively.

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12.1.7 Break-up of category of assets

	Pension fund		Gratuity fund	
	2014	2013	2014	2013
	---------- Rupees in thousand ----------			
Pakistan Investment Bonds	-	30,039	-	7,570
Special Savings Certificates	**391,004**	302,833	**443,476**	295,486
Treasury Bills	-	5,478	-	-
Profit receivable	-	3,959	-	5,976
Bank accounts	**11,388**	11,183	**23,390**	65,889
Fair value of plan assets	**402,392**	353,492	**466,866**	374,921

12.1.8 Principal actuarial assumptions

Actuarial valuation is carried out annually. Latest actuarial valuation was carried out as at 30 June 2014 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:

	Pension fund		Gratuity fund	
	2014	2013	**2014**	2013
Valuation discount rate - per annum	**13.50%**	11.50%	**13.50%**	11.50%
Salary increase rate - per annum	**13.50%**	11.50%	**13.50%**	11.50%

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12.1.9 Sensitivity analysis

Reasonably possible change at reporting date to one of the relevant actuarial assumptions, holding other assumption constant, would have affected the defined benefit obligation by amounts shown below;

	Pension fund		Gratuity fund	
	---- Defined benefit obligation ----			
	Increase	Decrease	Increase	Decrease
	---- Rupees in thousand ----			
Discount rate (1% movement)	**411,456**	**494,495**	**416,692**	**541,759**
Future salary growth (1% movement)	**480,652**	**422,360**	**541,436**	**415,954**

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximate of the sensitivity of the assumptions shown.

12.1.10 Disclosure for current and previous four annual periods for pension and gratuity plans

	2014	2013	2012	2011	2010
	---- Rupees in thousand ----				
Present value of the defined		Restated	Restated		
benefit obligations	**885,641**	821,879	665,096	556,338	505,282
Fair value of plan assets	**(869,258)**	(728,413)	(615,897)	(431,761)	(216,368)
Deficit in the plans	**16,383**	93,466	49,199	124,577	288,914
Experience adjustments on plan liabilities	**(59,957)**	53,125	20,361	(12,346)	11,538
Return on plan assets, excluding interest income	**(1,126)**	(5,780)	3,802	14,347	(9,257)

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12.2 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.

	2014	2013
13 PAYABLE TO FEDERAL CONSOLIDATED FUND (the Fund)	(Rupees in thousand)	
		Restated
Payable at beginning of the year	**2,306,035**	-
Payments to FCF during the year	**(2,368,583)**	
Penalties collected during the year - note 13.1	**12,857**	20,010
Penalties deposited to the Fund during the year	**(12,467)**	(20,010)
Surplus for the year	**125,582**	2,306,035
	63,424	2,306,035

13.1 Penalties collected during the year

Under the Companies Ordinance, 1984	**9,447**	10,447
Under the Insurance Ordinance, 2000	**600**	800
On transactions executed at stock exchanges and other fees	**2,625**	7,693
Non Banking Finance Companies	**185**	1,070
	12,857	20,010

13.2 In terms of an amendment to the SECP Act 1997 through Finance Act 2012, effective July 1, 2012, all penalties/ fines recovered are not credited to income of the Commission, rather, they are credited to and deposited in the Federal Consolidated Fund.

As per amendment in SECP Act 1997 through Finance Act 2012, "any surplus of receipts over the actual expenditure in a year, after payment of tax, shall be remitted to the Federal Consolidated Fund. Any deficit from the actual expenditure shall be borne by the Federal Government." In last year Finance Division of the Government of Pakistan asked the Commission to transfer accumulated surplus as at June 30, 2012 in addition to the surplus for the year ended 30 June 2013. The amount payable to the Fund based on audited results is detailed below:

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	2014	2013
	(Rupees in thousand)	
		Restated
Asset acquisition reserve	-	2,600,000
Amounts to be retained		
Book value of assets at 30 June 2013	-	(434,437)
Capital commitments at 30 June 2013	-	(54,497)
Budgeted capital expenditure approved by the Policy Board for 2013	-	(886,000)
	-	(1,374,934)
	-	1,225,066
General reserve transferred to the Fund	-	800,000
Accumulated surplus transferred to the Fund	155,582	410,969
Less: Transfer to reserve for loan to employees	(30,000)	(130,000)
	125,582	280,969
Payable to the Fund	125,582	2,306,035

14 DEFERRED TAXATION

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

	2014	2013
	(Rupees in thousand)	
- Accelerated depreciation and amortization	3,219	(1,132)
- Profit on short term investments accrued but not due	(10,345)	(24,490)
- Discount on long term loan	7,272	9,674
- Impairment loss on investment in associate	9,800	9,520
- Liabilities written back	23,494	-
- Remeasurement of investment available for sale	809	-
	34,249	(6,428)

15 DEFERRED LIABILITY

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

	2014	2013
	(Rupees in thousand)	
Obligation at beginning of the year	89,370	59,564
Expense for the year	45,458	31,398
Encashed during the year	(3,268)	(1,592)
Obligation at end of the year	131,560	89,370

Principal actuarial assumptions

Latest actuarial valuation was carried out as at 30 June 2014 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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	2014	2013
Valuation discount rate - per annum	**11.50%**	11.50%
Salary increase rate - per annum	**13.25%**	11.50%

16 CONTINGENCIES AND COMMITMENTS

16.1 Contingencies

(i) Certain companies/ individuals filed suits against the Commission in respect of following claims for damages.

	2014	2013
	(Rupees in thousand)	
Investec Securities	**2,000,000**	2,000,000
Abdul Karim K. Kara	**1,111,000**	1,111,000
Eridania (Suisse) SA	**565,519**	565,519
Al Mal Securities	**206,000**	206,000
Nasimuddin Khan	**150,000**	150,000
Irfan Ahmad Sheikh	**100,000**	100,000
Irfan Iqbal Puri	**100,000**	100,000
Muhammad Siraj	**70,000**	70,000
RAB Securities	**50,000**	-
Other parties	**42,950**	42,950

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) The Commission has been made party in various other legal cases. The Commission believes that the outcome of these cases would not result in any financial exposure to the Commission.

16.2 COMMITMENTS

Aggregate commitments for contracted capital expenditure at end of the year amounted to Rs. 422 million. (2013: Rs. 424 million).

17 FEES AND OTHER RECOVERIES

	2014	2013
	(Rupees in thousand)	
Under the Companies Ordinance, 1984	**1,090,667**	999,143
Under the Modaraba Ordinance, 1980	**6,453**	6,308
Under the Insurance Ordinance, 2000	**229,938**	204,808
On transactions executed at stock exchanges and other fees	**111,670**	81,934
Brokers' registration	**22,724**	10,130
Non Banking Finance Companies	**382,156**	333,426
	1,843,608	1,635,749

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		2014	2013
		(Rupees in thousand)	
18	**OTHER INCOME**		
	Income on bank deposits	22,957	30,858
	Income on investments	186,770	392,833
	Gain on sale of property and equipment	5,734	6,468
	Miscellaneous income	2,766	2,377
	Unwinding of discount on loans to employees	7,676	-
		225,903	432,536
19	**SALARIES, ALLOWANCES AND OTHER BENEFITS**		
	Salaries	437,536	391,931
	House rent allowance	255,707	231,581
	Medical allowance	67,273	52,606
	Conveyance allowance	14,067	13,076
	Utilities	42,539	38,579
	Other allowance	290,216	214,806
	Provision for pension	18,469	16,048
	Provident fund contribution	40,319	33,971
	Provision for gratuity	64,019	54,700
	Provision for compensated absences	45,458	31,398
		1,275,603	1,078,696
20	**OPERATING EXPENSES**		
	Repair and maintenance	79,158	83,274
	Travelling and conveyance	62,400	67,357
	Telephone, postage and courier	25,246	25,834
	Utilities	18,187	38,199
	Rent and rates	119,521	117,573
	Printing and stationery	13,894	15,949
	Legal and professional charges	33,445	29,910
	Fees and subscription	5,633	5,359
	Human resource development	6,270	20,004
	Seminars and conference	1,640	8,153
	Insurance	11,122	9,444
	Advertisement	9,477	1,942
	Entertainment	746	842
	Audit fee - note 20.1	313	313
	Provision for discount on loans to employees	-	7,101
	Levies and charges	55,245	45,762
	Others	24,299	13,330
		466,596	490,346

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		2014	2013
		(Rupees in thousand)	
20.1	**Audit fee**		
	Statutory audit fee	**285**	285
	Out of pocket expenses	**28**	28
		313	313
21	**TAXATION**		
	Current tax		
	- current year	**114,930**	112,555
	- prior years	**3,553**	(149)
		118,483	112,406
	Deferred tax	**(39,868)**	19,253
		78,615	131,659

21.1 The relationship between the tax expense and surplus of income over expenditure is as follows:

	2014	2013
	(Rupees in thousand)	
Surplus of income over expenditure	**195,368**	373,007
Tax at applicable tax rate of 34% (2013: 35%)	**66,425**	130,552
Effect of prior years charge	**3,553**	(149)
Others including permanent differences	**8,637**	1,256
Tax expense for the year	**78,615**	131,659

22 TAX STATUS

The Commission has filed the tax return for the tax years 2003 to 2007 in pursuance of the order of the Honourable Federal High Court, by claiming exemption on total income in terms of section 49 of the Income Tax Ordinance, 2001 (the Ordinance). However the Additional Commissioner, Audit Division (ACIT) amended the assessments of the Commission under section 122 (5A) of the Ordinance by rejecting the claim of exemption and thereby creating tax demand aggregating to Rs. 892.601 million. On appeals filed by the Commission, the Appellate Tribunal Inland Revenue (ATIR) had upheld the annulment of order of ACIT for tax year 2003 and maintained the order for the tax years 2004 to 2007. The Commission has filed the reference applications before the Honourable Islamabad High Court (IHC) which are pending adjudication to date. However the Commission has made payment of total outstanding demand under protest.

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The Officer Inland Revenue (OIR) charged default surcharge aggregating to Rs. 111.900 million for delay in payment of the tax demands for the tax years 2004 to 2007. On appeals filed by the Commission, the Commissioner Inland Revenue CIR(A) has upheld the charge of additional tax and directed the OIR to recompute the amount of default surcharge after taking cognizance of the tax refunds available with the Commission for the tax years 2008 and 2009. During the reassessment proceedings, the OIR followed the same procedure to work out the default surcharge which action was rejected by the CIR(A) with the directions to follow the instructions earlier given by the CIR(A) on appeal filed by the Commission. The Commission has contested the order of CIR(A) to uphold the charge of default surcharge before the ATIR. The ATIR also upheld the order of the CIR(A) for charge of default surcharge, however the ATIR ordered for deletion of the default surcharge for the period for which the stay granted by the Honourable Islamabad High Court through order dated February 19, 2009 was in force. The appeal effect order of the tax authority is still awaited.

The tax authority has amended the assessment of the Commission for the Tax Year 2008, thereby, disallowing the excessive tax depreciation of Rs. 24.47 million allegedly claimed by the Commission. Being aggrieved with the amended assessment order for the Tax Year 2008, the Commission has preferred an appeal before the CIR (A), which is subjudice till to-date.

The tax authority has also imposed penalty of Rs. 50,000 for alleged default in filing of a monthly withholding tax statements. Being aggrieved with the order of the tax authority, the Commission has preferred an appeal before the CIR(A), which is subjudice till to-date.

The Commission has filed the return for the tax years 2008 to 2013, which stood assessed in terms of Section 120 of the Ordinance. The Commissioner Inland Revenue (CIR) selected the Commission for audit relating to the tax year 2010. However, the Commission has challenged its selection for audit by CIR in the Honourable Islamabad High Court. The writ petition of the Commission was rejected by the Honourable Islamabad High Court. Against this rejection, the Commission has filed an Intra Court appeal to the Division Bench of the Honourable Islamabad High Court, which is subjudice till to-date.

The management expects favourable outcome of the appeals and therefore no provision against these cases has been accounted for in these financial statements.

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23 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Commission has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Market risk

The Commission has overall responsibility for the establishment and oversight of risk management framework and developing and monitoring risk management policies.

The Commission's risk management policies are established to identify and analyze the risks faced by the Commission, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Commission's activities. The Commission, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Commission's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Commission. Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

23.1 Credit risk

Credit risk is the risk of financial loss to the Commission if a customer or counterparty to a financial instrument fails to meet its contractual obligations. To manage credit risk the Commission has placed funds in government securities and financial institutions with high credit worthiness and assesses the credit quality of the counter parties as satisfactory.

(i) Exposure to credit risk

The carrying amount of loans and advances, fee receivable, short term loan to employees, deposits, other receivable, short term investments and cash at bank represents the maximum credit exposure.

As at the year end, the Commission's most significant receivables represents investment in Government Treasury Bills and Special Notice Deposit Receipts with banks of aggregate amount of Rs. 1,556 million. The management believes that no impairment allowance is necessary in respect of the Commission's financial assets as the most significant financial assets represent investment and bank balances which are with the banks and institutions of high credit ratings.

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23.2 Liquidity risk

Liquidity risk is the risk that the Commission will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The Commission's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Commission's reputation.

The maturity profile of the Commission's financial liabilities based on the contractual amounts is as follows:

	Carrying amounts	Contractual cash flows	Maturity up to one year
	2014 (Rs.'000)	**2014 (Rs.'000)**	**2014 (Rs.'000)**
Accrued and other liabilities	**442,614**	**442,614**	**442,614**
Payable to Federal Consolidated Fund	**63,424**	**63,424**	**63,424**
	506,038	**506,038**	**506,038**
	2013 (Rs.'000)	2013 (Rs.'000)	2013 (Rs.'000)
Accrued and other liabilities	366,378	366,378	366,378
Payable to Federal Consolidated Fund	2,306,035	2,306,035	2,306,035
	2,672,413	2,672,413	2,672,413

23.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Commission's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The Commission is not exposed to significant market risk.

23.4 Fair value

(i) The carrying amount of all financial assets and liabilities reflected in financial statement approximates their fair value.

(ii) **Fair value hirarchy of assets carried at fair value**	**Level 1**	**Level 2**	**Level 3**
2014			
Short term investments - Available for sale	-	**1,556,469**	-
2013			
Short term investments - Available for sale	-	3,851,972	-

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24 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.

25 RELATED PARTY TRANSACTIONS

The Commission deals with several state-controlled entities, which are also directly or indirectly controlled by the Government of Pakistan through its Government authorities, agencies, affiliates and other organizations. Transactions and balances with these state-controlled entities other than those mentioned else where in the financial statements and those mentioned below are not very significant.

In addition to above, Pakistan Institute of Capital Markets, Pakistan Institute of Corporate Governance, key management personnel and employee benefit plans are the related parties of the Commission.

Transactions with related parties during the year and balances outstanding at the year end are as follows:

Transactions and balances during the year

Transaction and balances with key management personnels

(i) Loans

During 2014, secured loans advanced to Chairman and Commissioners were Rs. 960 thousand (2013: Rs. 9,068 thousand). No interest is payable on these loans and these loans are repayable in 6 months after issue date. At 30 June 2014, outstanding balance against loans advanced to the Chairman and Commissioners was Rs. 1,575 thousand (2013: Rs. 5,550 thousand) included in loan and advances.

(ii) Key management personnel compensation

Key management personnel compensation comprised of the following;

	2014	2013
	(Rupees in thousand)	
Short term employee benefits	**58,964**	58,058
Post employment benefit	**4,616**	3,611

Compensation of the Commission's key management personnel include salaries, non-cash benefits and contribution to post employment defined benefit plan.

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	2014	2013
Other related party transactions	(Rupees in thousand)	
Contributions made to employees funds'	**140,448**	119,442
Contribution to Pakistan Institute of Corporate Governance	**100**	100
Balances outstanding at the year end		
Payable to FCF - *(2013 restated)*	**63,424**	2,306,035
Due to employees benefit plans - *(2013 restated)*	**16,383**	93,466
Investments in the Pakistan Institute of Capital Markets - at cost	**28,000**	28,000

26 AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue by the Commission on 01 OCT 2014

Chairman

COMMISSIONER

How to Contact us

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 complaints 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.

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

Complaints: complaints@secp.gov.pk

Head Office **NIC Building, 63 Jinnah Avenue, Blue Area, Islamabad** **Tel: 051-9207091-4 Fax:051-9204915**	
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Multan 63-A Nawa-i-Waqat Building Second Floor, Abdali Road Tel: 061-9200920 Fax: 061-9200530 email: cromultan@secp.gov.pk	**Lahore** Third & Fourth Floor, Associated House, 7 Egerton Road Tel: 042-99204962-6 Fax: 042-99202044 email: crolahore@secp.gov.pk
Peshawar First Floor, State Life Building The Mall Tel: 091-9213178 Fax: 091-9218636 email: cropeshawar@secp.gov.pk	**Faisalabad** Second Floor, Faisalabad Chamber of Commerce and Industry Building, East Canal Road Tel: 041-9230264 Fax: 041-9230263 email: crofaisalabad@secp.gov.pk
Sukkur House No 28-B, Hamdard Housing Society Airport Road Tel: 071-5630517 Fax: 071-5630517 email: croskr@hotmail.com	**Quetta** Aiwan-i-Mashriq, Plot No 4-A, Ground Floor Opposite FC Headquarters, Hali Road Tel: 081-2844136 Fax: 081-2899134 email: croqta@qta.paknet.com.pk

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*As of October 18, 2014

Abbreviations and Acronyms

ACII: Associate from the Chartered Insurance Institute
ADB: Asian Development Bank
AGM: Annual General Meeting
AMCs/IAs: Asset Management Company/Investment Advisors
AMLO: Anti-Money Laundering Ordinance
APG: Asia/Pacific Group on Money Laundering
APREA: Asian Public Real Estate Association
ASOs: Authorized Surveying Officers
BDS: Board Development Series
BOD: Board of Directors
BPM: Business Process Management
CCG: Code of Corporate Governance
CDC: Central Depository Company of Pakistan Limited
CDD: Customer Due Diligence
CDS: Central Depository System
CEW: Commodity Exchange Wing
CFT: Combating Financial Terrorism
CFS: Continuous Funding System
CIS: Collective Investment Scheme
CIW: Capital Issues Wing
CLA: Corporate Law Authority
CLD: Company Law Division
CMA: Cost and Management Accountant
COD: Certificate of Deposit COI: Certificate of Invest-ment
CNIC: Computerized National Identity Card
COT: Carry-over Trading
CRCS: Corporate Registration and Compliance System
CRO: Company Registration Office
CRS: Companies Regularization Scheme
DOW: Directors Orientation Workshop
DFI: Development Finance Institution
ECAP: Exchange Companies Association of Pakistan
ECO: Economic Corporation Organization
EGD: Electronic Government Directorate
EMC: Emerging Market Committee
EMC-WG3: Working Group-3 of Emerging Markets Committee
EMD: Enforcement and Monitoring Department
FATF: Financial Action Task Force
EOGM: Extraordinary General Meetings
FMC: Fund Management Company
FIU: Fraud Investigation Unit
FMU: Financial Monitoring Unit
FMGP: Financial (non-bank) Markets and Governance programme
GDRs: Global Depository Receipts
FRU: Foreign Relations Unit
HRIS: Human Resources Information System
HBFC: House Building Finance Corporation
HOD: Head of Department
IAIS: International Association of Insurance Supervi-sors
IACCD: International Affairs, Communication and Coordination Department
IAP: Insurance Association of Pakistan
IAIR: The International Association of Insolvency Regulators
IASB: International Accounting Standards Board
IAS: International Accounting Standard
ICAP: Institute of Chartered Accountants of Pakistan
IBA: Institute of Business Administration
ICMAP: Institute of Cost and Management Accountants of Pakistan
ICM: Institute of Capital Market's
ICW: Investor's Complaints Wing
ICT: Islamabad Capital Territory
IDF: Institutional Development Fund
IFC: International Finance Corporation
IIRS: Insurance Industry Regulatory System
IFIs: Islamic Financial Institutions
IFSCs: Islamic Financial Services (Non-Banking) Companies
IFRS: International Financial Reporting Standards
IFRIC: International Financial Reporting Interpretations Committee
IFSB: Islamic Financial Services Board
IFRS-4: International Financial Reporting Standard-4
IOPS: International Organization of Pension Supervisors
IPO: Initial Public Offering
IOSCO: International Organization of Securities Commissions
IS&T: Information Systems and Technology
IRC: Information Resource Centre
ISMS: Information Security Management System
ISE: Islamabad Stock Exchange
ISO: International Organization of Standardization
IVSC: International Valuation Standards Council
KSE: Karachi Stock Exchange
KYC: Know Your Customer
LAP: Leasing Association of Pakistan
LSE: Lahore Stock Exchange
LoU: Letter of Understanding
MIS: Management Information System
MAP: Modaraba Association of Pakistan

MLM: Multi Level Marketing

M&I: Monitoring and Inspection

MMoU: Multilateral Memorandum of Understanding

MMC: Modaraba Management Company

MoU: Memorandum of Understanding

N&ICAU: National and International Cooperation Affairs Unit

MUFAP: Mutual Fund Association of Pakistan

NBF: Non-Bank Financial

NAV: Net Asset Value

NBFCD: Non-banking Finance Companies Department

NBFC: Non-banking Finance Company

NBFI: Non-bank Financial Institution

NBFC Rules: Non-banking Finance Companies (Establishment and Regulation) Rules, 2003

NCCPL: National Clearing Company of Pakistan Limited

NICOP: National Identity Card for Overseas Pakistanis

NEC: National Executive Committee

NOC: No Objection Certificate

NIT: National Investment Trust

NTCs: New Terms & Conditions (of employment)

OSS: Occupational Savings Schemes

OPAC: Online Public Access Catalogue

PACRA: Pakistan Credit Rating Agency Limited

OTC: Over-the-counter

PE & VCF: Private Equity and Venture Capital Fund

PBA: Pakistan Banks Associations

PICG: Pakistan Institute of Corporate Governance

PRCL: Pakistan Reinsurance Company Limited

PME: Pakistan Mercantile Exchange

PSOA: Pakistan Society of Actuaries

PSEB: Pakistan Software Export Board

QCR: Quality Control Review

PSPD: Professional Services and Policy Division

RBS: Risk Based Supervision

QIBs: Qualified Institutional Buyers

RMC: REIT Management Company

RTS: Resume Tracking System

REIT: Real Estate Investment Trust

SAOF: Sub-Account Opening Form

SAFA: South Asian Federation of Accountants

SCRS: Specialized Companies Return Submission System

SCRA: Specialized Companies Return Analysis

SMC: Single Member Company

SLIC: State Life Insurance Corporation

SME: Small and Medium Enterprise

SOE: State-owned Enterprise

SMEDA: Small and Medium Enterprises Development Authority

SRO: Self-Regulatory Organization

SPVs: Special Purpose Vehicle

TABS: TA for Banking Sector Reforms

TA: Technical Assistance

UIN: Unique Identification Number

TFC: Term Finance Certificate

VPS: Voluntary Pension System

Declaration of investment as of June 30, 2014

Submitted to the secretary to the Commission by Mr. Imtiaz Haider, Commissioner, SECP (2011-2014) in pursuance of sub-section 6 of section 16 of the 1997 Securities and Exchange Commission of Pakistan Act.

Sr. No.	Name of Company	Nature of interest	Number of shares/units
1	Byco Petroleum Pakistan Ltd.	Shares	1000
2	National Bank of Pakistan	Shares	2371
3	Nestol Technologies Ltd.	Shares	2640
4	NIB Bank Limited	Shares	7000
5	AKD REIT Management Company Ltd.	Qualifying shares	500
6	NIT (in the name of dependant family members	Units	225.9539
7	NIT (in the name of dependant family members	Units	225.5577


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COMMISSION OF PAKISTAN

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