SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

ANNUAL REPORT 2017

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Key highlights

- The financial results for the year 2016-17 show a surplus (after tax) of Rs416 million as against last year's Rs254 million, registering an increase of Rs161 (63%).
- Promulgated on May 30, 2017, the Companies Act, 2017, replaced the Companies Ordinance, 1984. It focuses on strengthening the regulatory framework, abolishing unnecessary requirements, maximum emphasis on the use of technology, a softer regime for companies without public interest, and the protection of shareholders' interests.
- Enacted on May 25, 2017, the Limited Liability Partnership Act, 2017, has provided an updated and internationally acceptable business vehicle for entrepreneurs with limited capital. It provides an alternative form of business structure with the flexibility of general partnership and advantage of availing the benefits of a limited liability company.
- To ensure transparent reporting, an independent Audit Oversight Board, free from influence and control of the industry, was established in January 2017 to oversee auditors of public interest companies. The functions of the Audit Oversight Board include registration and de-registration of audit firms, oversight of the Quality Assurance Board of ICAP, etc.
- Pakistan's capital market witnessed improved investor confidence, and consequently regained the prestigious status of MSCI's Emerging Markets Index in May 2017 – after nine years – opening its doors to new global investors and institutions.
- The deal for strategic sale of 40% of PSX shares to an anchor investor consortium comprising leading Chinese exchanges and Pakistani financial institutions was completed.
- After divestment of strategic stake of the country's unified securities exchange, ie, the Pakistan Stock Exchange to strategic investors, the public offer of 20% of its shares was successfully completed as per legal requirements.
- A comprehensive regulatory framework for initial public offering (IPO) was introduced to promote ease of doing business while streamlining the entire public offering process for debt and equity securities.
- The electronic trading of agricultural commodities promoted significantly through the introduction of the Collateral Management Companies (Establishment and Operations) Regulations, 2017.
- During FY 2016-17, 8,286 companies were registered raising the total corporate portfolio to 80,700, and marking a growth of 34% as compared to the last financial year.
- A number of facilitative measures such as the same day company registration through swift registration scheme, elimination of third party digital signature and the launch of new user registration system under eServices with substantial reduction in cost and turnaround time were introduced to ensure ease of doing business.
- Twenty microfinance institutions were successfully licensed with the total assets of Rs61.5 billion. Another 16 are in the process of completing necessary documentation for registration and licensing.
- Pakistan's insurance industry exhibited a growth of 14% in gross direct written premium (GWP) whereas an 18% growth in total assets was recorded.

Vision, mission and strategy

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.

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Chairman's message

The financial year 2016-17 was quite remarkable for Pakistan's economy in the recent past. The progress achieved this year is outcome of a number of macroeconomic and structural reform measures that have been taken by the current government in the past few years, which have resulted in a lower inflation rate, strengthened foreign reserves and robust growth.

During the last year, the SECP has strengthened its ability to protect investors, and promote fair, orderly and efficient markets. Alongside legal reforms, the SECP continued a forward thrust to promote strengthening the linkage between real economy and capital markets, implementing a proactive and transparent enforcement regime, introducing key structural reforms for the market, energizing investor outreach initiatives, promoting ease of doing business and encouraging growth of corporatization. During the period under review, the SECP has achieved a number of significant milestones.

Legal reforms: The SECP has been constantly examining global trends and studying the best international practices. The resultant knowledge base serves as the foundation for revising and modernizing our regulatory framework. One of the testaments is the Companies Act, 2017, which was enacted on May 30, 2017. With its promulgation, Pakistan has achieved a historic milestone in providing a modern regulatory environment to the corporate sector. The new company law provides maximum facilitation to the corporate sector, strengthens the regulatory framework, ensures greater emphasis on the use of technology, abolishes unnecessary and superfluous requirements, protects the interest of shareholders and provides a milder regulatory climate for companies having no public interest.

Another feather in the regulatory cap was the enactment of the Limited Liability Partnership Act, 2017, which is considered an updated and internationally acceptable business vehicle for entrepreneurs with limited capital. The Act provides an alternative form of business structure with the flexibility of general partnership and advantage of availing the benefits of a limited liability company.

Legal reforms initiative of the SECP include draft Insurance Bill, 2017 was finalized in consultation with stakeholders with a focus on providing impetus to the growth of insurance industry, which is the backbone for economic growth. Similarly, new Modaraba Bill, 2017 is proposed to replace Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, and stakeholders' consultation is being actively pursued. In addition, much needed amendments have also been made to the Companies (Appointment of Legal Advisers) Act, 1974, to facilitate the corporate sector through promulgation of Companies (Appointment of Legal Advisers) (Amendment) Act, 2017.

In order to promote quality listings, the SECP notified a comprehensive regulatory framework for initial public offering (IPO), the primary objective of this framework is to promote ease of doing business while streamlining the entire public offering process for debt and equity securities.

Furthermore, to improve corporate governance standards for listed companies and align them with international standards, a comprehensive review of the Code of Corporate Governance was undertaken resulting in the subsequent notification of Amendments to the Public Sector Companies (Corporate Governance) Rules, 2013 on April 21, 2017. These rules are aimed at providing enhanced measures for improving transparency, governance, efficiency, and conformance by companies owned and controlled by the government. With the enactment of the Collateral Management Companies (Establishment and Operations) Regulations, 2017, considerable progress was made to promote the electronic trading of agricultural commodities.

Corporate sector: During FY 2016-17, 8,286 companies were registered raising the total corporate portfolio to 80,700 and marking a growth of 34% as compared to the last financial year. In order to bring regulation of corporate sector on a par with international jurisdictions and implement the best international practices, a number of facilitative measures were introduced to ensure ease of doing business. These measures include substitution of third party digital signature with new User Registration System under eServices with substantial reduction in cost and turnaround time, same-day company registration through swift registration scheme, development of modified Virtual One-Stop Shop portal and integration with FBR for NTN registration, signing of an MOU with the Punjab Information Technology Board for integrating eServices with Business Registration Portal of Punjab, opening of a new CRO in Gilgit-Baltistan, the establishment of Incorporation and Facilitation Desks at three major CROs, etc. Necessary assistance was provided to the federal government, which has initiated the joining process of open government partnership to improve transparency and governance in the country.

As a result of effective enforcement during FY2016-17, the corporate sector witnessed substantial improvement in compliance with the statutory requirements. The quality of corporate disclosures, particularly financial reporting, marked a significant improvement. To ensure transparent reporting, an independent Audit Oversight Board, free from influence and control of the industry, was established to oversee auditors of public interest companies. The functions of the Audit Oversight Board, among many others, include registration and de-registration of audit firms, oversight of the Quality Assurance Board of ICAP, etc.

Capital markets: The development agenda for the capital markets was primarily based on promoting sustainable and orderly growth of the capital market while maintaining our commitment to implementing a robust regulatory regime. Accordingly, the SECP commenced implementation of various key structural and developmental initiatives under the umbrella of its 3-year Capital Market Development Plan (2016-18) from July 1, 2016. Under the plan, the SECP took a number of initiatives and groundbreaking steps, which will go a long way in creating an ideal environment for attracting foreign investment, energizing the capital markets, creating a level playing field for investors, improving access to finance and promoting ease of doing business. These steps are part of a reform roadmap designed to strengthen the SECP's regulation and enforcement regime, facilitate quality listings, encourage investment, enhance monitoring and surveillance for timely detection of misconduct and unfair practices and inculcating zero tolerance for market abuses.

Owing to these reforms and initiatives and the positive macroeconomic conditions, the capital market witnessed improved investor confidence and resultantly, Pakistan was able to regain the prestigious status of MSCI's Emerging Markets Index in 2017— after a gap of nine years— opening its doors to new global investors and institutions.

Furthermore, post-divestment of strategic stake of the country's unified securities exchange – the Pakistan Stock Exchange - to strategic investors, public offer of 20% of its shares was successfully completed as per legal requirements. With commencement of formal trading of the PSX shares on its trading platform, PSX has earned the distinction of becoming the first South Asian self-listed stock exchange. Self-listing of the Exchange is envisaged to curtail conflict of interest, ensure integrity of trading and compliance of the exchange with legal requirements.

In order to address systemic risk, the SECP set up the Systemic Risk Department on November 1, 2016. In light of its recommendations, the SECP introduced significant measures to strengthen risk management at the clearinghouse for the securities exchange and for asset management companies. In collaboration with the State Bank of Pakistan and Ministry of Finance, the SECP also started its efforts to establish the Financial Stability Council to holistically address systemic risk and market stability across the financial sector.

Commodity market: The commodity market plays a pivotal role in reducing price volatility, aiding price discovery and bringing greater balance in the supply and demand of commodities in the economy.

Considerable progress has been made to promote the electronic trading of agricultural commodities through PMEX, including notification of Collateral Management Companies (Establishment and Operations) Regulations and more importantly, warehouse receipt financing system was introduced. The SECP also commenced work towards formulating warehousing regulations that will stipulate licensing conditions for warehouse operators and the process of warehouse accreditation. Approval was accorded for running a pilot project for provision of financing against wheat to farmers in the district of Sheikhupura. More such pilot projects have been planned for other major commodities. The SECP made significant progress with regard to Commodity Murabaha, since several consultative sessions with Shariah scholars led to removal of major bottlenecks that were thwarting the listing of this product on PMEX. It is envisaged that this product will soon be utilized by major banks and corporate institutions. The SECP also approved futures contracts in platinum and natural gas, which are cash-settled. Furthermore, SECP collaborated with law enforcement agencies to initiate crackdown against illegal commodity/forex brokerage houses in the country.

International cooperation and collaboration: The SECP is a member of the International Organization of Securities Commission (IOSCO), which is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. By virtue of substantial increase from 37% to 62% in the compliance level of the SECP in June 2015, the performance of the SECP had been acknowledged by the IOSCO. A better performance is expected in 2017 follow-up review by the IOSCO.

Investor education: Protecting the interests of investors and policyholders by raising awareness of the relevant stakeholders to make informed investment decisions is an important part of the SECP's mandate.

Accordingly, during the year, the SECP under its investor education program targeted various segments of population, including professionals, corporate entities, students and start-up businesses to spread awareness through its structured seminars, web portal Jamapunji and the print media.

The investor education program is gradually expanding its outreach to larger segments of population through its presence on social media platforms such as Facebook and Twitter, and building partnerships with academia and professional bodies.

New Service Desk Management System: The SECP launched the new Service Desk Management System on June 1, 2017. The new system offers ease of use to the public for filing queries and complaints and ensures prompt action and regular updates on handling of complaints. The SECP has also launched its new toll free facility 0800-880-08 for the public, where anyone can call free of cost for grievance resolution and guidance.

NBF sector: During the year, the NBF sector grew by 29% from Rs925 billion to Rs1,190 billion. Mutual funds, pension funds and separately managed accounts witnessed substantial increase in their assets. Of these, the assets of private pension funds grew by 37% during the year. This notable growth is attributed, among other things, to conducive regulatory and fiscal framework. During 2016-17, 2 new leasing companies were incorporated. Moreover, the declining trend in asset size of investment banks and leasing companies witnessed a reversal. Following the risk-based approach, seven AMCs and one leasing company were inspected during the year, covering 48% of the NBFCs and modaraba sectors. Based on the violations and observations reported in the offsite and onsite inspection reports, 12 show cause notices and orders, 37 warnings, and 299 compliance related letters were issued to the entities to enhance level of discipline and compliance in the NBF sector.

In order to further develop the mutual fund sector, the SECP introduced Sahulat Sarmayakari Accounts for opening of mutual funds accounts by individual low-risk customers and branchless banking account holders with asset management companies (AMCs). This initiative is aimed at achieving the objectives of financial inclusion as set out in the National Financial Inclusion Strategy (NFIS) recently adopted by the Government of Pakistan. Moreover, recent expansion in online and branchless banking also warrants innovative products in mutual fund sector to facilitate investment in mutual fund through mobile banking and web portal. During the year, to increase the retail penetration of mutual funds and distribution network of the AMCs, the SECP allowed charging of selling and marketing expenses for opening of AMCs new branches in cities other than Karachi, Lahore and Islamabad/Rawalpindi.

To enhance liquidity and protect investor interest, mandatory requirements for cash and cash equivalents for mutual funds to meet the redemption pressure and committed credit lines for asset management companies for liquidity risk management were introduced. Furthermore, to facilitate mutual fund unitholders and to enhance investors' confidence through better disclosures and more transparency, the SECP directed all AMCs to provide a right to individual unitholders to obtain a refund on their first time investment (cooling-off right) in an open-end collective investment scheme. An investor can Benefit a refund on his/her investment amount without deducting any sales load within three business days, commencing from the date of the issuance of investment report to the unitholder.

Modarabas were also advised to expand their outreach, especially to SMEs and the low-income groups. In this regard, four modarabas opened the first Islamic financing facility centre in Rawalpindi to provide affordable financing on Shariah principles to the common people to buy motorcycles and other products.

In a bid to facilitate transition of microfinance institutions into non-bank microfinance companies (NBMFCs), the SECP remained engaged in constant consultation with the industry association, Pakistan Microfinance Network (PMN), and the premier funding agency of the sector, Pakistan Microfinance Investment Company (PMIC). The SECP instituted significant reforms in the regulatory framework governing lending NBFCs especially for NBMFCs. Many of the regulatory challenges and difficulties that impeded the progress and growth of the NBMFCs were either removed or modified to help these institutions contribute to the national economic agenda effectively. The main objective of this reform process was to improve access to finance for the micro and small businesses as well as individual proprietors undertaking micro businesses.

As of June 30, 2017, 20 microfinance institutions were successfully licensed with a total assets of Rs61.5 billion. Another 16 are in the process of completing necessary documentation for registration and licensing.

Insurance: The insurance industry in Pakistan continued to exhibit modest growth of 14% in gross direct written premium (GWP) whereas an 18% growth in total assets was recorded during the year ending December 31, 2016. The sector possesses huge potential for expansion and growth due to the large untapped market on the life insurance side and exploiting the economic opportunities brought by CPEC on the non-life insurance sector. The SECP, after thorough review of the proposed life insurance products by the life insurance companies, 113 approvals for launch of new life insurance products were granted. On the policyholder grievance resolution side, the relief of Rs39.3 million was provided to the aggrieved policyholders who had filed complaints with the SECP during the year.

Financial position: The financial results of the SECP for the year 2016-17 show surplus of income over expenditure after tax Rs416 million as against last year's Rs254 million, registering an increase of Rs161 (63%) over the last year. The total revenues (net of levies) for the financial year 2016-17 are Rs3,048 million which are higher by Rs374 million (14%) as compared to last year's revenue of Rs2,675 million. The total operating expenses for the year under review were Rs2,482 million, showing an increase of Rs224 million (10%) over the previous year mainly due to hiring against vacant positions and other operating expenses. Capital expenditures for the year remained within the approved budget for the year. An amount of Rs19 million received as penalties by the SECP during the current year has been deposited in the Federal Consolidated Fund.

Future outlook: While the above achievements are heartening and show significant progress, there is a long road ahead for the SECP. With a contemporary legal framework and a revised structure in place, the SECP has the right platform and momentum to steer Pakistan towards a brighter future. The SECP is all set to achieve the following goals:

- In the last three years, there have been many legal reforms and the SECP needs to educate its regulated entities by creating awareness about these laws through different forums such as conferences, seminars, media, etc.
- The incorporation rate needs to be increased by bringing the unregistered entities in the corporate net thus propelling the economy towards corporatization. For this purpose, awareness sessions for company representatives and corporate consultants need to be carried out to highlight the amendments to the company law, which has eased the burden on small businesses by cutting costs and reducing the time involved in processing. Further, efforts are also required for introducing tax incentives by the government for encouraging corporatization.
- A strong link needs to be established between the real economy and the capital market to develop the bond market. Moreover, we need to introduce products like equity derivatives, interest rate derivatives, agricultural commodity derivatives, electronic warehouse receipt finance, etc. Such products would develop the real economy and increase access to finance and improve price risk management.
- The SECP needs to support the growth of agricultural produce companies by engaging with all relevant stakeholders to create a comprehensive and modern policy framework. This will allow it to play the much needed pivotal role in the development of the entire agriculture value chain.

It is expected that the above measures will aid in growth and employment, documentation of the economy, building a connection between real economy and capital markets and increasing tax revenues.

In order to achieve the above, the SECP needs to focus on the following areas:

1. Creation of new departments within the SECP to facilitate horizontal growth, which would help achieve a greater depth of effectiveness in fulfilling the above agenda
2. Meeting the significant needs in terms of technology and manpower capacity building, which is a natural consequence of horizontal growth
3. A closer interaction with regulated sectors in a proactive and business friendly manner

Gratitude: In conclusion, I would like to express my profound gratitude to the federal government and the Honorable Finance Minister. I would also like to thank the Chairman and members of the Policy Board for their invaluable guidance and support. My heartfelt thanks are due to the Parliamentarians for their unprecedented help in the passage of highly important and far-reaching pieces of legislation. Finally, I am indebted to my brother Commissioners and to the SECP's employees for their hard work and dedication.

Capital markets

Stock market overview

The year witnessed a significant and steady rise in the stock market indices with historic and unprecedented levels being reached. The KSE-100 index began the year at 37,966.76 points and reached 46,565.29 on June 30, 2017, i.e., an increase of almost 23% since the beginning of the year. KSE 100 touched its lowest level, i.e. 37,966.76 on July 4, 2016 and reached its highest level of 52,876.46 on May 24, 2017. Average daily turnover of 350.024 million shares was recorded for the period from July 1, 2016 to June 30, 2017. A total of 560 companies with a paid-up capital of Rs1,317.220 billion are listed on the Pakistan Stock Exchange. Market capitalization stood at Rs9,522.358 billion on June 30, 2017, which reflects a significant increase of 24.78% over the last year. Foreign investment in the stock market exhibited a net outflow of $652.09 million during the year, which reflects a negative 154% over the last year.

Some of the more important developments that contributed to this exceptional performance of the Pakistani stock market are: induction of Pakistan Stock Exchange into Emerging Market Index (MSCI); book building and IPO of Pakistan Stock Exchange, investment projects backed by China; stable exchange rate against the dollar; improving security and law enforcement situation; steady foreign interest in stocks; increased confidence shown by the multilateral donor agencies such as the IMF, World Bank and Asian Development Bank's allocation for energy sector development, etc.

Capital issues

Issue of share capital: During the year, shares of four companies were offered to the public as compared to five companies last year. New capital of Rs11.651 billion was listed in FY 2017 as compared to Rs8.13 billion in FY 2016. The details of these issues may be seen in below tables:
Issue of capital

Equity: retail portion

(In million rupees)

Sr. No.	Company name	Sector	Subscription date	Total paid-up capital	Already paid-up capital	Offered capital	Premium per share (rupees)	Offered capital (including premium, if any)	Subscription received (including premium)	Times subscribed
1	Loads Limited	Automobile Parts & Accessories	Sept 28-29, 2016	1,250	750	143.75	24	488.75	500.157	1.02
2	Roshan Packages Limited	Paper and Board	Jan 30-3, 2017	1,075	750	81.25	76.25	700.781	734.764	1.05
3	Ittefaq Iron Industries Ltd.	Steel	May 23-24, 2017	1,312	894.712	417.5	20.02	1,253.335	198.792	0.63
4	PSX									
(offer for sale)	Investment bank/ brokerage hoses	June 13, 2017	8015	8,015	1,602.95	18	4,488.26	39.468	0.0088	
	Total			11,652	10,409.712	2,245.45	-	6,931.126	1,473.181	-

** (Listing in process)*

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 (rupees)	Number of shares offered through book building (in million)	Number of shares bid for through book build-ing (in million)	Strike price per share (rupees)	Premi-um per share (rupees)	Offered capital (at strike price) (in million rupees)	Times sub-scribed
1	Loads Limited	Sept 6-7, 2016	1250	750	15	35.625	127.837	34	24	1,211.25	3.59
2	Roshan Packages Limited	Jan. 17-18, 2017	1075	750	35	24.375	80.435	86.25	76.25	2,102.34	3.3
3	Ittefaq Iron Industries Limited (Listing in process)	May 10-11, 2017	1312	894.712	12	31.3125	78.406	30.02	20.02	940	2.5
4	Pakistan Stock Exchange Limited (Offer for sale)	June 6-9 and 12, 2017	8015	8015	28	160.295	165.714	28	18	4,488	1.03
	Total		11,652	10,409.712	-	251.6075	452.392	-	-	8,741.59	

**Listing of Ittefaq Iron Industries Limited is in process.*

Issue of redeemable capital

During the year, one issue of listed Sukuk was offered to the public, i.e. issuance of sukuk of Rs10.5 billion by Fatima Fertilizer Company Limited. Sukuk issued by Fatima Fertilizer Company Limited was offered to both retail investors and pre-IPO investors. Out of total issue of Rs10.5 billion, Rs2.625 billion were offered to retail investors, whereas, Rs7.875 billion were offered to pre-IPO investors. The detail of this issue may be seen in this table.

S. No	Name of Company	Subscription period	Listed at	Amount (In billion rupees)
1	Fatima Fertilizer Company Limited	December 29, 2016	PSX	10.50

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 intend to issue right shares more than once in a year, issue right shares at a discount or want to raise capital without the offer of right shares, they are required to obtain SECP's permission. A company limited by shares can issue more than one kind of shares having different rights and privileges under the Ordinance. The tables giving below provides comparison of capital issue cases dealt during the preceding three years along with their category wise break-up.

Capital issue cases

	2015	2016	2017
Applications approved	20	9	9
Applications rejected	2	5	7*
Applications in process	5	10	3
Total	27	24	19

** It includes an application related to employees' stock option.*

Here is a category-wise break-up of capital issue cases

Particulars	Otherwise than right			Issue of preference shares			Issue of shares at discount			Relaxation of rules			Employee's stock option		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
Applications approved	8	5	2	4	1	-	4	0	2	4	3	5	-	-	0
Applications rejected	1	3	3	1	-	-	-	1	2	-	1	1	-	-	1
Applications in process	3	4	3	-	-	-	-	1	-	2	5	-	-	-	0
Total	12	12	8	5	1	-	4	2	4	6	9	6	-	-	1

Takeovers

Regulatory framework for takeovers ensures substantial acquisitions of voting shares in listed companies in a fair, just and transparent manner. Part IX of the Securities Act, read with the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2008, provides comprehensive and detailed procedure for acquisition of voting shares in listed companies. The framework provides equal and fair opportunity to the shareholders to tender the shares held by them in the target listed companies for sale to the acquirers hence safeguarding rights of the minority shareholders.

During the period under review, public announcement for purchase of shares by the acquirers were made in 16 cases, of which takeover process was completed in five cases, pubic announcement of intention was withdrawn in two cases and the rest of the cases are in process.

Employees stock option schemes

The Employees Stock Option Schemes (ESOS) are issued by public limited companies to reward their employees, and also as a retention tool to earn long-term loyalties of their key employees. During the year, ESOSs of three companies namely (i) Interloop Limited, (ii) Avanceon Limited; and (iii) Efu Life Assurance Limited were approved.

Promulgation of rules and regulations

Public Offering Regulations, 2017

Pursuant to the promulgation of the Securities Act, 2015, Section 53 of the Companies Ordinance, 1984, which refers to the second schedule (Contents of the Prospectus) was repealed. It, therefore, becomes imperative that regulations under the Act are promulgated for specifying the contents of the prospectus, abridged prospectus, supplement to the prospectus under shelf registration, advertisement for public offer of securities and also to streamline the entire public offering process. As a result of this, the following existing rules, regulations and guidelines have been made part of the Public Offering Regulations, 2017 and stand repealed:

- Underwriter Rules, 2015
- Book Building Regulations, 2015
- Guidelines for Preparation of Prospectus, 2002
- Guidelines for Issuance of Term Finance Certificates to the General Public, 2002

Public Offering (Regulated Securities Activities Licensing) Regulations, 2017

These regulations meant for regulating affairs of the underwriters, the consultant to the issue and the banker to an issue.

Private Placement of Securities Rules, 2017

Regulate issuance of securities issued through private placement. Keeping in view that investors in securities include companies managing public funds like mutual funds, pension funds, employees' funds, listed companies, banks, insurance companies, it is imperative that private placement of securities be fairly regulated.

Share Registrars and Balloters Regulations, 2017

These regulations are meant to regulate affairs of the share registrars and balloters. The regulations require the persons providing services as securities registrars and balloters to obtain license from the SECP.

Debt Securities and Trustees Regulations, 2017

The regulations require the persons providing services as DSTs to obtain license from the SECP.

The Listed Companies (Buy-Back of Shares) Regulations, 2016

For regulating of buy back of own shares by listed companies. The regulations allow a listed company to either cancel the buyback shares or hold these as treasury shares. The regulations provide for a transparent mechanism for buyback.

Credit Rating Companies Regulations, 2016

Credit rating companies play key role in the development of corporate bond market and the investors give due weightage to their rating the opinions while making investment decisions. The regulations require the persons who are interested to perform credit rating to obtain license from the SECP.

Amendments to rules/regulations:

During the FY 2016-17, the following rules and regulations have been reviewed and amended to make them more practicable and adoptable:

- The Commercial Paper Regulations, 2013
- The Companies (Issue of Capital) Rules, 1996 (still in process)
- The Issue of Sukuk Regulations, 2015

Introduction and implementation of e-IPO

In order to facilitate the public during IPOs, the SECP has introduced and implemented the concept of e-IPO, i.e. electronic submission of the securities subscription forms. The e-IPO facility has:

- Enabled the investors to make application for subscription of shares and other securities via internet (e-banking/ATMs)

- Facilitate simultaneously both the companies that intend to raise fund from the capital market through IPOs and the public applying for subscription of shares
- Bring transparency and efficiency to the IPO process

The e–IPO facility was first used successfully in the offer for sale of shares of Aisha Steel Mills Ltd., where United Bank Limited (UBL) for the first time provided e-IPO facility to its account holders. Since then UBL has been continuously providing its e-IPO facility in the IPOs. Summit Bank has also developed its e-IPO facility and has been providing this facility to its account holders since 2016. Bank Alfalah has also developed its own e-IPO system and has been providing this facility since June 2017.

In addition to the above, a Centralized e-IPO System (CES) was developed and implemented through Central Depository Company of Pakistan Limited (CDC) and 1Link Limited. CES will help a lot to make the whole IPO process efficient, increase investor base and shifting towards 100% demat culture.

Corporate debt market reporting system (CDMRS)

To promote ease of doing business, the SECP has developed a system called CDMRS for online reporting of issues of debt securities and their redemption by the debt securities trustees (DSTs) on behalf of their clients/issuers. CDMRS will bring efficiency and reduce reporting cost for the issuers and DSTs.

Promotion of IPO market

In order to promote awareness among the business community about capital raising from the capital market, the SECP conducted IPO seminars in Lahore and Faisalabad for tapping potential private companies to go public and list on the Pakistan Stock Exchange.

Promotion of listing of SMEs

In order to facilitate and encourage listing of small and medium enterprises (SMEs), the SECP has advised the PSX to run an awareness campaign and consult the business association and SMEDA. The PSX has held a number of awareness sessions for SMEs and meetings with SMEDA, business associations and USAID team and has finalized certain recommendations that are being reviewed by the SECP.

Constitution of the IPO committee

In order to encourage new quality listing and to make the listing process efficient, a house committee, called IPO committee, comprising members from all the operational departments was constituted.

Constitution of listing committee at PSX

While reviewing the whole listing process, the PSX was advised to constitute a listing committee so that listing applications are reviewed and examined by this committee independently and critically. The listing committee comprises internal and external members, including sector experts.

Developmental reforms

a) Divestment of 40% shares of PSX to anchor investor

In terms of requirements of demutualization law, the deal for strategic sale of 40% of PSX shares to an anchor investor consortium comprising leading Chinese exchanges and Pakistani financial institutions was completed. The foreign partnership is expected to benefit the market through introduction of diverse product offering, indigenously developed technology and international experience. The divestment deal will also enhance possibilities for enhancing the PSX outreach in Pakistan and open cross border trading opportunities for Pakistan. Local financial institutions will benefit the PSX through their large branch networks, corporate governance and knowledge of local market laws.

b) Offer for sale of 20% shares and self-listing of PSX

Public subscription of 20% of the PSX shares was successfully completed in accordance with applicable laws. With the commencement of formal trading of the PSX shares on its trading platform on June 29, 2017, the PSX became the first South Asian self-listed stock exchange. Self-listing of PSX is expected to curtail conflict of interest, ensure integrity of trading and compliance of the exchange with legal requirements.

c) Governance reforms at PSX, CDC and NCCPL

Post-divestment, governance at the PSX was strengthened through appointment of independent directors, which now constitute one-half of the board. Further, nominees of the anchor investor have been appointed on the board and PSX's board committees involved in regulatory affairs are now required to ensure inclusion of only independent directors for ensuring their independence.

Governance at the Central Depository Company of Pakistan Limited (CDC) and National Clearing Company of Pakistan Limited (NCCPL) was enhanced through approval of one-third independent directors on the boards and augmenting the structure of regulatory committees for these institutions to ensure greater independence. Also, manner and criteria for appointment of NCCPL's risk committee was approved in light of the best international practices.

d) Successful transition to emerging markets

Pursuant to Pakistan's reclassification to Emerging Market by Morgan Stanley Capital Investment, significantly high flow of capital was observed on the eve of the effective date of reclassification, i.e. May 31, 2017. Various operational and regulatory measures were therefore undertaken to ensure seamless transition and for the trade and settlement cycle to continue smoothly. The event was successfully completed with settlement of gross foreign trades amounting to over $900 million on a single day. Various stakeholders applauded the Pakistani market's capacity to handle huge flux of trading in one day and the market's ability to address the issues that were generally observed in other jurisdictions and this transition was internationally acBenefited.

e) Reforms for brokers

The following reforms were introduced for improved regulation of the brokerage industry:

(i) Under the new regime for brokers, minimum thresholds for liquid capital for various categories of securities brokers were notified to ensure securities brokers' capital adequacy in case of default. Liquid capital has provided a more suitable tool for gauging the financial health and capital adequacy of securities brokers in line with the IOSCO requirements and international practices.

(ii) It has been made mandatory for brokers to provide a risk disclosure document containing basic risks involved in trading in securities to its customers and specimen for the said document has been specified by PSX. The broker shall also be required to obtain written acknowledgment from the customer on the said document, prior to commencement of business.

(iii) All single member broker companies were required to convert into private/public companies considering that single member company structure minimizes investor protection in default cases and poses problems of succession of operations and business continuity. The PSX regulations were amended to include similar requirements for trading right entitlement certificate (TREC) holders.

(iv) To ensure standardization, integrity, transparency and reliability of software used for trading/

recordkeeping by brokers, requirement was introduced for brokers to ensure compliance with minimum standards and requirements prescribed by the PSX in relation to eligible software vendors and broker software, i.e. order management system, front and back office systems and ancillary software used to establish connectivity with the PSX trading platform.

f) Reforms in the margin financing system (MFS)

In order to augment the financing products and eliminate use of unauthorized modes of financing, the SECP formed a committee to review the matter of in-house financing; identify issues, inefficiencies or hurdles in the existing leverage products like margin financing and margin trading; and provide recommendations for practical and viable solutions in light of the best international practices. The committee after detailed deliberations and in consultation with stakeholders recommended a number of reforms in MFS to remove practical difficulties and for enhanced transparency and protection of investor interest. The margin financing product was accordingly reformed through necessary changes to regulatory framework and system development at the CDC and NCCPL, which provide flexibility in MFS where financing is arranged by brokers against clients' purchases from banks, and introduce enhanced disclosure and monitoring requirements for ensuring investor protection and mitigating chance of misuse of investors' securities in case of pledging.

g) Revamp of the securities lending and borrowing (SLB) product

In an attempt to make the SLB market active, a proposal was finalized to introduce new concept of separate SLB contracts ranging from single working day to 14 working days, with each contract having a fixed maturity date. Insurance companies with IFS long-term rating of A+ have also been allowed to participate in SLB market after admission as non-broker clearing members. The approval and implementation of the proposal is expected to activate securities lending market in the country.

h) Introduction of risk-based know your customer (KYC) and customer due diligence regime

A new risk-based KYC and CDD regime was introduced whereby documentation and due diligence requirements of capital market customers have been segregated based on their risk profiles. Simplified KYC requirements are now applicable to small low-risk retail investors to promote financial inclusion.

i) Reforms for risk management and transparency

In order to further strengthen the risk management framework, changes have been made to eligibility criteria for admission as clearing member and trading financier; criteria for selection of margin eligible securities; restricting margin eligible securities in deliverable futures market to only deliverable futures market eligible securities; increasing VaR margins by a factor of 1.1 (or 10%) across securities/contracts for both ready and deliverable futures market; increasing haircut for margin eligible securities by a factor of 1.1 (or 10%); and imposition of basic deposits in deliverable futures market and transfer of ready market basic deposits from PSX.

j) Minimum free float requirement

To improve liquidity and ensure efficient price discovery, listed companies have been required to ensure minimum specified free float within a given period of time. For this purpose, free float methodology was revised for accurately determining quantum of shares of listed companies freely available for trading to public. A free float verification system has also been developed through CDC whereby free float reports are being generated directly for PSX and NCCPL.

k) Review of KSE benchmark index

In order to facilitate investors in better evaluating market and index performance and making more informed investment decisions, the PSX has made available KSE-100 full market capitalization and dividend discount index versions, KSE-30 full market capitalization and total return index versions and KSE all shares dividend discount index version available on its website.

l) Professional development of market intermediaries

In line with the IOSCO requirements and in consultation with the Institute of Financial Markets, mandatory certifications and their respective course outlines were approved for securities/futures advisers and research analysts. The certification requirements aim to ensure minimum qualification standards and add professional credibility to an industry responsible for more rational and informed decision making in our market.

m) Expansion of CDC services

To promote financial inclusion and expansion of services, the CDC has made available a mobile platform (M-Access) for accessing and managing CDC account by investors. The application was made available on Android and IOS through which investors can execute portfolio transfers and access account statements. The CDC has also launched promotion of its services through social media.

n) Guide for foreign investors

With the SECP and SBP consultation, the PSX and CDC have developed an investment guideline manual for non-resident Pakistanis/foreign investors in the form of a comprehensive and consolidated document covering all regulatory and operational requirements for making foreign investment into the Pakistani capital market. The guide accessible on the PSX website, provides detailed coverage of requirements and processes relating to account opening and maintenance of investments into Pakistan by non-resident Pakistani nationals, non-resident foreign nationals and foreign institutional investors.

Regulatory reforms

a. New licensing regime for market infrastructure institutions

Under the Securities Act, 2015, new licensing and operations regulations were approved for securities exchange, central depository and clearing house with the objective of enhancing their role as frontline regulators. Fresh licenses have been issued to PSX, NCCPL and CDC under the Act and these regulations, after necessary due diligence. Further, under the Futures Market Act, 2016, the Futures Exchanges (Licensing and Operations) Regulation, 2017 were approved under which licenses will be issued to futures exchanges.

b. New licensing regime for securities and futures advisers

The regulatory framework for securities/futures advisers, including distributors of CIS/VPF units of multiple AMCs, was introduced for promoting transparency, standardization and improved controls for the advisory business enabling individuals and companies with specialized skills, knowledge and infrastructure to deliver targeted investment advice to clients.

c. Rules and regulations for establishment of a customer compensation fund

Rules and regulations for establishment and operation of a centralized customer compensation fund for investors in the capital market were finalized and promulgated after public consultation, and approval by the SECP and the federal government. Under this framework, the fund shall be managed independently under a transparent regime to function effectively for the protection of investors.

d. Rules for establishment of centralized KYC organization (CKO)

In order to centralize the KYC process for customers of intermediaries in the securities market, rules for establishment of CKO were finalized and promulgated after public consultation and approval by the SECP and the federal government.

e. Rules for establishment of a bond pricing agency

The said rules, which enable the establishment of a bond pricing agency (BPA) were drafted and forwarded to the federal government after public consultation and the SECP's approval. BPA will provide fair valuations of debt securities based on comprehensive data collection, validation, pricing, and dissemination to the stakeholders. The rules are awaiting cabinet's approval.

f. Regulatory framework for reverse mergers

After extensive stakeholder consultations, the SECP introduced a framework for reverse mergers to address issues created by backdoor listings through merger of unlisted company with listed shell company. The framework enables the listing and ongoing listing requirements of such mergers to be managed smoothly and effectively under the PSX regulations, with timely disclosures and compliance with all checks and balances imposed through listing regulations on sponsors of listed companies, in the interest of the market and investors.

g. SMS and e-alert system introduced at NCCPL for investors in the capital market

With a view to bringing about more transparency in capital market operations and minimize changes of misuse of investor accounts, amendments were approved in the NCCPL regulations to enable it to provide alerts to all investors at the end of each day. Accordingly, NCCPL sends SMS and emails to investors daily with regard to transactions executed by their brokers through their respective UIN.

Other regulatory reforms

1. CDC Regulations were amended to

- ensure alignment with the Securities Act, 2015
- introduce separate standardized account opening form for bank participants to achieve simplification of the form and assist in extending CDC outreach through banking network
- to revamp provisions pertaining to inspections, audits, disciplinary proceedings and restriction/suspension of CDS participants, to reflect changes over time due to introduction of new products, processes, laws, rules and regulations in the market

2. NCCPL Regulations were amended to

- enable NCCPL to compute, determine, collect and deposit capital gains tax from unit holders of mutual funds and investors of the commodities futures market
- introduce harmonized mechanism for dealing with transactions of foreign investors settled through CCMs. Apart from necessary changes in affirmation mechanism of IDS transactions for CCMs, changes were also made in the process of movement of securities through NCSS screens for foreign investors
- make available institutional delivery system facility for all transactions of international broker dealers made on behalf of their clients
- allow NCCPL to open designated account with CDC to handle securities pertaining to the account to be blocked pursuant to any directive of court or any competent authority.

3. PSX Regulations were amended to

- abolish requirement of spot trading (settlement on T+1) prior to start of book closure date to remove practical difficulties in determining shareholders' entitlement by a company. This will also facilitate foreign investors

- ensure verification of compliance of listed companies with Access to Inside Information Regulations, 2016, through external auditors;
- remove inconsistency in days' calculation in the regulations and its Time Management System (TMS) developed for ensuring compliance with timelines prescribed under the regulations
- reconstitute the arbitration panel of PSX to ensure that TREC holders are only present in advisory capacity on the panel thereby ensuring greater independence and integrity of the arbitration process. Criteria for selection of industry experts and TREC holders was also framed and implemented
- in order to bring liquidity in the Government Debt Securities (GDS) market, requisite amendments to PSX rulebook were approved in consultation with the State Bank of Pakistan for allowing Financial Institutions and Asset Management Companies (AMCs) for and on behalf of Collective Investment Schemes (CISs) to act as market maker in GDS market. Accordingly, eligibility criteria for appointment of financial institutions and AMCs has also been prescribed under the PSX rulebook
- provide for audit, penetration testing and vulnerability assessment of internet based trading systems, controls and procedures
- Remove practical difficulties and streamline disciplinary powers of the exchange in case of disciplinary actions against TRE certificate holders

Future outlook

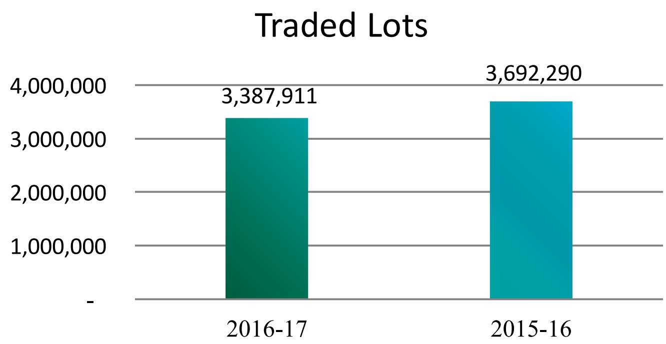
- **New approaches for managing custody risk of clients' assets:** To cater to instances of custody default by brokers and subsequent to the categorization of securities brokers under the new regime, various options are being explored for shifting custody of clients' assets away from brokers to third party custodian(s) to ensure safeguard of clients' assets. In consultation with stakeholders, models such as professional clearing member and custodian clearing member are being explored to facilitate clearing and settlement of trades by trading-only brokers, to help achieve segregation of core functions of trading, clearing and custody in the capital market
- **Establishment of centralized KYC organization:** A centralized KYC organization will be established under the Centralized KYC Organization Rules, 2017 to ensure that KYC data used by intermediaries in the securities market is verified, well maintained and centralized and to eliminate duplication in the KYC process
- **Establishment of bond pricing agency:** For development of debt market, efforts are being made for establishment of an independent bond pricing agency to provide fair valuations of debt securities based on comprehensive data collection, validation, pricing, and dissemination to the stakeholders
- **Development of derivatives market:** Efforts shall be made to launch and bolster activity in the derivatives market, especially index options, single stock options and cash settled futures, to provide investors with hedging/investment alternatives. For the purpose, the SECP constituted a committee in light of whose report, a roadmap was devised and shared with PSX, NCCPL and SBP for initiating requisite regulatory changes
- **Shariah-compliant leverage products:** To provide investors with Shariah-compliant investment alternatives, conceptual model for introduction of Shariah-compliant financing product at the NCCPL is being finalized. Efforts are also underway for introduction of a Shariah-based trading platform at PSX in consultation with relevant stakeholders
- **Market halts and widening of scrip level circuit breakers:** The concept of index based market halts will be introduced in a phased manner and existing circuit breakers will be rationalized to ensure more efficient price discovery and transparency at the stock market

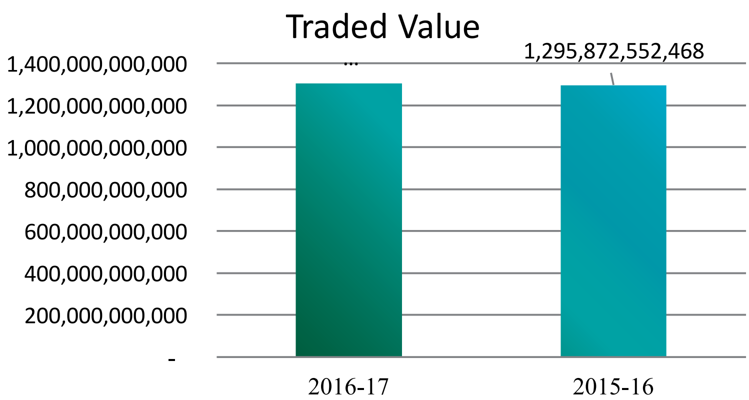
Commodity market

Market overview

During the year, 3.38 million commodity futures contracts with a value of Rs1.3 trillion were traded on Pakistan Mercantile Exchange (PMEX) as compared to 3.69 million contracts with a value of Rs1.29 trillion traded in FY2015-16, marking a decline of 8%. This decline can primarily be attributed to the less number of liquid contracts available for trade on PMEX as well as imposition of capital gains tax on commodity trades. On the other hand, marginal increase in the value of commodities traded was owing to surge in price of gold during the year. Actively traded commodities in terms of value were gold contributing 41% to the overall traded value at the exchange followed by currencies (36%) and crude oil (18%).

On the agriculture side, trading volume in red chili contracts surged substantially with 2,200 contracts of red chilli valued at over Rs35 million traded through the PMEX as opposed to 605 contracts traded in the FY2015-16. This increase in trading of red chilli was because of awareness campaigns run by the SECP in Kunri, the hub of red chilli production in Pakistan.





Regulatory measures

Promulgation of Futures Exchanges (Licensing and Operations) Regulations, 2017

Pursuant to promulgation of the Futures Market Act, 2016, the SECP framed the Futures Exchanges (Licensing & Operations) Regulations, 2017. Salient features of the regulations include the following:

i. Application of fit and proper criteria on the majority shareholders, directors and senior management officers;
ii. Application of code of conduct for board of directors and senior management officers;
iii. Financial resource requirements of minimum paid-up capital (net of losses) of Rs500 million, with the condition that an existing futures exchange shall have three years to meet this threshold;

iv. Composition of board of directors and related matters;
v. Appointment of chief executive officer and chief regulatory officer with approval of the Commission; and
vi. Constitution of risk committee and appointment of chief risk officer.

Promulgation of Collateral Management Companies (Establishment and Operations) Regulations, 2017

In an endeavor to promote electronic trading and warehouse receipt financing of agricultural commodities, the SECP formed a joint committee comprising all provincial secretaries of the Departments of Agriculture, State Bank of Pakistan, Zarai Taraqiati Bank, Pakistan Mercantile Exchange, Central Depository Company, Pakistan Agriculture Coalition, and USAID. Based on several consultative sessions, the SECP formulated Collateral Management Companies (Establishment & Operations) Regulations, 2017 under the Companies Ordinance, 1984. The salient features of the regulations include the following:

i. Licensing conditions and financial resource requirements for collateral management company;
ii.. Duties of a collateral management company, including accreditation of warehouse, issuance of electronic warehouse receipts, inspection of warehouse, etc.;
iii. Duties of a warehouse operator, including taking reasonable care of produce, insuring produce, maintaining books and accounts, and facilitating delivery of produce; and
iv. Power of the Commission to conduct inspection of collateral management company, its accredited warehouses and any matter connected with the warehousing business, as well as to issue directions to a collateral management company or its accredited warehouse in public interest.

Directive on discretionary trading by PMEX brokers

In an endeavor to protect investors, the SECP issued a directive to brokers to comply with certain requirements in respect of discretionary trading authority assigned to them by the investors. These requirements included instituting loss thresholds for clients so that their funds could be protected from manipulative practices of brokers, maximum of 5% of investment amount per month to be charged as commissions in case of loss with an opportunity to share up to 25% performance fee in case of profits, provision of monthly report to PMEX with details on trader ID, client-wise profits/losses during the month, and mandatory intimation through email to clients for all discretionary trades executed in their account by the brokers.

Product development

A number of commodities were approved by the SECP during the year, including platinum, natural gas, paddy rice and wheat. Platinum and natural gas contracts were listed in May 2017 and collectively over 3,000 contracts were traded in these two commodities in two months.

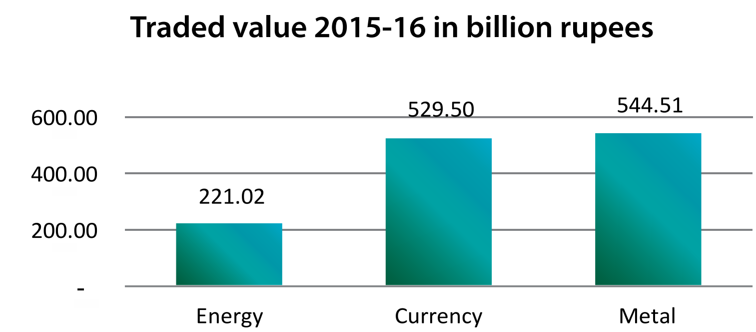
To promote listing and trading of agricultural commodities on PMEX, the SECP paid a number of visits to the crop mandis (markets) in Kunri, Faisalabad and Lahore. The SECP officials met traders of various commodities to create awareness about benefits of trading commodities through the electronic platform of PMEX such as swift payment, transparent pricing, etc.

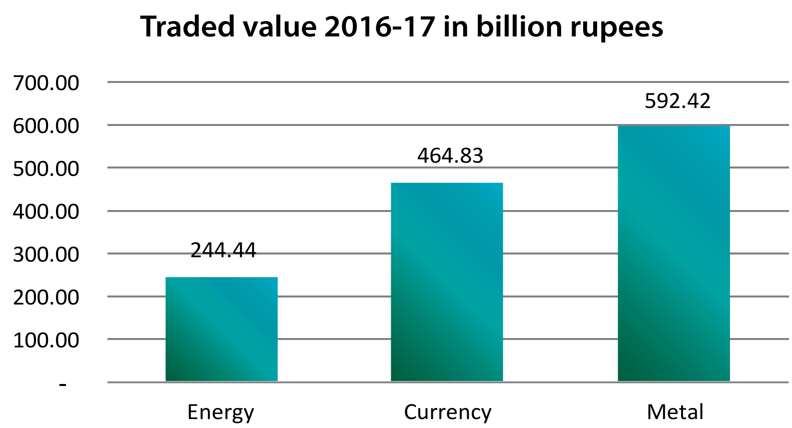
Investor protection

Moving ahead with its mandate of protecting investors, the SECP published a number of notices and conducted an extensive amount of advertisement campaign in cooperation with relevant organizations, in many newspapers during the year to raise awareness among the public about the consequences of dealing with unlicensed futures brokers. The SECP adopted a multi-pronged approach to tackle activities pursued by fraudsters in cyberspace. As a first step, the SECP provided a list of 40 black market operators to the law enforcement agencies, requesting them to use the full force of the law to prosecute such murky operators.

More so, the SECP set up a dedicated hotline and email for reporting of fraudulent activities and formed a cyber-monitoring cell within its Supervision Department for round-the-clock monitoring of websites/web pages such as Facebook, etc. for potential abuses with respect to online trading platforms, investment and income schemes, stock tipping, futures trading, crowd funding, etc.

Furthermore, the SECP approached Ministry of Interior, State Bank of Pakistan and the National Bank of Pakistan to seek assistance in establishing a joint committee on financial fraud comprising law enforcement agencies and the financial regulators to tackle these fraudulent activities carried out in cyberspace. By working in tandem, the committee is envisaged to carry out proactive enforcement in a coordinated manner to combat financial fraud.





Future outlook

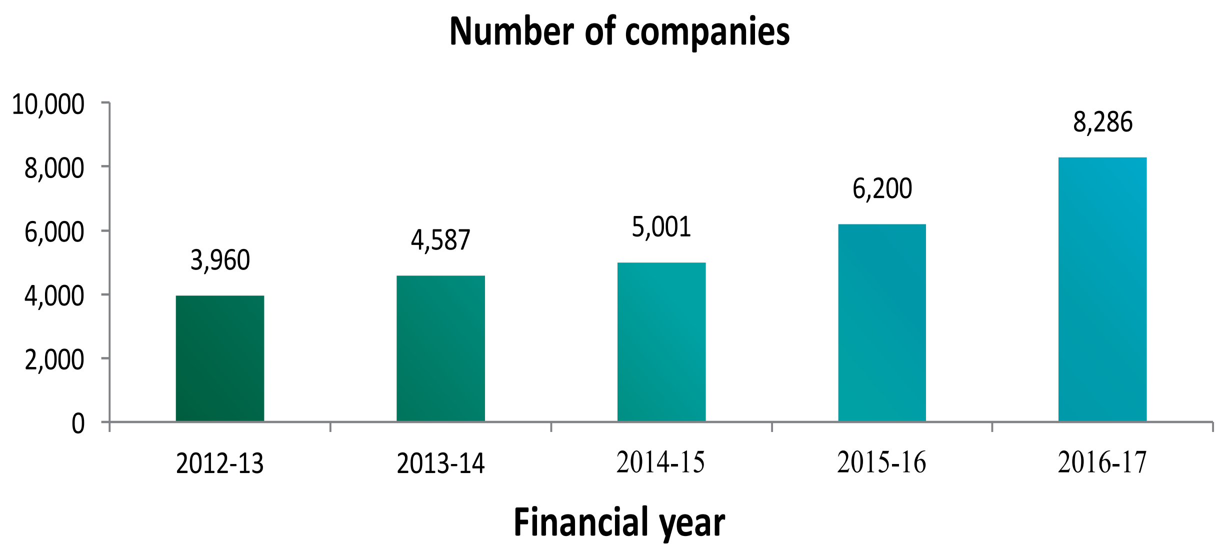
- Futures Brokers (Licensing and Operations) Regulations are being framed under the Futures Market Act, 2016
- Formulation of Warehousing Regulations is under process
- Efforts are underway to bolster activity at PMEX by approving new cash-settled products such as equity index futures contracts as well as providing standard lots of existing commodities. Moreover, efforts toward introduction of new Islamic futures contracts are also underway
- Commodity Murabaha transactions shall be carried out in a pilot phase to detect any teething problems so that the product is launched thereafter to facilitate banks in managing their liquidity requirements
- Enhancement of product portfolio by listing at least two major agri-products at PMEX, i.e. deliverable cotton and maize futures contracts
- Awareness sessions on collateral management and warehousing shall be carried out for the agriculture market stakeholders including banks, farmers, etc
- Facilitate establishment of a collateral management company in Pakistan
- A comprehensive review of the regulatory framework of PMEX will be undertaken
- Action against grey market operators planned to shift commodity futures trading activity to the documented platform of PMEX

Corporatization

Sector overview

Incorporation of companies

During the year, 8,286 new companies were registered. As compared with the corresponding period of last financial year, a growth of 34% was witnessed. This has raised the total number of registered companies to 80,700. The trend witnessed in formation of companies was that approximately 86% companies were registered as private limited companies, 11% were registered as single-member companies. Three percent were registered as public unlisted, association's not-for-profit, trade organizations and foreign companies.



The services sector took a lead with the incorporation of 1,303 companies, followed by trading with 1,100, construction with 936, information technology with 773, tourism with 518, education with 254, food and beverages with 252, engineering with 225, real estate development with 224, fuel and energy 211, corporate agricultural farming with 190, textile with 173, pharmaceutical and transport with 166 each, communication with 158, auto and allied with 137, power generation with 123, healthcare with 121, broadcasting and telecasting with 103, paper and board with 101, and 1,052 companies in other sectors.

Foreign investment was reported in 562 new companies. These companies have foreign investors from Afghanistan, Australia, Austria, Azerbaijan, Bahrain, Bangladesh, Belgium, Canada, Cayman Islands, China, Cyprus, Denmark, Egypt, France, Germany, Iran, Iraq, Ireland, Italy, Japan, Jordan, Kazakhstan, South Korea, Kuwait, Kyrgyzstan, Lebanon, Libya, Malaysia, the Netherlands, New Zealand, Nicaragua, Nigeria, Norway, Oman, Panama, the Philippines, Puerto Rico, Qatar, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sri Lanka, Sudan, Sweden, Switzerland, Taiwan, Thailand, Turkey, Ukraine, the UAE, the UK and the US.

Moreover, 63 foreign companies from China, Finland, Germany, Hong Kong, South Korea, Malaysia, the Netherlands, Norway, Singapore, Spain, Sweden, Switzerland, Turkey, the UAE, the UK and the US have established places of business in Pakistan during the last fiscal year. These companies are engaged in the fields of auto and allied, cable and electric goods, communication, construction, engineering, food and beverages, healthcare, services, power generation, trading, textile, transport, fuel and energy, information technology, insurance, steel and allied and other sectors.

Registration of brokers and agents

Subsequent to promulgation of the Securities Brokers (Licensing and Operations) Regulations, 2016 on June 30, 2016, all the brokers registered under the Brokers and Agents Registration Rules, 2001 were deemed to be licensed as securities broker under these regulations and their annual renewal applications were processed in accordance with the requirement of these regulations. Whereas, agents are required to be registered with the SECP under the Brokers and Agents Registration Rules, 2001. Presently registration as commodity broker is being issued under the Commodity Exchange and Futures Contract Rules, 2005. Some of the key statistics are given in the table below.

Types of entities	2015-16	2016-17	New registrations	Licences cancelled
Securities brokers	341	248	0	93
Agents	250	273	58	35
Commodity brokers	156	139	10	27

During the year, under review licenses of 93 securities, brokers were cancelled. Out of which, licences of 39 securities brokers were cancelled due to the refusal of their applications by the SECP whereas the rest were cancelled due to either relinquishment/surrender of Trading Right Entitlement Certificate of the securities broker or failure of the securities broker to apply for renewal of licence or for being declared as defaulter by the securities exchange.

Registration/renewals of underwriters, share registrar and balloters, and credit rating companies

The SECP processes and examines applications for registration as debt securities trustees (DSTs); underwriters, share registrars and balloters and credit rating companies under the Debt Securities Trustee Regulations, 2017, the Public Offering (Regulated Securities Activities licensing) Regulations, 2017, the Share Registrars and Balloters Regulations, 2017 and the Credit Rating Companies Regulations, 2016 respectively. The details of registrations and renewals made during the last three years are as under:

Types of entities	2015-16	2016-17	New registrations	Licenses cancelled
Debt securities trustees	15	16	1	-
Underwriters	35	42	7	-
Balloters and transfer agents	19	19	1	1
Banker to an issue	One application is in process			
Consultant to the issue				
Securities and futures' advisers	-	1	-	-
Credit rating companies	02	02	-	-

Monitoring of beneficial ownership

The SECP monitors trading activities of beneficial owners of listed companies through filing of online annual returns by the listed companies and trading data of PSX. The primary objective of this monitoring is to detect the instances, such as, if a beneficial owner has made a gain by purchase and sale or sale and purchase of shares of issuer companies within a period of less than six months. The SECP received 2,600 returns during the period under review. The returns received during the last three years along with the percentage change are as under:

Returns received

Year	2015	2016	2017	Growth since 2016
Number of returns	2,312	2,505	2600	3.79%

Development of BO module for online filing of Form 4

In collaboration with the IT team, a module for online filing of Form 4 through eServices process of the SECP was developed (filing required under Section 102 of the Securities Act, 2015) and implemented.

- **Amendments to Reporting and Disclosure (of Shareholding by Directors, Executive Officers and Substantial Shareholder in Listed Companies) Regulations, 2015**

  In order to provide access to shareholders to Register of Directors' Interest, necessary amendments to regulations 3 and 5 of the Reporting and Disclosure (of Shareholding by Directors, Executive Officers and Substantial Shareholder in Listed Companies) Regulations, 2015 were made.

- **Development of beneficial ownership modules for online filing of returns**

  In collaboration with the IT team, BRDs for online filing of Forms 5, 6 and 7 were prepared and approved, and the IT team was engaged for further development at their end.

Approvals, permissions, inspection of record, issuance of copies and registration of charges

Under the provisions of the Companies Ordinance, 1984, 107,388 applications seeking various regulatory approvals, inspection of record, issuance of copies and registration of charges were received and after due consideration necessary approvals were granted as follows:

Sr. No.	Relevant section of the ordinance	Nature of approval/permission sought	Total
1.	Section 21	Amendment to memorandum and articles of association	216
2.	Section 37	Availability of name	17,522
3.	Section 39	Change of name	264
4.	Section 42	Grant of license to associations and renewal of license to associations	138
5.	Section 44	Conversion of public companies into private companies	13
6.	Section 86	Further issue of capital	1,303
7.	Section 121 - 131	Registration, modification, satisfaction of charge	9,336
8.	Section 146	Commencement of business certificate	36
9.	Section 158	Extension in period for holding of AGMs by unlisted public and private companies	133
10.	Section 170	Calling of overdue meetings	60

11.	Section 237	Exemption for consolidation of accounts	8
12.	Section 252	Appointment of auditors	4,655
13.	Section 258	Approval of appointment of cost auditor	44
14.	Rule 9	Conversion of status from private to SMC	13
15.	Section 466(6)	Issue of certified copies of documents	52,463
16.	Section 466(6) read with Regulation 18 of the Companies (Registration Offices) Regulations, 2003	Inspection of records maintained with CROs	14, 018
17.	Public Sector Companies (Corporate Governance) Rules, 2013	Relaxation granted to public sector companies from the requirements of the rules	26
18.	Others	Other sections of the Ordinance	35
19.	Miscellaneous	Provision of information to different agencies and other government departments	7,105
	Total		107,388

Applications for grant of license under Section 42 of the ordinance

During the financial year 2016-17, 90 licenses were issued to non-profit associations under Section 42 of the Ordinance. These are object-wise statistics pertaining to non-profit associations:

Licenses issued to nonprofit companies u/s 42 of the ordinance during 2016–2017	
Object-wise breakdown	Number of associations
Art	1
Sports	1
Social services	8
Charity	1
Others	79
Total	90

Schemes of arrangements

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. Under the 1984 Ordinance, the courts, prior to sanctioning schemes of arrangements, take into consideration the representation made by the registrar in respect of these schemes. The SECP, while making representation to the courts through the registrar ensures that the schemes of arrangement proposed by the companies are not prejudicial to the interests of minority shareholders. The cases dealt during the preceding three years are as follows:

Particular	2015	2016	2017
Scheme of arrangements	11	24	26

Regulatory applications/approvals

The SECP's Corporate Supervision Department processes applications of companies for granting regulatory approvals. The applications include appointment of cost auditors, relaxation from CNIC on dividend warrants, extension in time to hold annual general meetings, exemption from preparing and filing the consolidated accounts, placement of quarterly accounts on website, group companies registration and approvals for extension of loans to directors etc. The data relating to processing of applications and approvals for the preceding three years is given here:

Application for other regulatory approvals			
	2015	2016	2017
Appointment of cost auditors	54	52	48
Withholding of dividend	76	133	24
Extension in time to hold AGM	19	21	31
Exemption from preparation and filing the consolidated accounts	15	19	16
Placement of quarterly accounts on website	282	291	295*
Group companies registration	7	8	7
Approvals for extension of loans to directors of a company	1	5	1

** The figure represents the cumulative number of approvals granted over the years and includes approvals granted to four companies during the year.*

Exemptions from requirements of Code of Corporate Governance:

With effect from November 2016, the department started processing requests from companies seeking relaxation from requirements of the Code of Corporate Governance, 2012. Exemptions from certain requirements of the code are provided only in cases where the applicant companies demonstrate cogent reasons and practical difficulties to justify their requests. Out of the 10 applications processed by the department during the year, four were approved, two were rejected and four were under process for a lack of information from companies. A summary in this regard is given here:

Code of corporate governance cases			
	2015	2016	2017
Applications approved	-	-	4
Applications rejected	-	-	2
Applications in process	-	-	4
Total	-	-	10

Amalgamation and reconstruction of companies under the ordinance

During the year, 14 applications of amalgamation and reconstruction were approved by the courts.

Key achievements

- Promulgation of Companies Act, 2017
- Promulgation of Limited Liability Partnership Act, 2017
- Promulgation of Corporate Restructuring Companies Act, 2016
- The Companies (Appointment of Legal Advisers) (Amendment) Act, 2017
- Amendments to the Public Sector Companies (Corporate Governance) Rules, 2013
- Amendments to the Companies (Compliance With Licensing Conditions General Order) 2016
- Amendments to the Companies (Registration Offices) Regulations, 2003
- Substitution of existing third party digital signature with new User Registration System under eServices, reducing cost and time of user registration
- Development of modified Virtual One-Stop Shop portal and integration with FBR for NTN registration
- Awareness sessions on Doing Business Reforms held in Karachi, Lahore and Islamabad to ensure better understanding by respondents

- Opening of Company Registration Office (CRO) in Gilgit-Baltistan
- Signing of MOU for establishment of a facilitation centre in Gwadar
- Revamp of operations at the Karachi, Lahore and Islamabad CROs by establishing incorporation and facilitation wings
- Company registration on the same day through swift registration scheme
- Companies regularization scheme (CRS) for the companies registered in Gilgit-Baltistan
- Various steps have been introduced for ease of doing business, primarily aimed at decrease in cost of incorporation of company and subsequent compliance
- For guidance of foreign investors and entrepreneurs, guidebooks in different languages have been prepared and placed on the SECP's website, and brochures also are being distributed through CROs
- Promulgation of Provident Fund (Investment in Listed Securities) Rules, 2016
- Circular No 30 of 2016 dated September 16, 2016, was issued, which prohibits recommending bonus shares or decide further issue of capital beyond the authorized share capital of companies
- Circular 39/2016 dated December 5, 2016 for disseminating designated email address financial.statements@secp.gov.pk for transmission of annual and interim financial statements
- The formation of CSR national forum through a core committee comprising the Pakistan Institute of Corporate Governance, Pakistan Centre of Philanthropy and Pakistan Stock Exchange. The core committee shall work towards raising awareness about CSR-related activities by companies and send its proposal for strengthening CSR framework in view of report and explain approach towards such activities.
- Audit Oversight Board:
  a. MOU singed between AOBP and SECP
  b. AOB (Conduct of Business) Regulations, 2017
- Amendment to Companies' E-voting Regulations, 2016 made through SRO 261(I)/2017 dated April 14, 2017
- Whistleblower Regulations, 2017, were placed on the SECP's website to seek public comments
- Draft Valuers Registration and Governance Regulations were placed on the SECP's website and a roundtable was held with stakeholders, including SBP, PBA, and professional valuers
- Awareness sessions in Karachi, Islamabad and Lahore on principles of corporate governance for non-listed companies

Future outlook

(I) Subordinate Legislation under the Companies Act, 2017

- Draft Companies (Incorporation) Regulations, 2017
- Draft Intermediaries (Registration) Regulations, 2017
- Draft Associations with charitable and not for profit objects (Licensing and Corporate Governance) Regulations, 2017
- Draft Auditors (Reporting Obligations) Regulations, 2017
- Draft Compliance (Compliance and Reporting) Regulations, 2017
- Draft Foreign Companies Regulations, 2017
- Draft Directors' (Powers and Responsibilities) Regulations, 2017

(II) Subordinate Legislation Limited Liability Partnership Act, 2017

- Draft Limited Liability Partnership Regulations, 2017

(III) Other subordinate legislation

- Draft Corporate Restructuring Companies Rules, 2017

(IV) Developmental activities and facilitation measures

- Revamp of eServices
- Integrating eServices with the Business Registration Portal of Punjab government
- Availing services of e-Khidmat Markaz/Citizen Facilitation and Services Centres of Punjab for expanding Commission's outreach
- Membership of Open Government Partnership initiated by the federal government
- Activation drive for dormant companies and inactive companies
- Companies Regularization Scheme (CRS)
- Seminars/conferences on benefits of corporatization and eServices
- Publication of brochures to create awareness among public

(V) Draft notifications

- Strengthening the disclosure requirements in view of section 183 of 2017 Companies Act and revision of SRO 1227/2005
- Enhancing disclosures in notice of general meeting in relation to special business
- Strengthening the dividend payment process in view of section 242 of the 2017 Companies Act and in supersession of its notifications S.R.O 19(I)/2011, S.R.O 831(I)/2012, and S.R.O 275(I)/2016

(V) Draft Regulations

- Companies (Investment in associated companies or associated undertakings) regulations under Section 199 of the 2016 Companies Act
- Regulations on related parties transactions and interest and concern of directors under Section 200 of the 2016 Act
- Valuers Registration and Governance Regulations
- Whistleblower Regulations, 2017
- Regulations for common control transactions
- Corporate governance regulations for by listed companies through revision of code of corporate governance 2012

(VI) Comprehensive guides for conducting general meetings and board meetings

Non-banking financial sector

Sector overview

Over the years, the SECP has strived to provide a transparent and robust regulatory framework based on the best international practices for the entire NBF sector. As a result, the asset size of NBF sector has increased at a steady pace during the past few years. As of June 30, 2017, it stood at Rs1,190 billion as compared to Rs925 billion on June 30, 2016, reflecting an overall increase of 29% during the period under review. The total asset size of the NBF sector as of June 30, 2017 is as follows:

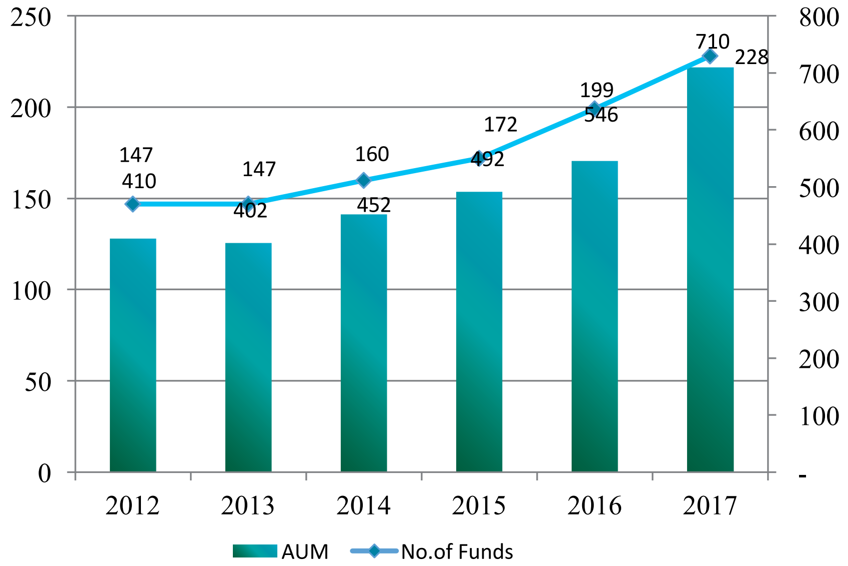
Sector	Number of entities	Total assets (in billion rupees)	As percentage of total assets	Total deposits (in million rupees)
Mutual funds/plans	228	710	59.68%	-
AMCs / IAs	22	40.93	3.44%	-
Discretionary /non-discretionary portfolios	-	141.12	11.86%	-
Real estate investment trust (REIT scheme)	1	42.28	3.55%	-
Investment banks and micro finance institutions	30	142.20	11.95%	1.37
Leasing companies	8	43.32	3.64%	6.40
Modarabas	25	44.08	3.71%	7.33
Pension funds	19	25.77	2.17%	-
Total	282	1,189.74	100%	16.1

Asset management

As of June 30, 2017, the total size of the industry stood at Rs710 billion as compared to Rs546 billion on June 30, 2016. The total number of funds /plans stood at 228 as of June 30, 2017, as compared to 199 as of June 30, 2016. The industry was also managing discretionary portfolio of Rs141 billion as of June 30, 2017.

As of June 30, 2017, equity funds (both conventional and Shariah-compliant) dominated the assets under management of the industry with the largest share of the mutual fund industry, i.e. 48.03%. Income funds (both conventional and Shariah-compliant) held the second largest industry share, i.e. 17.76%, followed by money market funds (both conventional and Shariah-compliant) with industry share of 11.93%.

Growth of mutual funds in number and assets under management (In billion rupees)



Investment advisory

At present, 19 NBFCs have licenses to conduct the business of investment advisory in addition to business of asset management services while two NBFCs have an exclusive license for conducting investment advisory services. As of June 30, 2017, the total discretionary/non-discretionary portfolio held by all of the NBFCs was Rs141 billion.

Private fund management

During the year, three NBFCs were granted license to undertake private equity and venture capital fund management services business under the newly promulgated Private Fund Regulations, 2015.

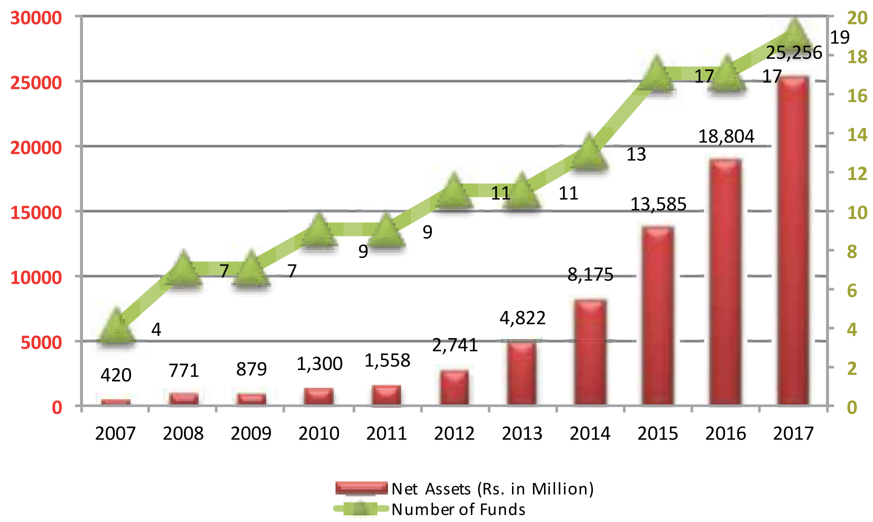
Voluntary pension system

As of June 30, 2017, the assets of the pension schemes stood at Rs25 billion, compared to Rs19.3 billion on June 30, 2016, showing a 37% growth in the last one year.

The key statistics in respect of pension fund industry as of June 2017 is as follows:

Total assets of pension fund industry	Rs 26 billion
Net assets	Rs 25 billion
Total number of pension funds	19
Shariah-compliant pension funds	10
Conventional pension funds	9
Number of pension fund managers	10

The graphical position of net assets and number of pension funds is as follows:



Real estate investment trusts

During the period under review, a new REIT management company (RMC) was licensed to undertake REIT management services, raising the number of RMCs to five. Pakistan's first REIT, successfully completed its second year in June 2017.

The SECP organized a stakeholders meeting to identify factors inhibiting growth of REITs, which was attended by REIT management companies, businesspersons, lawyers, valuers, etc. Stakeholders identified taxation policies as the major hurdles and contended that REITs end up paying higher taxes as compared to non-REIT real estate entities.

Modarabas

The modarabas are the pioneering Islamic financial institutions in Pakistan. At present, the registered modaraba companies are 37 while 25 modarabas are operational. During 2016-17, a new company was registered as a modaraba company. During the year, the modaraba sector showed growth in terms of total assets. The sector declared dividends up to 90%. As per the online returns of 25 operational modarabas as of June 30, 2017, the aggregate equity of the modaraba was Rs21 billion and total assets of the modaraba sector stood at Rs44 billion. For the year ending June 30, 2016, 19 modarabas declared dividend in the form of cash. As of June 30,2017, five modarabas were under winding up.

During the last few years, the modaraba sector has shown a steady growth. The total assets of the modaraba sector were Rs37 billion as of June 30, 2016 as compared with Rs44 billion as of June 30, 2017, thus showing an increase of 19%.

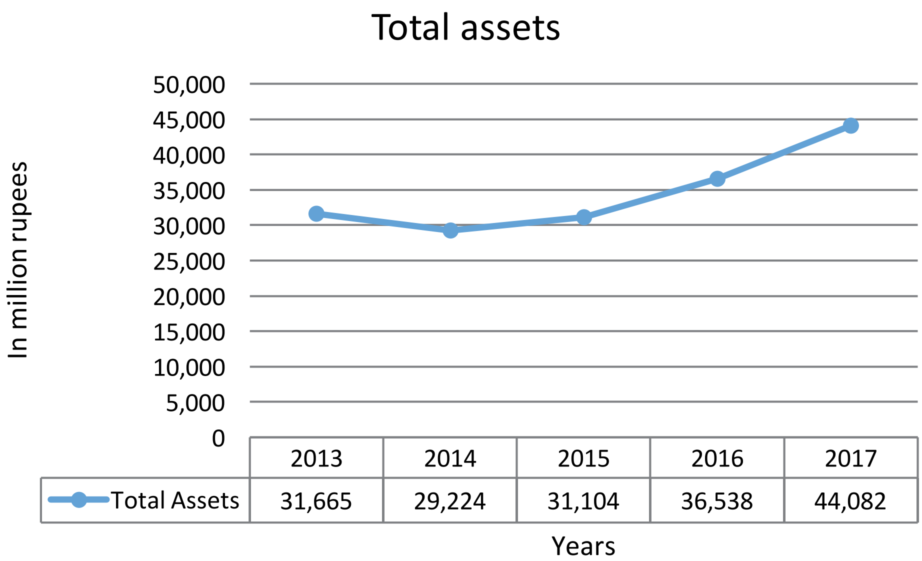
Lending non-bank finance companies

Lending NBFCs are NBFCs licensed by the SECP to undertake leasing, investment finance services, housing finance services or discounting services. Companies licensed to carry out investment finance services include (i) investment finance companies (IFCs) and (ii) non-bank microfinance companies (NBMFCs) which are being regulated by the SECP pursuant to amendments to the NBFC regulatory framework in 2015.

Leasing companies

An upward trend was witnessed in the asset size of leasing companies during the year 2016-17. The asset size of leasing companies has increased from Rs42.2 billion as of June 30, 2016 to Rs43.3 billion as of June

30, 2017. During the period under review, the SECP granted permission for the formation of two new NBFCs with the main object of undertaking business of leasing after grant of formal license. Licenses of four leasing companies were also renewed during the course of the year.



Investment banks

The number of investment finance companies remained unchanged at 10 since June 30, 2016. However, the asset size of investment banks has increased from Rs77 billion as of June 30, 2016 to Rs81 billion as of June 30, 2017.

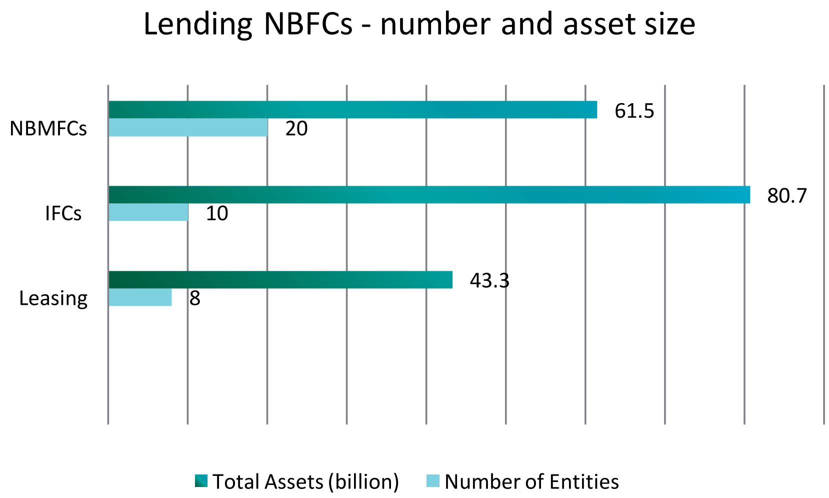
Non-bank microfinance companies

In a bid to facilitate transition of microfinance institutions into NBMFCs, the SECP has remained engaged in constant consultation with the industry association, Pakistan Microfinance Network (PMN), and the premier funding agency of the sector Pakistan Microfinance Investment Company (PMIC). As of June 30, 2017, 20 microfinance institutions were successfully licensed with the total assets of Rs61.5 billion. Moreover, 16 are in the process of completing necessary documentation for licensing.

The assets of companies licensed to carry out investment finance services (including investment banks and non-bank micro finance companies) have thereby grown significantly to a total asset size of Rs142.2 billion). As of June 30, 2017, the total asset size of the lending NBFCs was as follows:

Sector	Number of entities	Total assets
Lending NBFC		In billion rupees
IFCs	10	81
NBMFCs	20	61
Leasing companies	08	43
Total	38	185

The graphical position of net assets and number of lending NBFCs is as follows



NBF sector's key achievements

Mutual funds

In order to foster further growth of the mutual fund industry and to safeguard the interests and rights of investors, the SECP instituted several regulatory reforms during the period under review. For that matter, mutual funds have been directed to increase level of awareness of investors by emphasizing proper disclosures and transparency, enhancing financial inclusion by serving low-risk customers, and increasing retail penetration by expanding outreach and strengthening distribution network. Some of the key measures include:

- In order to increase outreach, allowing charging of selling and marketing expenses to mutual funds for establishment of new branches and simplified regulatory framework for independent distributors. As a result, 24 new independent branches of AMCs were opened in cities such as Gujranwala, Jhelum, Gujrat, Hyderabad, Multan, Faisalabad and Swat etc
- Introduction of Sahulat Sarmayakari accounts and branchless banking accounts for individuals to enhance financial inclusion
- Introduction of mandatory requirements for cash and cash equivalents for mutual funds to meet the redemption pressure and committed credit lines for asset management companies for liquidity risk management
- Introduction of criteria for identification of listed equity securities for investment in mutual funds
- Requirements of cooling off right to individual unitholders of open-end funds introduced, allowing them flexibility to obtain refund of their investment within three business days
- Introduced requirements for calculation and disclosure of total expense ratio
- All asset management companies were directed to use standardized benchmarks for their collective investment schemes, to increase investor awareness and to provide ease of reference to the investors
- Introduced requirement for verification of antecedents of persons seeking employment in AMCs
- Placement of mutual funds' performance data on the SECP's website on a quarterly basis for ease of retail investors

Voluntary pension system

During the period under review, amendments were proposed in the VPS Rules, 2005, to enable participants of a pension fund to make informed decisions in a timely manner and simultaneously help pension fund managers (PFMs) to manage pension funds efficiently. These amendments included the following:

- Curtail the period of notice from 21 days to 7 days for change of pension fund or PFM by a participant

- Obligate the PFM to send an account statement whenever there is an activity in a participant's account
- Enable redemption proceeds to be transferred to the lower volatility allocation scheme at the date of retirement where no option is selected by a participant or in the case death of a participant
- Obligate PFM to remind participants about the approaching retirement date and the options available to them on retirement
- To make provisions for electronic communication by participants

Modaraba

- A new draft Modaraba Bill, 2017, was introduced which includes a number of significant changes and new concepts for the growth of the regulated modaraba sector in Pakistan. The significant changes/ new concepts proposed in the Modaraba Bill, 2017 include:
  Empowerment to the certificate holders by introducing the concept of AGM of certificate holders, appointment of auditor by the certificate holders, rights to apply for the change of modaraba management company, change of CEO/director and the appointment of administrator
  - New provision to curb the misuse of word "modaraba".
  - Requirement of NOC for incorporation of modaraba management company.
  - Introduction of the concept of unlisted Modaraba for the growth of the sector.
  - Mandatory appointment of a Shariah Advisor by a modaraba.
- In order to increase the outreach of Islamic finance to the unconventional markets, the modaraba sector was persuaded to establish Islamic Finance Centres (IFC) in smaller cities. First IFC was established in Rawalpindi which is offering Ijarah facilities for motorcycles to individuals. Up to June 30, 2017 the IFC has disbursed an amount of Rs24.04 million
- In collaboration with three modarabas, the modaraba Association set up an office in the capital market hub, Abbottabad. In the first phase, the clients will be educated about the Islamic finance. Later financing will be made available for small businesses

Lending NBFCs

During the last one and a half years, the SECP instituted significant reforms in the regulatory framework governing lending NBFCs. Many of the regulatory challenges and difficulties that impeded the progress and growth of the small NBFCs were either removed or modified to help these institutions contribute to the national economic agenda effectively. The main objectives of this reform process were to

- Promote ease of doing business for the smaller NBFCs, and
- Improve access to finance for the micro and small businesses as well as individual proprietors undertaking micro businesses

It is expected that the SECP's above-mentioned steps would help in growth of the sector by alleviating poverty through provision of necessary funding support to the most marginalized section of society. These developments are bound to promote an entrepreneurial spirit among the disadvantage segments of our society, create employment, and channel the energy of our younger generation into productive pursuits.

Future outlook

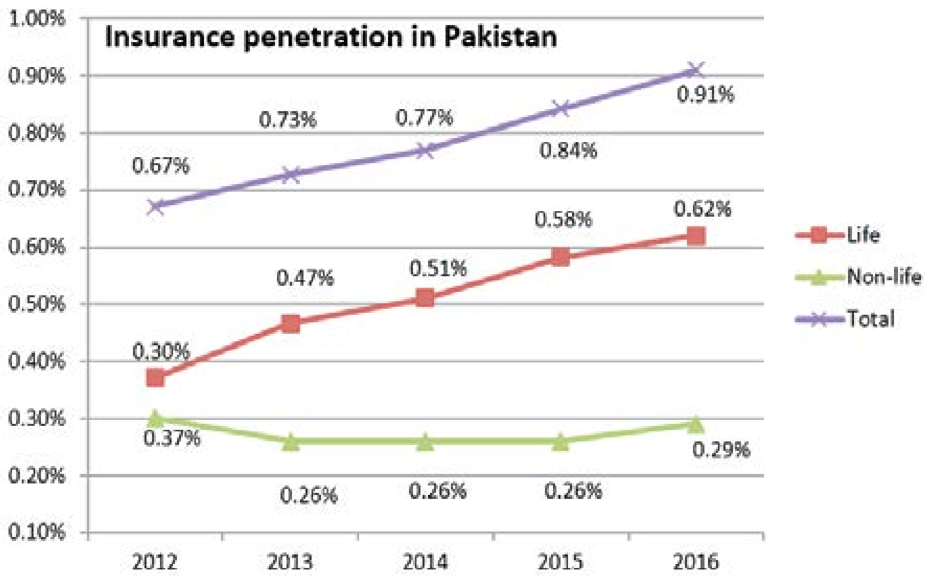
- In a bid to provide investment and savings opportunities to investors, the mutual fund industry to be pursued to ensure a high level of participation of the public and retail investors
- Evaluation of risk management policies and techniques of AMCs to strengthen their risk management.
- Introduction of requirements for online issuance and subscription by mutual fund
- To further promote ease of doing business for the smaller NBFCs
- Exploring the possibilities to introduce new Islamic financial products for Modarabas to meet diverse needs of their clients
- Establishment of Islamic financing facility centres by modarabas in different cities to provide affordable financing on Islamic Shariah principles to the common people

Insurance

Sector overview

The significance of insurance for corporates and individuals cannot be overemphasized, as it is the key financial protection tool against the unfortunate events, which may lead to financial loss. The SECP is the apex regulator of the insurance sector in Pakistan, and is fully poised to regulate the insurance sector in line with best international regulatory practices and develop the insurance industry into mature market, which can meet the financial protection needs of all societal segments in Pakistan.

In the last five years, the insurance sector grew on an average annual rate of around 13% on a compound basis along with minimal, but consistent increase in the insurance penetration and insurance density. With the adoption of modern distribution channels and innovative products, the insurance sector in Pakistan grew at a good pace during the previous few years. As of December 2016, the industry's total premium revenue generated stood around at Rs265 billion ($2.57 billion), whereas, the industry's total assets stood at Rs1,165 billion ($11.3 billion).

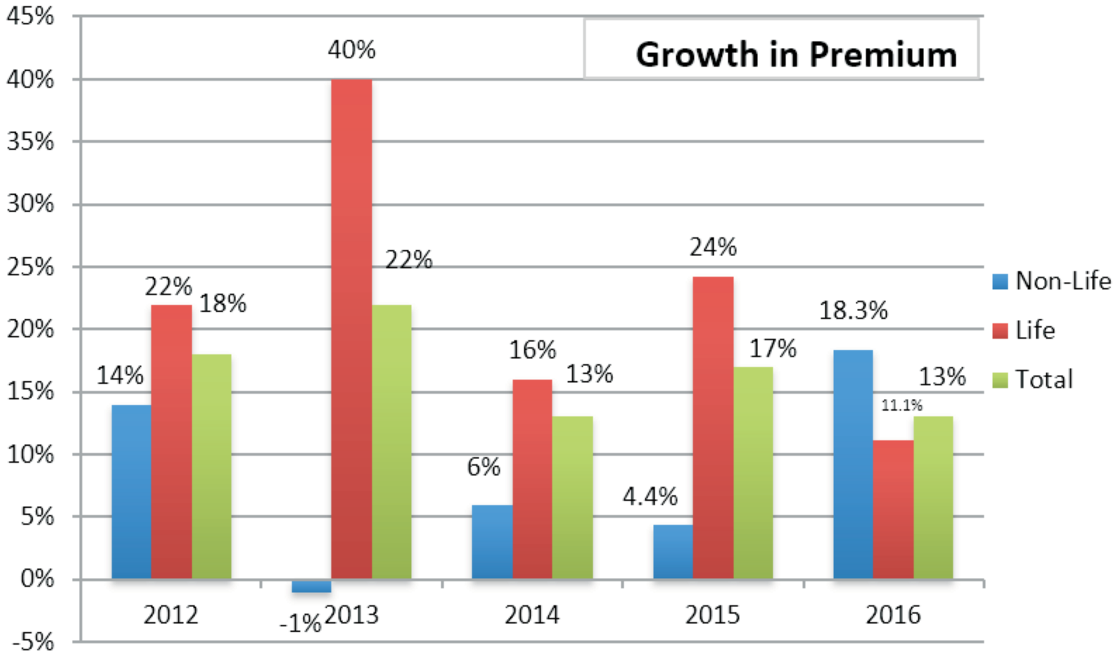


Considering the steady growth in insurance penetration and insurance density figures in the past five years, it can be inferred that the sector on an overall basis has been performing better and the growth in the life insurance sector would further augment the overall sector in the coming years.

The insurance market is fairly liberalized as one hundred percent foreign ownership and control of insurance companies is permitted with the paid-up capital requirement of $4 million, with the condition of bringing in at least $2 million in foreign exchange and raising the rest from the local market. As of June 30, 2017, the minimum capital requirements stood at Rs450 million for non-life and Rs650 million for life insurers. The SECP had revised the paid-up capital requirements for the insurers vide SRO 828(I)/2015 dated August 18, 2015 according to which the paid-up capital requirement for life and non-life insurers will be increased to Rs700 million and Rs500 million by December 31, 2017, respectively.

At present, there are 41 non-life insurers operating in the market, including three general takaful operators and one state-owned insurer. There are nine life insurers, including two family takaful operators, and one state-owned insurer in the life insurance sector. The SECP also allowed one life and three non-life insurers to transact window takaful business during the year, after which, the total number of conventional insurers authorized to conduct window takaful operations has reached 21.

In 2016, the life insurance market grew by 11%, whereas the total life insurance premium stood at Rs180 billion. Significant growth of around 20% was observed in non-life insurance whereas the total non-life insurance premium stood at Rs85 billion. The non-life insurance growth is mainly attributed to CPEC and related infrastructure development. The overall insurance sector witnessed a growth of 14% during 2016.



Licensing and approvals

During the year, the SECP processed various cases of approvals, extensions and NOCs on applications by the insurance sector, including approvals of Shariah advisors of takaful/Askari Window Takaful Operators, directors and CEOs as per fit and proper criteria, release of statutory deposits and product approvals.

- **Approvals of directors and chief executive officers**
  Approvals for appointment of 166 directors and CEOs of insurance companies were issued during the year after scrutinizing in light of the provisions of Insurance Companies (Sound and Prudent Management) Regulations, 2012 and other applicable regulatory provisions.

- **Approvals to insurance brokers**
  Upon fulfilling the requirements contained in Section 102 of the Insurance Ordinance, 2000, read with rules 13 and 14 of Insurance Rules, 2002, the SECP granted a fresh license to an insurance broker and renewed licenses of 15 insurance brokers during the year.

- **Licensing of insurance surveying companies and authorized surveying officers**
  During the period under review, 500 licenses of insurance surveying companies and authorized surveying officers have been issued, of which, 195 licenses were issued to the surveying companies and 305 licenses were issued to the authorized surveying officers (ASOs).

- **Facultative reinsurance approvals**

  During the fiscal year 2016-17, the SECP accorded 1,163 approvals for placement of risks abroad with foreign reinsurers in facultative manner.

- **Authorization as Askari Window Takaful Operator**

  During the year, authorization to conduct window takaful operations was granted to one life and three non-life conventional insurers, after which, total number of Askari Window Takaful Operators has reached 21. Five life insurers and 16 non-life Insurers are authorized to conduct window takaful operations In Pakistan.

- **Life insurance products approval**

  During the year, 113 new life insurance products and supplementary riders have been approved by the SECP. The necessary guidance was provided to the life insurers and takaful operators on various aspects of life insurance products amidst the expansion of business through technology based distribution channels.

- **Notification of Insurance Rules, 2017**

  The two sets of insurance subsidiary legislation have been compiled to issue the Insurance Rules, 2017 with primary aim to bring uniformity in the subsidiary legislation while incorporating all the notifications and amendments made under the aforementioned sets of Rules after initial promulgation in 2002. The SECP has strived to bring substantial reforms in the insurance sector by introducing new accounting formats for life and non-life insurers especially for the purposes of Financial Statements and strengthening of the regulatory regime for insurance brokers and insurance surveyors through enhancing the requirements of paid-up capital, professional indemnity etc.

- **Insurance Accounting Regulations, 2017**

  In collaboration with the subcommittee of the Institute of Chartered Accountants of Pakistan (ICAP) on insurance, the SECP formulated the Insurance Accounting Regulations, 2017, along with the accounting formats, which are part of Insurance Rules, 2017. These regulations aim to develop high quality standards that are comparable, bring in more transparency, and enhanced disclosures. The objective of the regulations is to harmonize the local accounting standards with the international practices (IFRSs and IASs).

- **Amendments to Small Dispute Resolution Committees (Constitution and Procedure) Rules, 2015**

  The Small Dispute Resolution Committee (Constitution and Procedure) Rules, 2015 have recently been amended to increase the pecuniary value of sum assured resultantly increasing the jurisdiction of the three SDRCs, which shall bring a greater number of insurance policies/grievances under the ambit of the SDRC's for speedy settlement of complaints. In order to expedite and ensure amicable settlement of grievances of insurance policyholders, the SECP in 2015 had formulated Small Dispute Resolution Committees in three major cities namely Lahore, Karachi and Islamabad, under the subject rules.

- **Amendments to the Insurance Companies (Sound and Prudent Management) Regulations, 2012**

  The fit and proper criteria for CEOs, directors and key officers of insurance companies has further been strengthened through amendments to the Insurance Companies (Sound and Prudent Management) Regulations, 2012. The major amendments include submission of affidavits related to placement/ non-placement of name of the CEOs and directors on the exit control list and also in respect of any overdue payment to any financial institution by the person himself or by the companies, firms etc. where he is a CEO, director, partner or owner. Furthermore, CIB reports shall be called by the SECP in respect of all the newly appointed directors and CEOs of insurers and of the companies, firms etc. of which he is CEO, director, partner or owner.

- **Strengthening insurance regulatory framework: Issuance of draft Insurance Bill, 2017**

  As part of the project for strengthening the regulatory framework for insurance sector in Pakistan with the Technical Assistance of the World Bank, significant reforms were proposed to be introduced in the insurance regulatory framework. A concept note elaborating the significant reforms was shared with industry stakeholders in three roundtables conducted in Karachi, Lahore and Islamabad for the purpose of stakeholder consultation. Thereafter the draft insurance bill was prepared, which is proposed to replace the Insurance Ordinance, 2000. The Bill was placed on the SECP's website in December 2016 to elicit public comments. Afterwards, subsequent consultation sessions were held with different stakeholders. Consequently, the draft Bill was finalized and sent to the Ministry of Finance for initiation of formal legislation process.

- **National Financial Inclusion Strategy, Technical Committee on Insurance**

  The National Financial Inclusion Strategy was adopted by the Government of Pakistan after which, several Technical Committees were formed with the objective of enhancing financial inclusion in the specialized sectors, i.e. banking, insurance, non-bank finance sector, etc. The NFIS Technical Committee on Insurance (TCI) was formed with special focus on insurance sector which has conducted multiple meetings whereby specific recommendations and tracking mechanism for activities of TCI were finalized. The development of insurance curriculum to be incorporated in regular academic curriculum, development of standardized insurance glossary, and reforming the compulsory insurances regime in two areas, are few of the action areas determined by the committee.

- **Small Disputes Resolution Committees**

  Three Small Dispute Resolution Committees (SDRCs) were constituted in Islamabad, Karachi and Lahore for mediation and resolution of disputes arising between the insurers and the policyholders. The committees arbitrate small disputes arising between insurance policyholders and insurance companies. Each committee comprises of a chartered accountant or a management accountant, a lawyer and senior insurance industry professional. Three SECP officials coordinate with the said committees. During the year, the SDRCs provided relief to the tune of Rs9.64 million to the policyholders.

Future outlook

- Promulgation of new Insurance Act, 2017
- Introduction of accounting regulations and formats for general takaful operators
- Introduction of regulatory requirement for reporting of family window takaful operations by life insurers
- Issuance of regulatory directive for corporate insurance agents, including mobile network operators
- Introduction of regulatory requirements for long outstanding Benefits
- Notification of the Credit and Surety-ship (Conduct of Business) Rules, 2017

Islamic finance

The SECP regulates important elements of non-bank Islamic financial services industry. These elements include modarabas, takaful operators and Askari Window Takaful Operators, Islamic non-banking financial institutions, Islamic mutual and pension funds, Shariah-compliant real estate investment trust, Shariah screening of equities, and issuance of sukuk.

Amendment to SECP Act for regulation of Shariah-compliant financing

In 2016, the SECP was specifically mandated, through an amendment to the SECP Act, 1997, for regulating and facilitating the growth of Shariah-compliant financial products in the financial services market except the financial services directly regulated by the SBP.

Islamic finance organizational arrangement at SECP

The SECP has a dedicated Islamic Finance Department that coordinates with all the operational departments. It provides technical expertise to operational departments under the guidance of independent Shariah Advisory Board of SECP in matters pertaining to Shariah compliance, including reviewing of offering documents, trust deeds, sukuk prospectus and Shariah governance framework. The Board consists of three renowned scholars namely Justice Khalil Ur Rehman (ret), Mufti Muneeb Ur Rehman and Dr. Tahir Mansoori. The SECP is a member of Islamic Financial Services Board (IFSB) Malaysia, which is an international standard setting body that promotes the soundness and stability of Islamic financial services industry. The SECP also has a joint forum with SBP and a consultative forum on Islamic finance comprising representatives from industry and financial sector.

Share of Shariah-compliant assets steadily rising

Growing at a fast rate, Shariah-compliant assets now represent 34.6% of the total assets of the NBFI industry. The number of Shariah-compliant mutual funds has reached 109 and Shariah-complaint funds have 41% of the assets under management of the mutual fund industry.

Share of Shariah-compliant assets of NBFI industry

Description	June-10	June-11	June-12	June-13	June-14	June-15	June-16	June -17
Share of Shariah compliant assets of NBFI industry *	12.3%	14.5%	14.0%	17.1%	17.9%	26.5%	27.7%	34.60%

*Shariah-compliant assets include assets of Shariah-compliant mutual funds, Shariah-compliant pension funds, Shariah-compliant REIT and modaraba.

Share of Shariah-compliant mutual funds

Description	June-10	June-11	June-12	June-13	June-14	June-15	June-16	June-17
Share of Shariah compliant mutual funds in the mutual fund industry	9%	13%	12%	16%	17%	27%	33%	43%

Takaful sector

The takaful industry comprises of five dedicated takaful operators and 21 Askari Window Takaful Operators. Takaful sector assets represent 2.7% of the total assets of the insurance industry. The gross premium of takaful sector represents 6.9% of the total premium of the insurance industry.

Takaful industry	Number of family takaful operators	Number of general takaful operators	Total
Dedicated takaful operators	2	3	5
Askari Window Takaful Operators	5	16	21
Total	7	19	26

During the year, the SECP took a number of initiatives for regulation and development of Islamic finance across the sectors it regulates.

Tax neutrality for sukuk

Due to the SECP's efforts and the FBR's support, tax neutrality for sukuk vis-a-vis conventional asset-backed securitization (ABS) was achieved by amending the Income Tax Ordinance on August 31, 2016.

Two percentage points tax rebate for Shariah-compliant companies

On the SECP's recommendation, a two percentage points tax rebate for Shariah-compliant listed manufacturing companies was introduced through the Finance Act, 2016. The eligible criteria as notified by FBR is as follows:

a. The business of the company is halal;
b. Financing obtained by the company is Shariah-compliant;
c. All investments made by the company are Shariah-compliant; and
d. The company maintains a free float not less than 30% of the outstanding shares.

New concept of Shariah-compliant company

A new concept of a Shariah-compliant company was introduced through the newly promulgated Companies Act, 2017. This concept extends the previous paradigm where Islamic finance was largely confined to Islamic financial institutions, sukuk and Shariah screening of listed companies. The new concept provides an opportunity for any company to become Shariah-compliant.

A holistic Shariah governance framework

Shariah Governance Regulations for the sectors regulated by the SECP are being drafted under the enabling provision in the Companies Act, 2017. In this regard, eight consultation sessions with relevant organizations and stakeholders have been held, including SBP, PSX, Modaraba and NBFI Association, Shariah scholars, MUFAP and takaful operators.

Facilitating issuance of sukuk

To facilitate issuance of sukuk, relevant regulations were amended both for public offering and for private placement. These amendments were based on the recommendations received from, the subcommittee on Islamic capital markets, extensive consultations held with stakeholders (issuers and arrangers) and local and international experts. The primary objective of the amendments is to reduce cost and hassle for the issuers.

SECP Shariah Advisory Board meetings

The SECP's Shariah Advisory Board reviewed and discussed different issues, including concept papers on Islamic redeemable capital instrument and Islamic shares financing product. The Board also gave its recommendations for the development of the fit and proper criteria for Shariah advisors, amendments to Issue of Sukuk Regulations, 2015, and draft Shariah Governance Regulations.

Futures exchanges to promote Shariah-compliant products

The SECP issued Futures Exchanges (Licensing and Operations) Regulations, 2017. Currently, Pakistan Mercantile Exchange (PMEX) is the licensed futures exchange providing for trading of commodity futures. Under the licensing condition, PMEX shall endeavor to promote Shariah-compliant products.

Establishment of financing centres and outreach

An Islamic finance centre was established in Abbottabad to enhance awareness for Islamic financial services and products. To increase outreach of Islamic financial services and to provide a substitute for exploitative financing in the informal sector, a consumer Islamic finance centre was established in Rawalpindi, where a sum of Rs21.5 million was disbursed among 390 borrowers.

Development of comprehensive database of Shariah advisors

The SECP's Islamic Finance Department has developed a comprehensive database of Shariah advisors serving in the Islamic financial services.

Total number of Shariah advisors serving in the SECP regulated entities	Shariah advisors having multiple assignments across different sectors	Shariah advisors in modaraba companies	Shariah advisors in Islamic mutual funds	Shariah advisors in takaful operators, including Askari Window Takaful Operators
36	14	16	18	16

Awareness and capacity building

In collaboration with the two centers of excellence in Islamic Finance, Institute of Business Administration, Karachi and Institute of Management Sciences, Peshawar, a series of sessions on Islamic finance were held at the SECP head office in Islamabad. The representatives from the Ministry of Finance, Directorate of National Savings, National Rural Support Program, and Zarai Taraqiati Bank participated in these sessions. Islamic Finance Department conducted Islamic finance training sessions in universities and supported Islamic finance awareness drive in collaboration with SBP and Dunya Media Group.

Risk management

Reduction of systemic risk

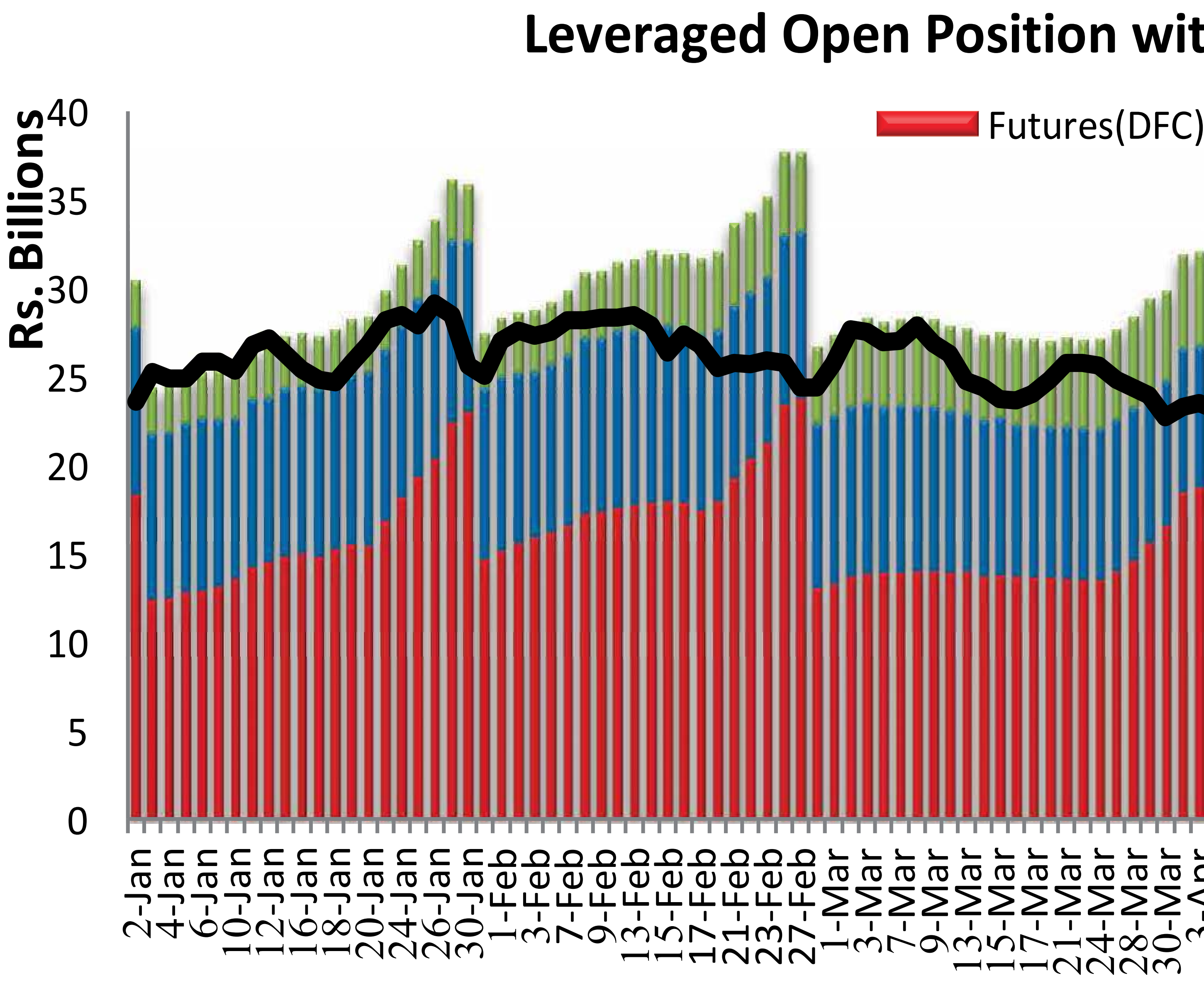
The reduction of systemic risk is one of the three objectives of securities regulation, as set by the IOSCO, along with the protection of investors, and ensuring that markets are fair, efficient and transparent. The IOSCO requires the regulator to contribute to a process to monitor, mitigate and manage systemic risk, appropriate to its mandate. In line with the guidance by IOSCO, established international practices, and local needs, the SECP has taken a range of measures to reduce systemic risk.

Amendment to the SECP Act regarding systemic risk

The SECP Act, 1997, was amended in 2016, making it a specific responsibility of the SECP to identify and address factors that may result in systemic risk in the market. A definition of systemic risk has also been added to the Act. This amendment increased the SECP's focus on systemic risk.

Systemic risk organizational arrangement at SECP

Because of enhanced focus on systemic risk, the risk wing, which was a part of the Securities Market Division, was converted into a full-fledged Systemic Risk Department (SRD) with cross-divisional responsibility and directly reporting to the SECP chairman. Headed by an executive director, the SRD has six risk officers who



possess advanced academic qualifications (M.Phil. in economics, MSc in financial management, MBA) and internationally recognized professional qualifications (CFA, ACA, ACCA, FRM and PRM). It is supported by a cross-functional team of executive directors that deliberates on proposals of SRD before these are presented to the Commission. The SRD is responsible for vigilant monitoring and analysis of factors that contribute to systemic risk. During the year, the focus of the SRD was on capital market.

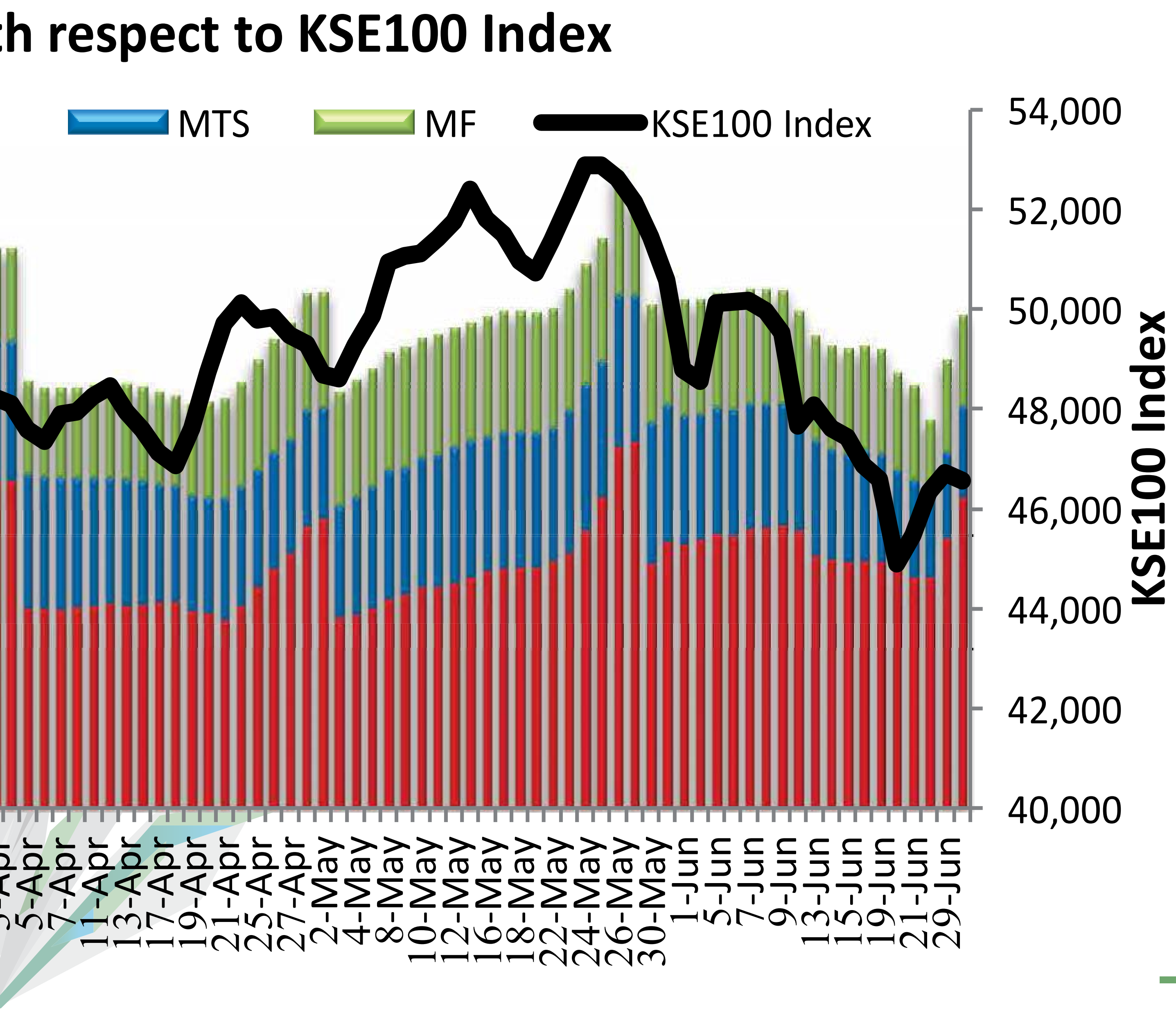
The following significant measures were taken to reduce systemic risk in the capital market:

Establishment of the Council of Regulators

In order to create a forum to deliberate on issues related to systemic risk, particularly those having cross market and stability implications, and suggest possible arrangements for crisis preparedness and issuing a coordinated response, the SECP and SBP have signed a letter of understanding to establish the Council of Regulators. Its establishment is aligned with the best international practices and marks a significant step to enhance the collaboration between the SBP and SECP for promoting financial stability in the country.

Risk profiling and stress testing implemented

In collaboration with the NCCPL, the SECP has led the development of a detailed investor-level risk profiling and stress-testing model for clearing and settlement. This model assigns probability of default to each investor based on criteria that includes settlement track record, availability of information, degree of regulation of the investor, experience of the investor in stock market trading, whether or not trading and



investments is the core line of business of the investor. This model provides the foundation for detailed risk-based stress testing. The NCCPL has fully implemented the reverse stress-testing model, whereas, implementation of regular stress test model is in advanced stages.

Criteria for margin eligible securities tightened

The criteria for equity securities accepted as margin by NCCPL was revamped. Now, only the high quality, fundamentally strong and liquid securities are accepted as collateral by NCCPL. The number of securities eligible as collateral reduced from around 130 securities to less than 60 securities. In addition, value at risk margin, initial margin and haircuts applied to the value of margin eligible securities also increased by 10%.

Liquidity requirements for equity funds enhanced

To manage systemic threat from redemption pressure on mutual funds during a market downturn, liquidity requirements for the relevant funds were enhanced. The SECP issued direction to AMCs to comply with the following:

a) The fund shall maintain 5% of net assets of funds as cash and cash equivalents;
b) The AMC shall obtain mandatory bank lines of 10% of net assets of relevant funds to meet redemptions during stress periods; and
c) A funds' exposure to illiquid securities is not to exceed 10% of net assets.

Risk governance framework for NCCPL implemented

Historical records reflect that systemic risk emanates from the clearinghouse in the Pakistan's capital market. Therefore, a comprehensive risk governance framework that is in line with the international practice was put in place at NCCPL. The risk committee comprises of independent directors, chief executive officer, chief regulatory officer, and industry experts. During the year, two meetings of the risk committee were held.

Risk governance framework for Pakistan Mercantile Exchange (PMEX) effected

A risk governance arrangement similar to that implemented at NCCPL has also been included in the licensing regulations of a futures exchange. The risk governance framework requires, PMEX, the only licensed commodity futures exchange, to constitute a robust risk committee for assisting it to develop risk management system and policies. Elements of risk governance include a risk committee headed by an independent director and including independent directors, chief executive officer, chief regulatory officer, and industry experts.

Proposal to address risk arising out of illiquid securities finalized

Historic data shows that there is a higher probability of market manipulation in small-cap illiquid stocks, which can also create stress for the clearinghouse. To address potential market manipulation and protect interest of small, uninformed investors, a separate trading counter for small-cap illiquid securities was proposed by SRD. After consultation and deliberation, the final proposal is being implemented by PSX.

Credit line for the clearinghouse under consideration

In order to enhance the capacity of clearing house in situations of extreme turmoil and to ensure smooth settlement of trades, SRD devised a detailed proposal to secure a bank line to complement the settlement guarantee fund maintained by the NCCPL. The proposal was presented to the SEC Policy Board, which supported it. It has also been shared in detail with the SBP. Because commercial credit lines provided by commercial banks are not suitable for the intended purpose, work is going on to identify and arrange a credit line that is fit for the purpose.

Capacity building in risk management

For continuing professional development of the SECP officers, five risk trainings and presentations were conducted during the year. Prominent risk professionals were invited to speak at these events. The Commission has approved scholarship programs for CFA and PRM for its employees. Two officers of SRD have appeared for CFA exams, and two officers are awarded PRM scholarships. Moreover, head of SRD also participated in two meetings of Asian consultative group of the Financial Stability Board, co-chaired by the SBP governor, to keep abreast of the latest developments in financial stability and systemic risk issues from a regulatory perspective.

Ongoing monitoring of leveraged open positions

The key factor contributing to systemic risk in the secondary market is leveraged speculation. The three key modes of leveraged trading in PSX are deliverable futures contract, margin trading system and margin financing. In addition, off-system, badla financing is an undocumented illegal mode of financing which has been reduced after a crackdown by the SECP. Leveraged open position is closely monitored by SRD and any unexpected hike in the position is promptly analyzed.

Settlement levels at the clearinghouse

The net settlement value at the NCCPL shows the net amount that is payable to/ from clearing members to NCCPL. Being the central counterparty, the NCCPL must settle any shortfall should a clearing member default. During the year, the net settlement value mostly remained between Rs2 billion to Rs4 billion, however, there were sharp upward fluctuations, the largest being a settlement of Rs20 billion arising out of merging of two clearings during Pakistan's inclusion in the MSCI Emerging Market Index.

A culture of risk analysis nurtured

During the year, systemic risk management issues were extensively debated by the SRD, the cross-functional risk committee of executive directors, and the Commission. As a result of these sustained and in-depth discussions, the organization has been able to gain a much deeper understanding of systemic risk factors. These discussions nurtured a healthy culture where policy issues are now routinely analyzed from the systemic risk's point of view.

Legislation and legal reforms

The SECP remained actively involved in the ongoing exercise to revamp the existing primary as well as secondary legislation. It vigilantly examined laws, rules and regulations, etc. which are administered by it and proposed amendments, wherever necessary. The Companies Act, 2017, Limited Liability Act, 2017, the SECP (Amendment) Act, 2016, Corporate Restructuring Act, 2016 were the notable statutes that were promulgated during the year. The SECP also reviewed and proposed drafts of the relevant laws meant to be enacted by the Parliament. The SECP drafted and reviewed various legislative instruments, including the following:

Primary legislation

- Companies Act, 2017
- Limited Liability Partnership Act, 2017
- Corporate Restructuring Companies Act, 2016
- Securities and Exchange Commission of Pakistan (Amendment) Act, 2016
- Companies (Appointment of Legal Advisors) (Amendment) Act, 2017
- Draft Corporate Rehabilitation Bill, 2016
- Draft Motor Vehicle Third Party (Amendment) Bill, 2017
- Draft Compulsory Group Life Insurance (Amendment) Bill, 2016
- Draft Modaraba Bill, 2017
- Draft Insurance Bill, 2017

Secondary legislation

- Centralized (Know Your Customer) Organization Rules, 2017
- Customer Compensation Fund (Establishment and Operation) Rules, 2017
- Listed Companies (Take over) Regulations, 2017
- Private Placement of Securities Rules, 2017
- Insurance Rules, 2017
- Futures Exchange (Licensing and Operation) Regulations, 2017
- Debt Securities Trustees Regulations, 2017
- Share Registrars & Ballotters Regulations, 2017
- Underwriter Regulations, 2017
- Securities Exchanges (Licensing and Operations) Regulations, 2016
- Listed Companies (Buy-Back of Shares) Regulations, 2016
- Clearing Houses (Licensing and Operations) Regulations, 2017
- Credit Rating Companies Regulations, 2016
- Public Offering (Regulated securities Activities Licensing) Regulations, 2017
- Public offering Regulations, 2017
- Securities and Futures Advisers (Licensing and Operations) Regulations, 2017
- Collateral Management and Warehousing (Establishment & Operations) Regulations, 2016
- Centralized Customer Protection Compensation Fund Regulations, 2017
- Securities Brokers (Licensing and Operations) Regulations, 2016
- Access to Inside Information Regulations, 2016
- Insurance Accounting Regulations, 2016
- Draft Credit and Suretyship (Conduct of Business) Rules, 2016
- Draft Employees Provident Fund (Investment in Listed Securities) Rules, 2016
- Draft Limited Liability Partnership Regulations, 2017

- Draft Corporate Restructuring Companies Rules, 2017
- Draft Bond Pricing Agency Rules, 2017
- Draft Search and Seizure Rules, 2017
- Draft Appellate Bench Rules, 2017
- Draft Associations with Charitable and Not for Profit Objects (Licensing & Corporate Governance) Regulations, 2017
- Draft Companies (Incorporation) Regulations, 2017
- Draft Intermediary (Registration) Regulations, 2017
- Draft Whistle Blowing Regulations, 2017

Proposed amendments to existing laws

- Draft Amendments to VPS Rules, 2005
- Draft Amendment to Public Sector Companies (Corporate Governance) Rules, 2013
- Draft Amendment to Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003
- Draft Further Amendment to Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003
- Draft Amendment to Single Member Companies Rules, 2003
- Draft Amendments to Insurance Rules, 2017
- Draft Amendment to Companies (Issue of Capital) Rules, 1996
- Draft Amendment to Companies (General Provisions and Forms) Rules, 1985
- Draft Amendments to Legal Advisor Rules, 1974
- Draft Amendments to Modaraba Rules, 1980
- Draft Amendments to Asset Back Securitization Rules, 1996
- Draft Amendments to NBFC Regulations, 2008
- Draft Amendments to Stock Exchange (Corporatization, Demutualization and Integration) Regulations, 2012
- Draft Amendments to Issue of Commercial Paper Regulations, 2013
- Draft Amendments to Research Analyst Regulations, 2015
- Draft Amendments to Clearing House (Licensing and Operations) Regulations, 2016
- Draft Amendments to Securities Broker Regulations, 2016
- Draft Amendments to Central Depositories (Licensing and Operations) Regulations, 2016
- Draft Further amendments to Central Depositories (Licensing and Operations) Regulations, 2016
- Draft Amendments to Companies (E-voting) Regulations, 2016
- Draft Amendments to Companies (Registration Offices) Regulations 2003
- Draft Amendment to Issue of Sukuk Regulations, 2015
- Draft Amendments to the Insurance Companies (Sound and Prudent Management) Regulations, 2002
- Draft Amendments to the sixth schedule of the Companies Ordinance, 1984
- Draft Amendments to the Reporting and Disclosure(of Shareholding by Directors and Executive Officers and substantial shareholders in Listed Companies) Regulations, 2015

Enforcement

Capital markets

During the year, the SECP continued to consolidate and augment its efforts to ensure compliance with the regulatory framework by the corporate sector and capital market participants. The extended efforts covered a range of activities such as onsite inspections, offsite review, enquiries, investigations and specialized inspections, the ultimate objective being that all regulated entities comply with and implement the SECP's regulatory framework in its true spirit.

In order to ensure the orderly execution of the market operations, significant measures have been taken. A total of 16 investigations were initiated, out of which 13 were completed.

Furthermore, to ensure the compliance of market participants and securities brokers with relevant rules and regulations, the compliance reviews were conducted in the last year and 1150 cases were forwarded for adjudication against the non-compliant securities brokers.

A total of 155 notices were issued to listed companies seeking explanation for unusual price and volume fluctuation. The summary of actions taken during the year is given below:

Enquiries conducted/initiated against market participants				
	2014	2015	2016	2017
Market manipulation	3	2	6	9
IPO/book building	1	0	1	2
Insider trading	0	3	10	9
Total	4	5	17	20

Adjudication

The breakdown of enforcement actions initiated by the PRPD during the period under review is as follows:

Show cause notices issued	Referred to PSX/ CDC for further necessary action	Orders/warning issued	Warning letters issued	Penalties imposed
254	760	246	10	Rs53 million

Cases referred for adjudication	
Nature of violation	**Number of cases**
Insider trading	6
Non-disclosure of information	4
PSX Regulations	227
CDC Regulations	206
Securities Brokers (Registrations and Operations) Regulations, 2016	132
Commission direction/inspection/circular	790
Others	17
Total	1396

Cases referred for criminal prosecution	
Violation	Number of cases
Insider trading	3
Market manipulation	8
Total	11

Details of actions against brokers				
	2014	2015	2016	2017
Onsite inspections completed				
Karachi	25	18	14	7
Lahore	-	4	8	5
Islamabad	-	-	1	2
Self-regulatory organizations	-	-	1	1
Credit rating agencies				2
Enquiries and investigations				
Enquiries initiated against unauthorized handling of clients' assets	1	2	4	0
Investigations initiated against unauthorized trading in clients' account	-	1	4	12
Follow-up inspections	-	-	3	4
Thematic reviews				
Completed thematic reviews on segregation of clients assets				101
Completed thematic reviews on illegal/in-house financing				52
Completed thematic reviews on clients' trade related information				8
Training initiatives				
Training for NAB officials				1
Training for securities brokers on AML/CFT				1

Offsite monitoring and surveillance of capital market participants

During the year, 596 letters were issued to the securities brokers who had failed to submit their financial returns for various quarters or were irregular filers requiring them to ensure submission of pending quarterly financial returns of various quarters while ensuring full compliance in the future.

Review of information

The following information received from the exchanges, CDC and NCCPL was reviewed.

Offsite forms	2015	2016	2017
Stock exchanges	438	289	160
CDC	36	36	36
NCCPL	84	49	153
PMEX	121	122	121
Review of system audit reports of stock exchange brokers	124	141	35
Review of system audit reports of brokers of PMEX brokers	44	48	31
Review of CDC inspection reports of participants	172	11	0
Review of joint inspection reports		24	42

Compliance reviews

For the first time, a comprehensive compliance assessment of PSX, NCCPL and CDC was conducted. The assessment process was aimed at assessing and enhancing the overall functioning of SROs. Furthermore, a number of theme-based reviews were conducted aiming to identify areas of non-compliance by the market participants and assess the robustness of monitoring mechanism/controls of SROs. Such reviews included the following areas:

- Internet trading regulations
- Trading by employees of brokerage houses
- Securities' brokers functional website
- Advertisements of business by brokerage houses
- Common mobile number against multiple sub accounts
- Common email address against multiple sub accounts
- Order recording
- Appointment of compliance officer
- Disaster recovery site terminal

The findings of the compliance reviews were shared with the respective SROs in order to assist them in strengthening their controls.

Revamp of reporting by SROs

The reporting and monitoring system was revamped with an introduction of a total of 29 new reports to be filed by PMEX periodically. The reports have been designed while taking into account the findings of the compliance reviews conducted during the year.

Joint inspection regime

After the introduction of Joint Inspection Regime (JIR) efforts were made to strengthen this area. Necessary changes in regulatory framework and guidance was provided to Oversight Committee to effectively deliver the expected results.

In order to have deterrence on the regulated persons, follow-up inspections were introduced, during the period, to ensure that brokers, once inspected either by the Commission or under Joint Inspection regime, ensure compliance with the applicable regulatory framework.

Beneficial ownership

The returns of beneficial ownership and online annual return by listed companies are required to be filed within the prescribed time limit. During the year, the following actions were taken for non-compliance:

	Category	Number of returns in 2015	Number of returns in 2016	Number of returns in 2017	Percentage change 2016-2017
1	Compliance letters issued	600	535	300	(43.92)%
2	Warnings issued	71	83	50	(37.5)%

Actions under Section 105 of the Securities Act, 2015 and Section 224 (2) of the Companies Ordinance, 1984 (now stands repealed and replaced with Section 104 and 105 of the Act) for recovery of tenderable gain.

During the year under review, recovery of tenderable gain amounting to Rs9.823 million was made from the beneficial owners of listed companies. The gain cases disposed of during last three years along with the percentage change are as under:

	Category	Number of cases in 2015	Number of cases in 2016	Number of cases in 2017	Percentage change 2016-2017
1	Recovery of tenderable gain	4	4	10	150%
2	In addition to above 10 cases, Fossil Fuel (Pvt.) Limited (BO of Hascol Petroleum) has proceeded to court against recovery of tenderable gain of Rs24,532,399				

Future outlook

- Onsite inspection of other licensed activities such as RTA/TA, credit rating companies is planned for 2017-18
- Compliance review of Pakistan Stock Exchange Limited
- Compliance review of National Clearing Company of Pakistan Ltd
- Compliance review of other SROs
- Thematic reviews of TREC holders
- Follow-up inspections of TREC holders on a regular basis
- Standardization of back office records of securities brokers

Enforcement of corporate sector

Public Sector Companies (Corporate Governance) Rules, 2013

The enforcement activities undertaken during the year include the following:

- Issuance of show-cause notices under rule 25 of the rules during the year to 87 companies that have failed to file their statement of compliance for the year ending June 30, 2016 and earlier, with the SECP
- Issued letters, emails and reminders to all companies to file statement of compliance. Moreover, demand notices were issued to 130 companies

Investigation into affairs of companies

Processed nine applications during 2016-17 under Section 263 and 265 of the Companies Ordinance, 1984, for investigation into the affairs of the companies.

Adjudication of cases under the ordinance

The registrar of companies and the CROs initiated adjudication proceedings in 5,428 cases for violation of various provisions of the Ordinance.

Enforcement actions against private companies having paid-ud capital of below Rs100m

During the year, 1,570 annual audited financial statements of private companies having paid-up capital of below Rs100million were examined and explanations with regard to various violations observed during the examination of the audited financial statements were sought.

Here is the summary of total actions taken against the companies and their statutory auditors on account of various defaults:

Particulars	2016-17
Show cause proceedings initiated (if any)	358
Cases concluded through orders	250
Warnings issued after account's examinations	22

Dissolution of companies

The SECP disposed of 502 cases of dissolution of companies. Of these, six companies wound up voluntarily, and 496 companies were struck off from the register under Section 439 of the Ordinance.

Offsite surveillance, inspections/investigations and adjudication

During the year, 986 annual audited financial statements of listed, non-listed and private companies and companies registered under sections 42 and 43 of the Ordinance were examined. Where required, explanations were sought to check compliance with various provisions of the Ordinance and the administered laws and proceedings were initiated in cases where violations were identified. The summary given below reflects the stringent regulatory oversight, actions and expeditious disposal of proceedings by the department, over the years:

Regulatory actions taken during the last three years			
Particulars	2015	2016	2017
Examination of accounts	928	851	986
Warnings against examination issued	119	308	132
Show cause proceedings initiated	315	276	488
Cases concluded through orders and warnings	247	376	430

The breakdown of the regulatory actions taken against the companies, their directors and auditors under various sections of the Ordinance over the preceding three years is given here:

Break-up of regulatory actions taken during the last three years			
Particulars	2015	2016	2017
Inter-corporate financing	8	4	5
Powers of directors	2	7	6
Making false and incorrect statements	23	26	17
Actions against auditors	22	34	12
Non-preparation and submission of consolidated financial statements	4	4	2
Irregularities in provident fund	14	16	24
Surplus arising out of revaluation of fixed assets	3	-	-
Irregularities in utilization of security deposits	11	3	2

Authentication of balance sheet	8	7	1
Improper issue, circulation or publication of balance sheet or profit-and–loss accounts	53	-	-
Non-late holding of annual general meeting	14	42	37
Meetings of board of directors and disclosure of interest	5	4	2
Enforcing compliance with the provisions of the ordinance	-	35	87
Circulation of quarterly accounts	17	107	93
Late filing of cost audit report and non-submission of applications by companies for appointment of cost auditors	3	3	6
Actions under listed companies 2002 (Substantial Acquisition of Voting Shares and Takeovers) Ordinance	1	-	-
Application for revision and review of orders	5	7	3
Case referral of criminal proceedings	-	6	-
Securities Act orders	-	60	-
Others	54	11	133
Total orders	247	376	430

Inspection/investigations

Investigations/inspections constitute a salient aspect of the SECP's role as the regulator of the corporate sector. During the year, four investigation proceedings were initiated against listed companies and one against an unlisted company based on various adverse indicators, including serious qualifications by auditors, adverse financial position and performance disposal of substantial assets at loss, non-submission of mandatory information and serious non-compliances with the international financial reporting standards etc. Additionally, 29 inspections were ordered during the year under Section 231 of the Ordinance. Out of the total inspections ordered, six have been concluded and reports are submitted to the Commission while 23 inspection proceedings are in process. The data relating to inspections/investigations conducted during the last three years is given below:

Inspections/investigations conducted in the last three years			
Particulars	2015	2016	2017
Inspections	Nil	3	29
Investigations	3	3	5

Enforcement of the NBF sector

Offsite examination and enforcement

The SECP continuously examines financial health and assesses regulatory compliance level of non-bank financial companies (NBFCs), notified entities (NEs) and modarabas on the basis of published information and data received electronically through specialized companies returns system (SCRS) on a monthly basis.

Offsite examination of all asset management companies, mutual funds, pension funds, investment advisory portfolios and deposit / non-deposit taking lending institutions (i.e. leasing companies, investment banks and modarabas) is conducted on a semi-annual basis. However, due to implementation of the enforcement manuals, the coverage and scope of the offsite examination was meaningfully enhanced, therefore, the frequency of offsite examination decreased from quarterly to half yearly.

The findings observed during offsite examinations of entities were taken up with respective entities primarily through compliance and warnings letters. Statistics of offsite examinations conducted during the last two years are as follows;

Category of entity	Total number of offsite reviews	
	2015-16	2016-17
Asset management companies	80	40
Investment advisors	4	4
REIT management companies	6	3
Investment banks	21	16
Leasing companies	24	16
Modarabas	75	50
Total	210	129

During the year, based on the offsite and onsite inspection reports and otherwise, the major actions taken against non-compliant NBFCs and modarabas are as follows:

- Orders were issued under Section 282 (J) (1) read with Section 282 (M) (1) of the Companies Ordinance 1984, to three asset management companies on account of deduction of sales load from walk-in customers which was in contravention with Circular 26 of 2015. These asset management companies were also directed under Section 282 (D) of the Companies Ordinance, 1984 to submit quarterly reports regarding measures taken to ensure compliance with Circular 26 of 2015
- An order was issued under Section 282 (J) (1) read with Section 282 (M) (1) and 282 D of the Companies Ordinance, 1984, to an asset management company in a matter relating to excess deduction of sales load on the sale of mutual fund units. Subsequently, asset management company refunded an excess amount of Rs19.86 million charged to the investors. Further, through an order, asset management company was also warned to remain careful in future and ensure full compliance with applicable laws, circulars and directions of Commission
- Thematic review of mutual fund industry was conducted in order to assess practices adopted by the companies for charging sales load with reference to Circular 26 of 2015. Resultantly, warning letters were issued to seven asset management companies for violating requirements prescribed under the said circular
- Review of equity portfolios of voluntary pension schemes was conducted to ascertain compliance of investment policy prescribed under circular 36 of 2009. Warning letters were issued to six companies, which were found non-compliant
- Warning letters were issued to five asset management companies for breaching brokerage expense limit prescribed under regulation 37 (7) (h) in various collective investment schemes under their management
- Matters highlighted by the trustees of mutual funds were also taken up with the respective asset management companies for necessary compliance
- During the year an order was passed against a modaraba management company (MMC) whereby a penalty of Rs50,000 was imposed for non-disclosure of related party transaction in the financial statement while a penalty of Rs100,000 was levied for violation of a modaraba provision, which requires that the assets and liabilities of each modaraba shall be separate and distinct from those of the modaraba company
- An order passed under Section 282E of the Companies Ordinance, 1984, against a leasing company to prevent its affairs from being conducted in a manner detrimental to the interests of shareholders and prejudicial to the interest of the Company. The Company was advised to conduct fresh election of

the Board, appoint a new company secretary, turn around the operations of the Company and comply with the applicable regulatory framework

- Direction under Section 282D of the Companies Ordinance, 1984 was issued to an investment bank to cease raising any fresh deposits in any form. The Company was also directed not to repay/settle deposits of its sponsors/directors/associated companies/related parties till dues of other depositors are completely paid off
- An order was issued under Section 282J of the Companies Ordinance, 1984 to the Board of directors of an investment bank for its failure to comply with the minimum equity requirement and honour repayment obligations to depositors. In view of the foregoing, penalty of Rs1 million was imposed on each of the directors and CEO of the Company
- During the year under review, one modaraba management company (MMCs) was deregistered as it had no plan to float or manage a modaraba in the future
- An order was passed under Section 20 of the Modaraba Ordinance whereby the management rights of a modaraba were restored and transferred back to its management company

Statistics pertaining to various types of enforcement actions taken during the last two years are given below:

Enforcement actions	2015-16	2016-17
Compliance letters	356	299
Warnings /directions	19	37
Show-cause notices	19	12
Orders	16	12
Total	410	360

Onsite inspection

Onsite inspections of NBFCs, notified entities and modarabas is an essential component for the efficient and effective supervision of the NBFC and modaraba sector. The selection of entities is based on the risk assessment criteria and on recommendations made by other wings and departments.

During the year, inspections of eight entities, including seven asset management companies and one leasing company were conducted, covering 48% of the total NBFC and the modaraba sector.

Financial year	Total inspections conducted	Percentage pf asset size covered (NBFC and modaraba sector)
2014-15	15	40%
2015-16*	11	25%
2016-17	8	**48%

**In addition, in the year 2015-16, onsite inspection wing also carried out thematic/focused inspections of entire mutual fund industry (22 entities) in order to ascertain compliance with Circular 12 of 2009 regarding customer due diligence (CDD)/ know your customer (KYC) requirements.*

***Excluding non-bank micro finance companies.*

Further, in the current financial year 2016-17, a thematic exercise was carried out in order to assess the compliance of 18 asset management companies with SECP's Circular No. 23 of 2013 and Circular No. 26 of 2015. In addition, a limited scope inspection of a REIT management company was also conducted during the year.

Enforcement of insurance sector

Effective and prudent supervisory process is prerequisite to the development of sound and stable insurance sector. Supervision of financial institutions is undergoing a fundamental and global transformation amid the development of innovative financial products, global integration of businesses and technological advancement. It is imperative to align the supervisory practices with the changing business dynamics and evolving regulatory environment.

Offsite supervision

The SECP has initiated the process of gradual shift towards the risk based supervisory practices and has conducted offsite review of annual audited accounts of insurers based on risk based supervision principles, developed early warning system and the supervisory ladder. Presented below is the snapshot of offsite supervision activities during the fiscal year 2016 – 17.

Information on offsite supervision during the year July 2016 – June 2017

Nature of actions/correspondence	Numbers
Offsite reports completed	61
Adjudication recommendation notes (ARNs)	43
Warning letters	17
Compliance/advice letters	1

Onsite inspections

The onsite inspection of insurance companies is conducted regularly in accordance with the annual inspection plan developed by the SECP. The plan is developed on the basis of indicators of financial strength, compliance level, business performance, and such other risk assessment criteria. Besides the annual inspection plan, the inspection of insurers is also conducted on the basis of input received from other departments or wings within the insurance division of the SECP. The activities undertaken by the onsite inspection function during the period under review are presented below in a nutshell.

Information on onsite inspections conducted during the year July 2016 – June 2017

Nature of actions/correspondence	Numbers
Onsite inspections/ investigations conducted	10
Adjudication Recommendation Notes (ARNs)	11

Enforcement activities

The criticality of sound, independent and well segregated enforcement actions cannot be undermined. The summarized form of enforcement activities conducted during the fiscal year 2016 – 17 is presented below.

Nature of actions/ correspondence	Numbers
Information Assessment Note (IANs)	63 (against Total 65 ARNs received from different wings)*
Show cause notices	60
Orders	57
Penalties imposed	Rs5,601,000

**9 ARNs were sent by complaints function, two ARNs were sent by the policy wing, 43 ARNs were sent by the offsite wing and 11 ARNs were sent by the onsite function of Insurance Division.*

International relations

International Organization of Securities Commissions (IOSCO)

The SECP is an active member of the International Organization of Securities Commissions (IOSCO), which is the international policy forum for securities regulators. It is the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities' markets in more than 115 jurisdictions.

The SECP is a member of the IOSCO governing body. In 2016 it was elected to its board for a third term from the Asia-Pacific region. The SECP is also engaged on various IOSCO forums, including Assessment Committee, Growth and Emerging Markets (GEM) Committee, Asia Pacific Regional Committee (APRC) and Committee on regulation of market intermediaries. Furthermore, the SECP is a full signatory to the IOSCO multilateral memorandum of understanding (MMOU), which is an international benchmark for cross-border cooperation and a tool for securities' regulators for combating the cross-border fraud and misconduct that can weaken global markets and undermine investor confidence.

IOSCO Assessment Committee's Country Review of Pakistan's implementation 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. The IOSCO Assessment Committee (AC) undertook a comprehensive Pakistan Country Review for assessing implementation of IOSCO Principles. Final Review was published after approval of IOSCO Board in July 2015. The review acknowledged progress achieved by the SECP since its last FSAP in 2004 while also sharing valuable recommendations to further improve Pakistan's rating against international benchmarks. The SECP took vigorous measures to address these recommendations through a comprehensive time-bound action plan and submitted to IOSCO the progress achieved in implementation of review recommendations through progress reports, the first in December 2015 and the second in July 2016. Considering that a follow-up review is significant to achieve the objective of implementation and progress on IOSCO Review Recommendations, SECP urged IOSCO AC for a follow-up review. The AC committed to undertake Pakistan's follow-up review during 2017. The SECP will be the first jurisdiction undergoing follow up review by the AC.

In June 2017, the SECP shared the consolidated progress report with IOSCO AC in the context of follow-up country review of Pakistan reflecting the actions taken to address the IOSCO's Review recommendations. The AC follow-up review of Pakistan started in June 2017.

International Association of Insurance Supervisors (IAIS)

The insurance supervisors from across the world established in 1994, the International Association of Insurance Supervisors (IAIS) as the international standard setter in the field of insurance regulation in order to promote effective international cooperation for information sharing among member for strengthening insurance supervisory regimes. The SECP is a member of the association that now represents insurance supervisors from more than 200 jurisdictions, constituting 97% of the world's total insurance premiums. The SECP is closely working with the IAIS on its application to the IAIS MMOU. The IAIS MMOU is a global framework for cooperation and information exchange between insurance supervisors.

The IAIS has adopted a comprehensive set of the IAIS Core Principles (ICPs) as the international regulatory benchmarks and the best practices for the regulation and supervision of the insurance industry, to be implemented in all member jurisdictions. The World Bank in 2014 assessed Pakistan's implementation of the ICPs and made various recommendations to enhance Pakistan's compliance with them. In order to implement these recommendations, the insurance legal framework was significantly amended. The Insurance Bill was forwarded to the federal government for parliament's approval. Necessary changes have already been implemented within the SECP's supervisory framework to align our regulatory framework with international standards.

In 2007, the IAIS adopted a multilateral memorandum of understanding (MMOU) as an international benchmark for cooperation and information sharing among IAIS members. The IAIS encourages global adoption of its MMOU considering that closer cooperation and information exchange among insurance supervisors is an extremely important aspect for strengthening insurance supervisory regimes. Considering that accession to IOSCO MMOU is material for credibility of Pakistan's insurance markets, the SECP submitted its application to the IAIS secretariat seeking MMOU signatory status. The application is currently under validation by the IAIS.

Multilateral matters

South Asian Securities Regulators' Forum

The SAARC capital markets regulators established the South Asian Securities Regulators' Forum (SASRF) in 2005 to work on the agenda of cooperation and facilitate the exchange of information and experiences within the SAARC region. In order to achieve the SAARC's objective of "economic integration of SAARC countries", the SECP as chair of the forum believes that SASRF could play an important role in this area. As the next SAARC summit is scheduled to be held in Pakistan, the SECP is planning to host the third session of the SASRF on the sidelines of the summit.

World Bank assessment under Reports on the Observance of Standards and Codes (ROSC) Program

During the year, the World Bank was invited to conduct a country assessment of accounting and auditing (A&A) under the Report on Observance of Standards and Codes (ROSC) program based on the SECP's self-assessment of ROSC (A&A). It may be noted that most of the gaps in implementation from 2005 ROSC (A&A) and 2016 ROSC (A&A) have already been addressed through appropriate provisions incorporated in the Companies Act, 2017. Work has also been started on implementation of the remaining recommendations.

The World Bank submitted a final draft of the 2017 Pakistan –ROSC A&A. The SECP has approved the report for publication by the World Bank.

A self-assessment of ROSC corporate governance was carried out by the SECP during the year and the gaps identified were addressed through appropriate provisions in the Companies Act, 2017, and amendments to the legal framework as well as systems and procedures. ROSC corporate governance self-assessment was shared with the World Bank for its review. The World Bank review team visited Pakistan in April-May 2017, and is currently finalizing the Pakistan ROSC corporate governance assessment.

Implementation of OECD – automatic exchange of information

Pakistan is a signatory to the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters, to combat tax evasion through automatic exchange information on residents' assets and incomes. The SECP is an active member of the pilot project team established by the Finance Minister to implement the Convention within its regulated financial sector. The Common Reporting Standard Rules under the Income Tax Ordinance, 2001 in line with the OECD Standards were prepared and notified vide SRO No.166 (I) 2017 dated March 15, 2017 after extensive stakeholders consultations to set out the reporting requirements and due-diligence procedures for the financial institutions. The SECP arranged various awareness sessions for the industry to create understanding of the industry on their reporting obligation under the rules. Financial institutions are now required to start the review and due diligence process from July 1, 2017.

UN Convention against Corruption (UNCAC) - Country Review of Pakistan

The SECP contributed to the country review of Pakistan on implementation of the United Nations Convention against Corruption (UNCAC) undertaken by the international assessors in collaboration with the National Accountability Bureau of Pakistan (NAB). The SECP addressed the gaps identified by the assessors in the legal framework through improvements to the legal framework.

Future outlook

Completion of IOSCO AC follow-up review of the SECP's implementation of IOSCO Principles

Keeping in view the importance of being an active member of international bodies recognized as global standard setter for regulators, the SECP will submit application for becoming a signatory to IOSCO's enhanced multilateral memorandum of understanding (EMMOU), which will ensure enhanced information sharing and cooperation between the IOSCO members.

During 2017-18, the SECP will also endeavor to complete validation process for its accession to the IAIS MMOU.

Investor education

Investor education acts as the driving force to build and maintain the investor confidence in the market. It serves by imparting education related to incipient products and services in order to fashion an overall environment of informed and cognizant investor who then boosts country's local economy. Carrying out its principal responsibilities, the Investor Education and International Relations Department (IEIRD) steered multidimensional activities throughout the year and a number of new initiatives were successfully completed. Jamapunji is an investor education initiative of the SECP to raise financial literacy in Pakistan. The primary purpose of the initiative and the subsequent newspaper campaign was to protect the investment of the investors and save them from any possible risks.

Key achievements

- 11,850 registered users with Jamapunji portal (www.jamapunji.pk)
- 13,800 likes on Facebook and 326 followers on Twitter
- 1648 people subscribed to 8181 SMS service
- 1,300,740 total visits on Jamapunji portal since its inception
- Established collaborative partnership for promoting investor education by signing MOUs with five institutions:
    - The Institute of Chartered Accountants of Pakistan (ICAP)
    - Institute of Cost and Management Accountants of Pakistan (ICMAP)
    - Association of Chartered Certified Accountants (ACCA)
    - National University of Modern Languages (NUML)
    - Pakistan Expo Centres (Pvt) Limited (PEC)
- Conducted 108 seminars/sessions at universities, corporate bodies, professional accounting bodies, for start-ups, organized awareness sessions for Office of Research and Incubation Centres (ORICs) etc
- Organized two mock trading competitions at university level with the incentive of cash prizes whereas the competition was launched as a regular feature to be organized on a monthly basis
- Published 66 public service messages in newspapers under the Jamapunji media campaign
- Public service messages were broadcast via Pakistan Broadcasting Corporation during cricket commentary of Pakistan Super League (PSL) and Pakistan vs West Indies ODI series
- Investor education material was developed and disseminated for public awareness through Central Depository Company of Pakistan (CDC), Pakistan Stock Exchange Limited (PSX) and Mutual Fund Association of Pakistan (MUFAP)
- In collaboration with the Higher Education Commission (HEC) and ORICs organized events in the regions of Islamabad, Lahore and Karachi
- Four faculty development programs attended by 170 faculty members of various universities were conducted in Islamabad, Lahore and Karachi in collaboration with the HEC
- Investor awareness sessions were conducted for employees of Rawalpindi Islamabad Tax Bar Association (RITBA), National Database and Registration Authority (NADRA), Workers Welfare Fund (WWF), National Highway Authority (NHA) and journalists at the National Press Club in Islamabad.
- First ever Capital Market Expo in Peshawar was conducted in association with Central Depository Company (CDC)
- Participated in corporate networking events organized by the Association of Chartered Certified Accountants (ACCA) in Peshawar, Faisalabad and Multan.

- Conducted investor awareness programs for the trainees and employees of A.F Ferguson 7 Co, EY Ford Rhodes Pakistan and KPMG Taseer Hadi & Co Chartered Accountants in the regions of Islamabad, Lahore and Karachi.

Future outlook

- Inter-university stock trading competition will be organized regularly
- MOUs with corporate bodies will be signed to expand the outreach of financial awareness
- Development and dissemination of investor education material in the form of guide booklets and flyers
- Development of a Master Guidebook as a reference book for university students
- Capacity building of the faculty members of various universities as resource persons to conduct Jama Punji seminars
- Expanding the outreach of Investor Education Plan with universities of KPK, Sindh, Balochistan and Punjab by holding investor education seminars
- Conducting investor education seminars and events in collaboration with other stakeholders
- Radio programs from educational channels managed by various universities and through FM/Radio Pakistan
- Public service messages will be broadcast via radio channels
- Orientation sessions to promote entrepreneurship among the students will be held in collaboration with the HEC; and
- Curriculum development for management science programs in collaboration with the HEC

Investor grievances

The financial year 2016-17 was a period of monumental success for the SECP with reference to investor protection as to provide a better forum to investors and the public for easy access to investor education and grievance resolution.

Launch of toll-free facility

In May 2017, the SECP successfully launched its toll-free facility 0800 88008, replacing the SECP's old UAN number 111 117 327. Awareness of this new cost-free call facility was appropriately made through the print media, the SECP's website and the jamapunji portal. The facility integrated with the online Service Desk Management system has enhanced the SECP's capability to monitor downtimes and call handling standards.

The SECP enhanced its Service Desk's human resource capacity in advance to address a larger quantity of incoming call load. During the year, the Service Desk Agents were given regular departmental trainings equipping them with relevant knowledge for better addressing the caller's queries. As a result, callers have quicker and better access to our Service Desk agents and so the SECP has successfully elevated its service standards.

The new system has better reporting capability, helping the SECP improve its service standards by conducting weekly and monthly reviews as per the Service Desk Guideline 2017. These service desk guidelines too are available on the SECP's website for easy access and better guidance, in particular regarding the query and complaint lodging prerequisites and their handling procedure.

Launch of the new Service Desk Management System

The launch of the toll-free facility was soon followed by the launch of the SECP's new and much more advanced Service Desk Management System on June 1, 2017. This online facility has many new features, offering significantly more convenience to the enquirer/complainant for lodging queries and complaints.

Better information security for the public and SECP

The new online system requires a mobile phone PIN verification without which lodging a query or complaint is not possible. This ensures that an individual with a trackable real identity is lodging a concern with the SECP and it is not frivolous. Also, once the query/complaint is lodged, unique credentials are shared with the enquirer/complainant, giving exclusive log-in access to the enquirer/complainant to check the current status in the system directly.

Prompt and regular SMS and email notifications and prompts

Not only does the new system send query/complaint registration confirmation messages via SMS and email to the enquirer/complainant but it also sends auto generated prompts via email and SMS to the concerned regarding any new action taken by the relevant department of the SECP.

Ability to express concern in Urdu and English

For the convenience of the public the query/complaint lodgement interface was made available to the public in both Urdu and English languages with self-guided visuals and help tools for accurate submission of the issue directly to the relevant department.

Video instructions on system use in Urdu and English

In order to further facilitate the public instructional videos have been placed on the home page of the new Service Desk Management System accessible through the SECP's website. These brief videos explain the very easy to follow steps to successfully lodge a concern with the SECP.

Access to investor education resources, FAQs and guides

Comprehensive FAQs about the sectors regulated by the SECP, and guidance on how best to approach the relevant forum for complaint lodgement have been uploaded on the home page along with provision of a link to detailed and updated guides.

Mobile friendly

The new system was made available in a manner that one can lodge her/his concern, get regular updates and monitor progress on the lodged issue through the Service Desk Management System by using one's smart mobile phone. This gives more flexibility and ease of use on the go to the public.

Benefits to SECP for effective monitoring of service desk facilities to the public

The new system has many enhanced benefits for the SECP, helping it better handle, monitor and report queries and complaints statistics. Some of the substantial benefits of the new system are:

Central database

The Service Desk guidelines, 2017 deem it compulsory on all complaint handling departments to lodge their complaints in the system and that nothing should be handled outside of the system. This makes queries and complaints data recording comprehensive and there is little chance of mishandling of an issue.

Better delegation and enhanced accountability

The new system has multiple internal departmental users. The Service Desk assesses the nature of the lodged concern and delegates its handling to the relevant point of contact in the relevant department through the system. All activities conducted by the handling officer and even the enquirer/complainant in the system become part of the record/trail, reviewable in detail by the Service Desk in charge, relevant HOD and even the relevant Commissioner.

Built-in escalation for better monitoring

The new system has a built-in escalation mechanism so that if a query or complaint is not being handled within the permissible turnaround time, it gets escalated to senior officials prompting them to take action. The ultimate escalation level is up to the Commissioner level. This auto monitoring feature keeps the SECP on its toes as an organization and to give maximum possible attention to the aggrieved.

Advanced reporting features

The new system has detailed real time reporting capability. This means that all reports are available on a click to the SECP system users detailing the most current data. Through these reports, relevant complaint handling departmental supervisors and higher management have access to each service desk agent's and query/complaint handling officer's performance. Data about queries and complaints is available with detailed ageing. Also it is now possible to surgically study the nature of the most frequently received queries and complaints.

Due to an intensive data migration exercise, almost 3,000 past records of complaints are being cleansed to reflect further details, which will help in getting better trend analysis. This will give even better insights and will help the SECP to study market intermediaries and the nature of the specific complaints in detail. Such data and statistical intelligence may help the regulator to prevent possible incidents of fraud in the future.

Complaints and queries highlights for the year

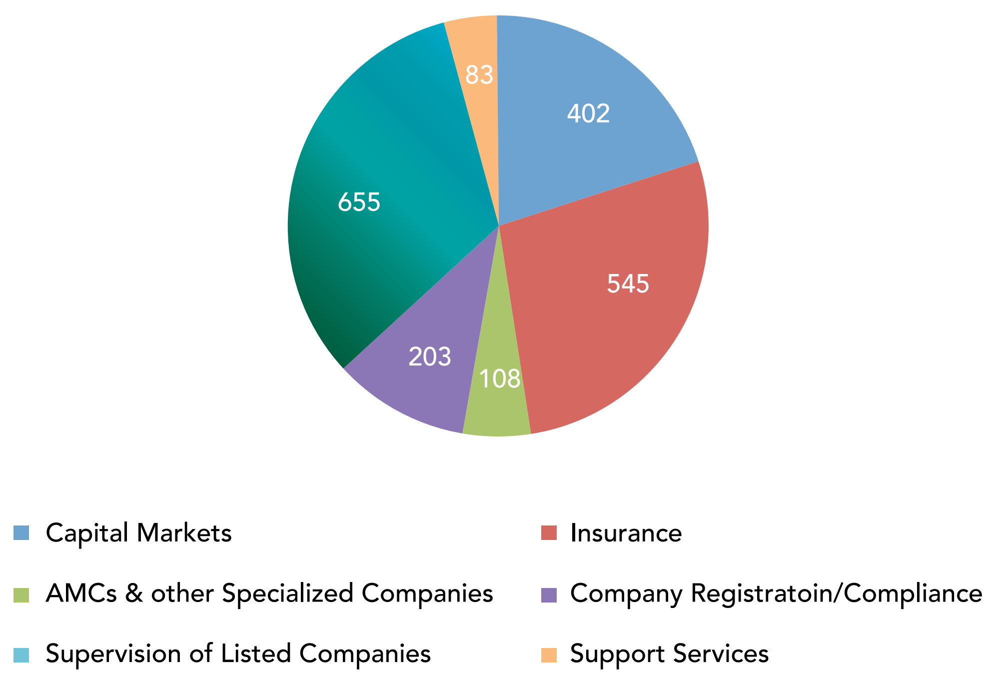
The Service Desk Guidelines, 2017, allow assigning any of the following statuses to complaints during the handling process and upon concluding action on them:

1. In process
2. Third part referred
3. Sub judice
4. Closed
5. Resolved

In case of queries, a query can either be assigned the status In Process or Closed. Other options do not apply to queries.

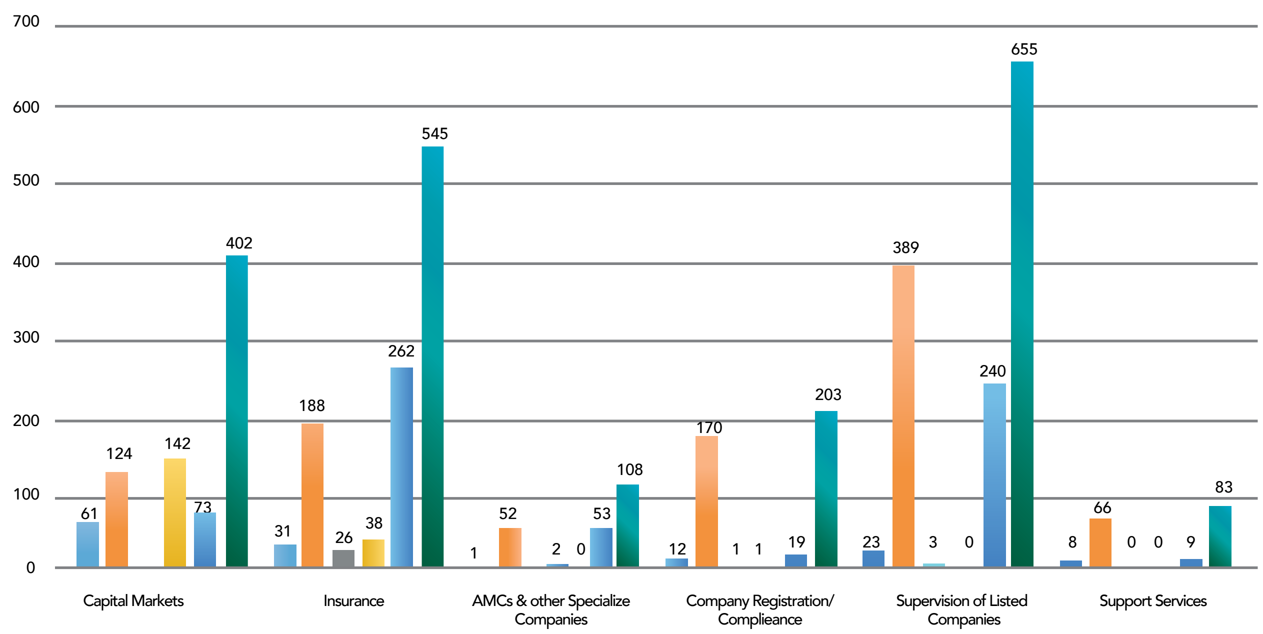
During 2016-17, the SECP received 1,993 complaints; 96% were handled by core functions of the SECP such as SMD, SCD, CSD, CCD and insurance while the remaining 4% were handled by support functions, including issues related to eServices and technical complaints.

Total complaints 2016/2017



Eighty-three percent of all complaints received were successfully disposed of being assigned closed and resolved statuses.

Of the total pending complaints, 9% have been referred to third parties mostly PSX and relevant companies for their input for the SECP to proceed further in these matters, 2% are sub judice mostly related to cases of wound up entities and defaulted brokers, while the remaining 7% are still in process. The ageing analysis reflects that all complaints are efficiently being managed by the SECP.



A little over 250 complaints in all are in the aging bucket of 45+ days, which are primarily cases with law enforcement agencies and courts of law.

Ninety percent of all complaints received came through emails or postal mail with the remaining 10% lodged came through the online system. With the implementation of the new Service Desk Management System and through the SECP's investor education drive, it is expected that the proportion of system lodged complaints will gradually increase.

Most common nature of complaints received during the year related to issues of:

1. Settlement of Benefits against non-active brokers in the case of capital markets
2. Refund of premium/policy cancellation, bancassurance, and Benefits in the case of insurance
3. Asset management companies, mutual funds and RIETS in case of SCD
4. Transfer of shares, dispatch of shares, signature verifications etc. in case of CSD

Future outlook

With the implementation of the new Service Desk Management System, the SECP will have a better capability to add value and allow improvements to internal operations in the future. The improvement areas foreseen are:

1. Further development of FAQs for better guidance of callers based on data analysis of queries received on the phone and on email.
2. Provision of regular reports to respective departmental HODs of trends related to the specific nature of complaints received and analytics on complaint surges from specific geographical locations. Such enhanced intelligence will help raise red flags for better departmental planning within all functional departments of the SECP.
3. The system also has potential to build a mobile application, further facilitating the SDMS users in lodging and tracking their issues and having ready access to SECP's knowledge base.

Securities and Exchange Policy Board*

Ex-officio members

Shahid Mahmood

Finance Secretary
Chairman, Securities and Exchange Policy Board

Karamat Hussain Niazi

Secretary, Law, Justice and Human Rights Division

Mohammad Younus Dagha

Secretary, Commerce Division

Zafar Abdullah

Chairman, Securities and Exchange Commission of Pakistan

Jameel Ahmad

Deputy Governor, State Bank of Pakistan

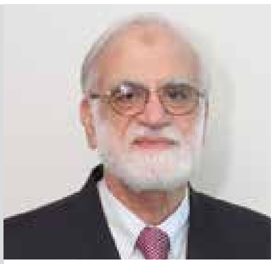
Private sector members

Osman Saifullah Khan**

Hafiz Mohammad Yousaf**

Kamal Hassan Siddiqui

Javed Aslam Callea



Ebrahim Sidat

*As of August 30, 2017

**Mr. Osman Saifullah Khan and Hafiz Mohammad Yousaf completed their four-year terms as members of SEC Policy Board on September 3, 2017.

The Securities and Exchange Commission of Pakistan Act, 1997, provides that the federal government shall appoint a Securities and Exchange Policy Board consisting of eleven members, of which five shall be from the public sector and six 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 appointed the finance secretary as the board Chairman.

Mr. Shahid Mahmood has been the board Chairman since June 18, 2017. Prior to him, Mr. Tariq Bajwa remained the board Chairmen from February 3, 2017 to June 17, 2017, and Dr. Waqar Masood Khan from April 15, 2013, to January 21, 2017. Mr. Mohammad Younus Dagha, Secretary, Commerce Division, was appointed as an ex officio member on April 4, 2017, and Mr. Karamat Hussain Niazi, Secretary, Law and Justice Division, was appointed as an ex officio member on September 7, 2016. Mr. Jameel Ahmad, deputy governor, SBP, was nominated by the SBP governor as an ex officio board member on April 14, 2017. Furthermore, the federal government appointed Mr. Javed Aslam Callea, and Mr. Ebrahim Sidat the board member from the private sector on January 10, 2017.

The details of Policy Board meetings held during the financial year 2016-17 are as under:

S. No.	Names of members	Number of meetings held	Number of meetings attended
1.	Secretary Finance Division/Board Chairman	4	4
2.	Chairman, SECP	4	4
3.	Secretary, Law and Justice Division	4	4
4.	Secretary, Commerce Division	4	4
5.	Deputy governor, State Bank of Pakistan	4	3
6.	Mr. Osman Saifullah Khan	4	1
7.	Hafiz Mohammad Yousaf	4	4
8.	Mr. Kamal Hassan Siddiqui	4	4
9.	Mr. Javed Aslam Callea	2	2
10	Mr. Ebrahim Sidat	2	1

Board's objectives

The board has been entrusted to

(i) When so asked to do and after consultation with the SECP, advise the federal government on all matters which fall within the regulatory ambit of the SECP

(ii) Consider and approve, with or without modifications, any regulation with respect to implementation of the policy decisions, proposed to be made by the SECP

(iii) Consider and approve, with or without modifications, the SECP's budget for each financial year

(iv) Express its opinion in writing on any policy matter referred to it by the federal government or the SECP

(v) Oversee the performance of the Commission to the extent that the purposes of the Act are achieved

(vi) Exercise all such powers and perform all such functions as are conferred or assigned to it under the Act

(vii) Specify fees, penalties and other charges, chargeable by the SECP to achieve the purposes of the Act

Apart from the above, all policy decisions, including any changes to the previously established policy, in respect of all and any matter 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 modifications, as the board may deem fit in its discretion.

During the year, four meetings of the board were held wherein 33 agenda items and four other business items were taken up and decided appropriately. The board considered various matters, including the following and gave approvals/directions thereon:

- The SECP's Annual Report of the year 2015-16 for submission to the federal government
- Amendments to the Insurance Companies (Sound and Prudent Management) Regulations, 2012
- Scheme of Compensation for employees' families who die during service
- Registration of the SECP as training organization of ICAP and the related recruitment policy
- Amendments to the Small Dispute Resolution Committees (Constitution and Procedure) Rules, 2015 relating to increase in the limit of pecuniary value of Benefits
- Allowing marketing and selling expenses to be charged to mutual funds to increase retail investor base
- The Insurance Rules, 2017
- The Insurance Accounting Regulations, 2017
- Rationalization of Licensing and Annual Renewal Fee of Pakistan Stock Exchange Limited (PSX)
- Presentation on methodology of Systematic Risk Management

Board's Oversight Committee

In order to broadly assist the board in overseeing the performance of the SECP to the extent that the purposes of the Act are achieved, the Oversight Committee held two meetings. The committee took presentations from various departments/divisions to assess performance of the SECP and assisted the board by making recommendations on various issues.

The details of Oversight Committee meetings held during the financial year 2016-17 are as under:

S. No.	Names of members	Number of meetings held	Number of meetings attended
1.	Hafiz Mohammad Yousaf, Chairman	2	2
2.	Chairman, SECP	2	2
3.	Mr. Kamal Hassan Siddiqui	2	2
4.	Raja Naeem Akbar, Legislative Advisor, Law Division	2	1

Audit Committee

The Audit Committee was reconstituted by the Board in its 77th meeting on January 17, 2017. During the period, it considered the following:

1. Manual Compliance Audit Reports
2. Management letter for the year 2014-15
3. Review and approval of Annual Audit Plan and Manual Compliance Audit Reports
4. Inquiry Report regarding observations of Internal Audit Department
5. Audited Financial Statements for the year 2015-16
6. Presentation of the reports with regard to Commission's system/policies and procedures
7. Quarter-wise execution of Annual Audit and Compliance Plan 2016-17
8. Update on implementation of Policy Board decision with regard to restructuring of IA&CD
9. Request of IT Audit by Commissioner (IS&T)
10. Update on restructuring of IA&CD

Presentation of following audit/compliance reports with regard to Commission's system/policies and procedures were given to the Audit Committee:

(i) Report on SOP of Major and Minor Repairs
(ii) Report on InfoSec and Privacy Awareness and Training Policy
(iii) Report on Human Resource Security Policy
(iv) Report on Information Asset Management and Media Protection Policy
(v) Report on audit of SECP Employees' Gratuity Fund Trust
(vi) Report on audit of Appointments of Employees (Human Resource Manual)
(vii) Report on Information Securities Policies (IT Audit)
(viii) Report on Expenditure Control Measure
(ix) Pre Audit of all OPEX and CAPEX related payments of Rs500,000 and above
(x) Pre Audit in the matter of final settlement of employees (leave encashment, pension, gratuity and provident fund) and
(xi) Review of TOR of SECP IT Steering Committee and recommendation as per the best international/ national practices

The details of the Audit Committee meetings held during the financial year 2016-17 are as under:

S. No.	Names of members	Number of meetings held	Number of meetings attended
1.	Ebrahim Sidat, Chairman	1	1
2.	Mr. Kamal Hassan Siddiqui	3	3
3.	Secretary, Commerce Division	4	4
4.	Mr. Javed Aslam Callea	1	1
5.	Raja Naeem Akbar	3	2

The Commission

MR. ZAFAR ABDULLAH

Chairman & Commissioner, Securities and Exchange Commission of Pakistan

Mr. Zafar Abdullah has been serving as the Chairman since July 24, 2017. As a Commissioner, he has been overseeing the functions of Specialized Companies Division and Information System and Technology Department. 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 articles from KPMG Pakistan, and received extensive training in the areas of assurance and audit, financial advisory and corporate advisory. 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/ 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 as a Commissioner on August 17, 2012.

MR. TAHIR MAHMOOD

Commissioner, Company Law Division, Support Services Division, Appellate Bench and PLAD

Mr. Tahir Mehmood has been associated with the Securities and Exchange Commission of Pakistan/the erstwhile Corporate Law Authority since 1989. Prior to his appointment as a Commissioner by the federal government in September 2010, he had been serving as the 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, 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 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. 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).

MR. AKIF SAEED

Commissioner, Securities Market Division, Investor Education and International Relations Department, Islamic Finance Department and Systemic Risk Department

Mr. Akif Saeed has been associated with the SECP since 2004. In December 2014, the federal government appointed him as Commissioner. At present, he is heading the Securities Market Division and the Investor Education and International Relations Departments. He has extensive regulatory, operational and business knowledge of various infrastructure entities and intermediaries operating in the capital markets. He has been contributing significantly towards instituting various legal and regulatory reforms for enhanced corporate governance, transparency, risk management and measures for compliance with the IOSCO benchmark principles of securities regulation. He led the teams which developed Securities Act, 2015, the code of corporate governance, investor education web portal and framework for voluntary pension system, private equity and venture capital funds, and real estate investment trusts. Prior to joining the SECP, he worked with American Express Bank as manager corporate banking for 9 years and Packages Limited for 3 years. Commissioner Akif earnd his master's in economics from Government College Lahore, and MBA from the University of Edinburgh. He won the Chevening Scholarship and President's Talent Farming Scholarship in economics.

MR. FIDA HUSSAIN SAMOO

Commissioner, Insurance

Mr. Fida Hussain Samoo has been serving as the Commissioner at the Securities and Exchange Commission of Pakistan (SECP) since December 18, 2014. He looks after the portfolio of insurance. He has over three decades of professional experience in insurance and reinsurance industry, making him well placed to address the industry's issues. He obtained his Bachelor's in law as well as Master's in Commerce from Sindh University. He earned his MBA at Indiana University of Pennsylvania. Apart from the academic qualifications, he has received various trainings in the UK, Thailand, Singapore, Switzerland, Australia, China and Malaysia. Mr. Samoo has also served on various technical committees, working groups and task forces formed by the government of Pakistan and the Pakistan Reinsurance Company Limited (PRCL). He started his insurance career with the Pakistan Reinsurance Company Limited (PRCL), the then Pakistan Insurance Corporation, as manager and retired in May, 2014 as an executive director. His persistent efforts transformed the financial results of the PRCL from an underwriting loss of Rs102 million in 1997-2000 to the underwriting profit of Rs509 million in 2012.

MR. MUHAMMAD ZAFAR-UL-HAQ HIJAZI

Commissioner

Mr. Muhammad Zafar-ul-Haq Hijazi took over as the Chairman of the Securities and Exchange Commission of Pakistan on December 19, 2014. A Chartered Accountant by profession, he has extensive experience spanning over 35 years, both in the private sector and as a senior emerging markets regulator of corporate sector and capital markets. He has attended many international conferences, seminars and courses. From January 1, 1999 to December 31, 2003, Mr. Hijazi had served the SECP as Commissioner, Company Law, Administration and Enforcement Division. He introduced significant legal and regulatory reforms to improve the quality of corporate disclosure, corporate restructuring and corporate finance. He has also held senior management positions in various private companies. Mr. Hijazi is currently under suspension in line with the federal government's notification dated July 24, 2017.

Commission's Secretariat

Commission's Secretariat performs the duties and responsibilities of secretarial 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 the secretary to the Commission.

The details of Commission's meetings held during the financial year 2016-17 are as under:

S. No.	Name of members	Number of meetings held	Number of meetings attended
1.	Mr. M. Zafar-ul-Haq Hijazi, Chairman	112	112
2.	Mr. Tahir Mahmood, Commissioner	106	96
3.	Mr. Zafar Abdullah, Commissioner	112	95
4.	Mr. Akif Saeed, Commissioner	112	97
5.	Mr. Fida Hussain Samoo, Commissioner	112	105

** As of June 30, 2017*

Conduct of business

During the year, the secretariat convened 107 regular and five emergent meetings of the Commission, wherein 617 working papers of departments/divisions and 154 other business items were considered and decided appropriately. Besides, the Commission also passed eight resolutions by circulation and decided urgent matters of departments/divisions. The Commission's Secretariat on behalf of the Commission, issued 90 statutory regulatory orders/notifications and facilitated issuance of 34 circulars.

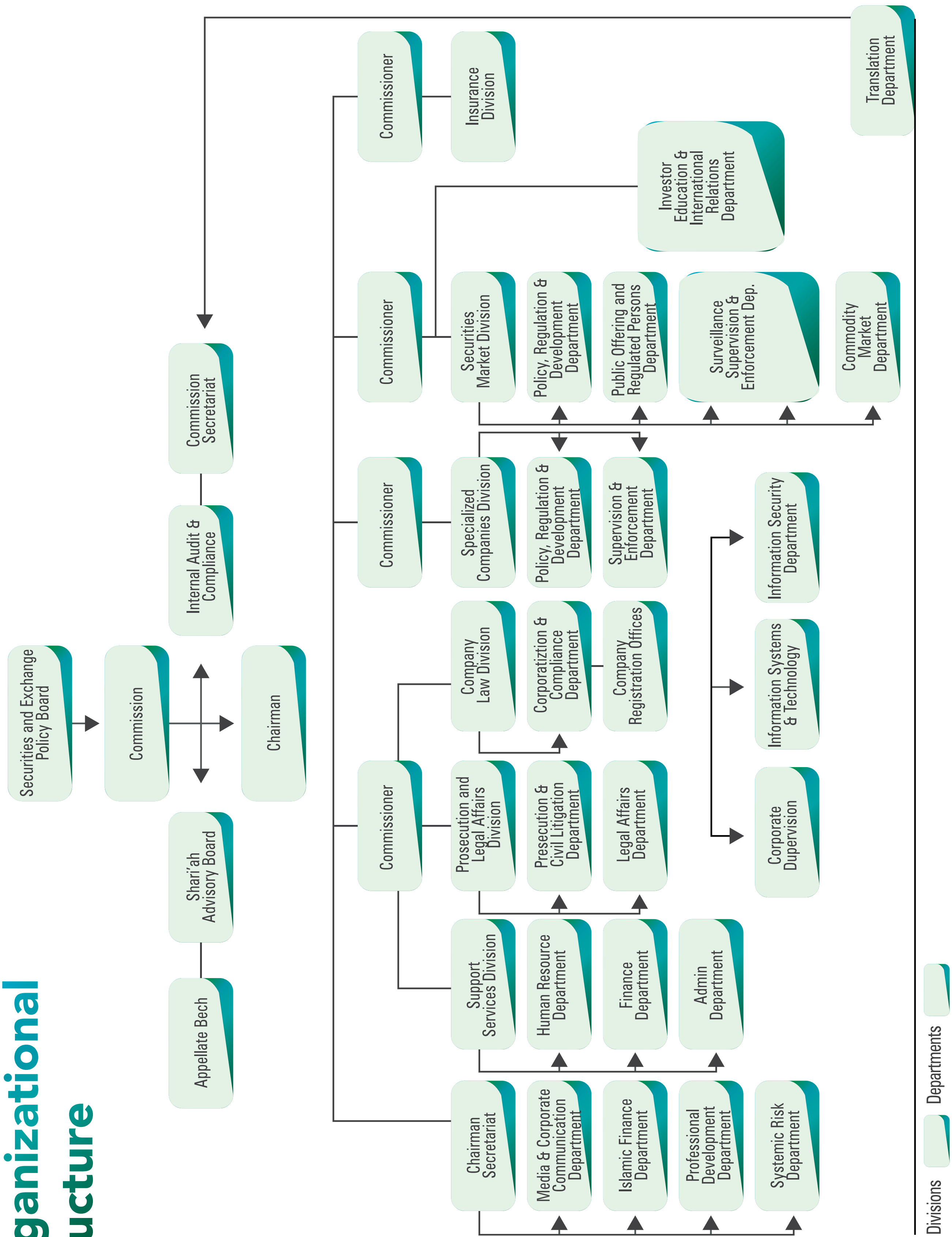
Appellate Bench

The Appellate Bench of the Securities and Exchange Commission is mandated to adjudicate upon the appeals filed under Section 33 of Securities and Exchange Commission of Pakistan Act, 1997, against the orders passed, either by a Commissioner or any other officer authorized by the Commission. The Bench is also empowered under Section 32B (2) of the Act to review its orders.

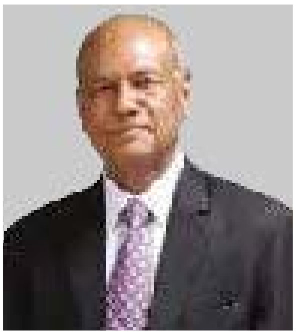
The Bench discharge its functions with the assistance of Appellate Bench Registry, headed by the registrar of SECP. Administratively, the registrar reports to the Commissioner, Company Law Division.

The statutory limitation period for filing of appeal under Section 33 and review under Section 32B (2) is 30 days. The appeals are required to be examined and scrutinized as per the Securities and Exchange Commission of Pakistan (Appellate Bench Procedure) Rules, 2003 by the registrar. Once the appeals are registered after removal of deficiencies, the registry schedules them for hearing. During the period under review, 105 appeals were registered and 51 were disposed of by the Bench. Furthermore, during the period, four review applications were registered and one review was decided by the Bench.

Organizational structure



Senior management



Shahid Nasim
Executive Director, Supervision and Enforcement Department, SCD

Muhammad Asif Jalal Bhatti
Executive Director, Public Offering and Regulated Persons Department, SMD

Aamir Khan
Executive Director, Chairman's Secretariat; Commodity Market Department, SMD;
Chief Spokesperson

Musarat Jabeen
Executive Director, Policy, Regulation and Development Department, SMD

Bilal Rasul
Executive Director, Secretary to the Commission, Registrar, Appellate Bench

Abid Hussain
Executive Director, Corporate Supervision Department, CLD

Bushra Aslam
Executive Director, Corporatization and Compliance Department, CLD

Ali Azeem Ikram
Executive Director, Insurance Division

Muzzafar Ahmed Mirza
Chief Prosecutor, PLAD

Imran Inayat Butt
Executive Director, Policy, Regulations and Development Department- SCD

Waseem Irshad
Director, Admin

Khalida Habib
Director, Investor Education and International Relations Department

Maheen Fatima
Director, Internal Audit and Compliance Department

Khalid Iqbal
Director, Human Resource Department

Yaser Manzoor
Director, Surveillance, Supervision & Enforcement Department, SMD

Arshad Mahmood
Additional Director, Finance

Statistics

Corporatization

Table 1: Number and types of companies

Types of companies	Newly incorporated companies for the financial year ending June 30, 2017	Total companies as of June 30, 2017
Companies limited by shares		
Public listed	-	557
Public unlisted	63	2,448
Private	7,145	72,155
SMCs	923	3,359
Total companies limited by shares	8,131	78,520
Associations not for profit u/s 42	69	836
Companies limited by guarantee u/s 43	-	71
Trade organizations	23	285
Foreign companies	63	983
Public companies with unlimited liability	-	2
Private companies with unlimited liability	-	1
Companies u/s 503(2)	-	3
Total companies	8,286	80,700

Table 2: Capitalization breakdown as of June 30, 2017

Listed companies	Unlisted public compa-nies	Private	Private companies	SMCs	Total	% age
Paid-up capital up to Rs100,000	0	422	27,802	2,150	30,377	38.69
Paid-up capital from Rs100,001 to 500,000.	0	292	11,328	568	12,188	15.52
Paid-up capital from Rs500,001 to 1,000,000	0	121	8,435	311	8,867	11.29
Paid-up capital from Rs1,000,001 to 10,000,000	14	353	18,210	250	18,826	23.98
Paid-up capital from Rs10,000,001 to 100,000,000	135	642	5,088	75	5,940	7.56
Paid-up capital from Rs100,000,001 to 500,000,000	191	380	1,029	4	1,603	2.04
Paid-up capital from Rs500,000,001 to1,000,000,000	73	83	139	1	296	0.38
Paid-up capital from Rs1,000,000,001 to above	144	155	124	0	423	0.54
	557	2,448	72,155	3,359	78,520	100.00

Table 3: Sector-wise distribution

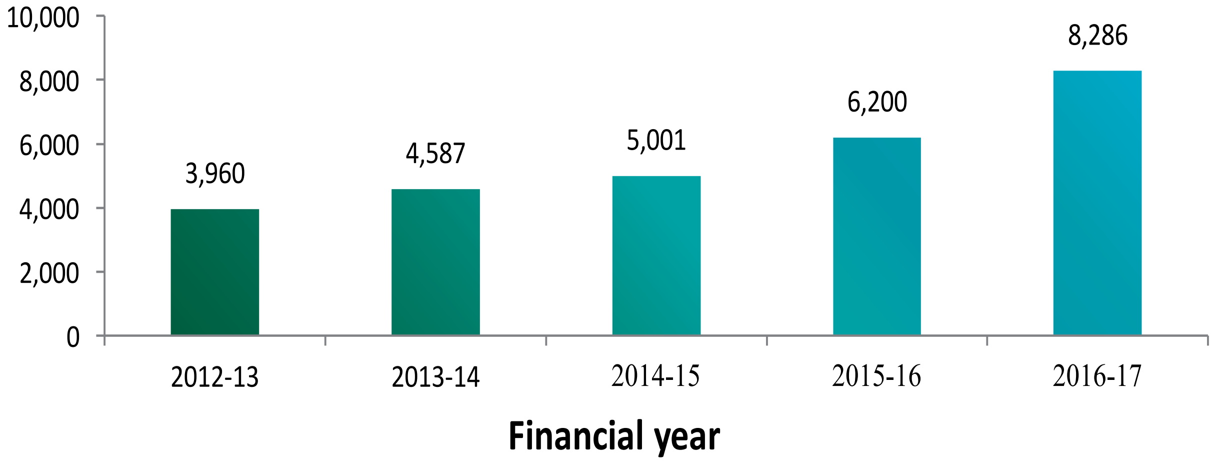
Sector	Newly incorporated companies for the financial year ending June 30, 2017	Total companies as of June 30, 2017
Auto and allied	137	1,025
Broadcasting and telecasting	103	931
Cables and electric goods	90	884
Carpets and rugs	1	73
Cement	7	113
Chemical	83	1,662
Pharmaceutical	166	1,760
Communications	158	2,979
Construction	936	4,845
Corporate agricultural farming	190	1,735
Education	254	1,550
Engineering	225	2,223
Finance and banking	36	1,160
Food and beverages	252	2,887
Footwear	11	90
Fuel and energy	211	1,726
Ginning	1	339
Glass and ceramics	10	278
Healthcare	121	878
Information technology	773	4,660
Insurance and allied	16	272
Jute	-	19
Leather and tanneries	19	411
Lodging	77	582
Mining and quarrying	77	716
Paper and board	101	1,360
Power generation	123	1,292
Real estate development	224	1,764
Services	1,303	9,631
Sport goods	26	248

Steel and allied	68	654
Sugar and allied	5	187
Synthetic and rayon	9	216
Textile	173	4,894
Tobacco	7	84
Tourism	518	7,809
Trading	1,100	9,425
Transport	166	1,598
Vanaspati and allied	12	469
Wood and wood products	17	247
Miscellaneous	480	7,025
Total	8,286	80,700

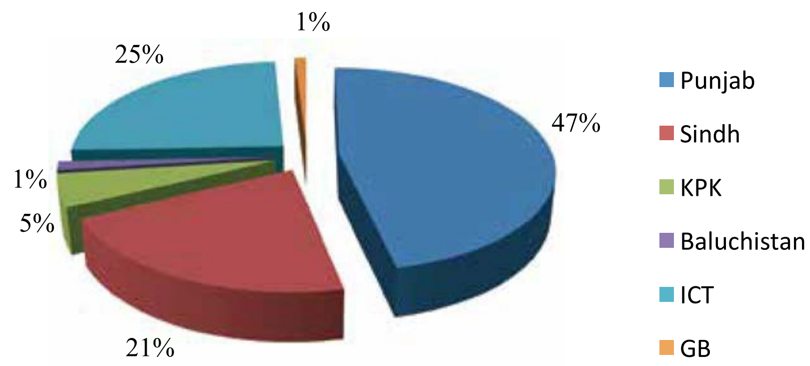
Table 4: Foreign companies' data by country/region

Country/region	Newly Incorporated companies FY 2016-17	Number of companies as of June 30, 2017
US	4	161
UK	2	118
France	-	29
Germany	1	30
China	33	126
Japan	-	37
Australia	0	21
Middle Eastern countries	2	75
Far Eastern countries	-	128
Other European countries	9	156
Other Asian countries	10	21
Other countries	2	81
Total	63	983

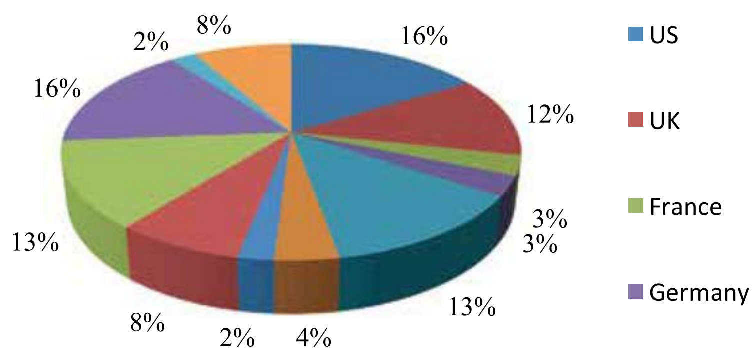
Number of companies



Province-wise new incorporation during FY 2016_17



Foreign companies portfolio



Capital market

Table 1: Privately placed debt securities

Sr. No.	Name of security	Number of issues	Amount (In billion rupees)
1	Privately placed term finance certificates	02	38.2
2	Privately placed sukuk	05	65.292
3	Privately placed commercial paper	1	1.0
	Total	08	104.492

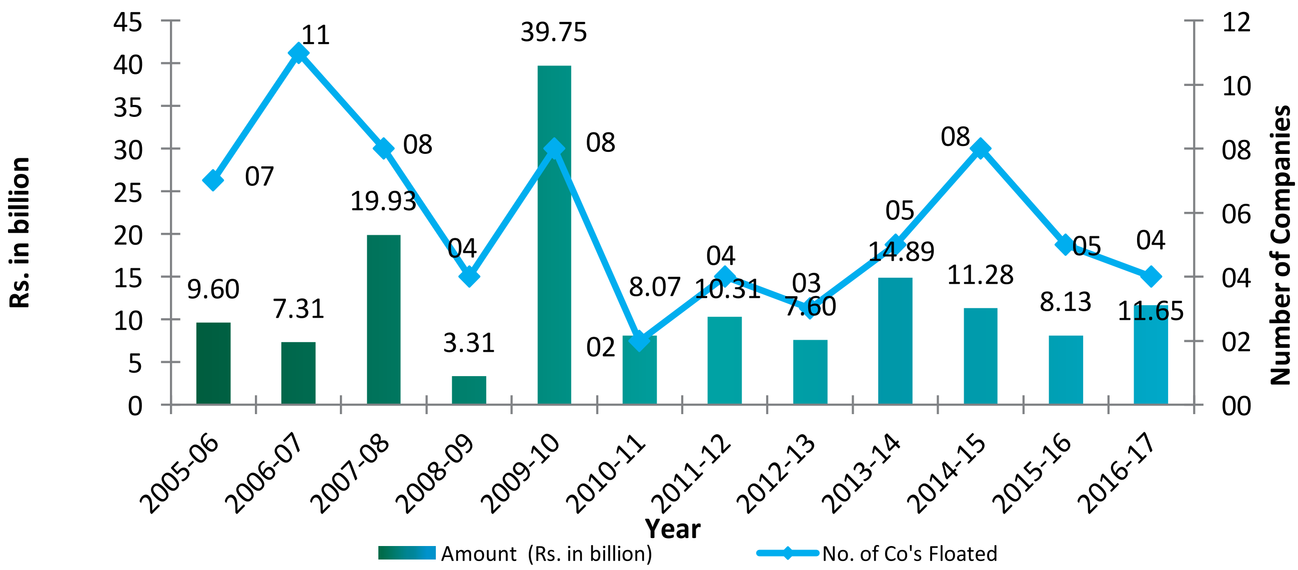
Table 2: Corporate debt securities outstanding

Sr. No.	Name of security	Number of issues	Amount (In billion rupees)
1	Listed term finance certificates (L-TFCs)	14	21.10
2	Privately placed TFCs (PP-TFCs)	39	161.54
3	Sukuk	38	612.14
4	Participation term certificates	01	0.54
	Total	92	795.32

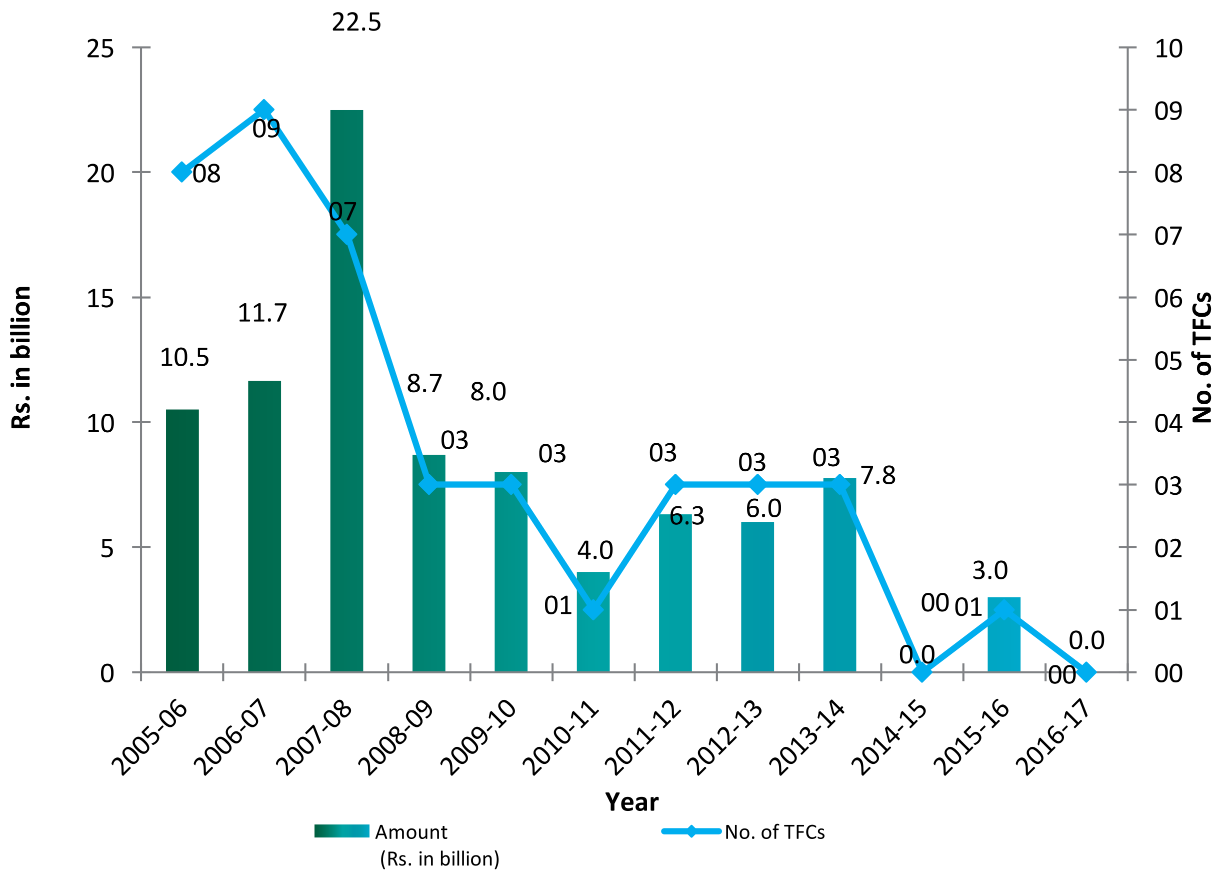
Table 3: Capitalization breakdown as of June 30, 2017

Listed companies	Unlisted public compa-nies	Private	Private companies	SMCs	Total	% age
Paid-up capital up to Rs100,000	0	422	27,802	2,150	30,377	38.69
Paid-up capital from Rs100,001 to 500,000.	0	292	11,328	568	12,188	15.52
Paid-up capital from Rs500,001 to 1,000,000	0	121	8,435	311	8,867	11.29
Paid-up capital from Rs1,000,001 to 10,000,000	14	353	18,210	250	18,826	23.98
Paid-up capital from Rs10,000,001 to 100,000,000	135	642	5,088	75	5,940	7.56
Paid-up capital from Rs100,000,001 to 500,000,000	191	380	1,029	4	1,603	2.04
Paid-up capital from Rs500,000,001 to1,000,000,000	73	83	139	1	296	0.38
Paid-up capital from Rs1,000,000,001 to above	144	155	124	0	423	0.54
	557	2,448	72,155	3,359	78,520	100.00

Graph 1: Number of equity issues to public during 2006—2017



Graph2: Number of TFCs floated - FY 2005-2017



Financial statements

KPMG Taseer Hadi & Co.
Chartered Accountants

Securities and Exchange Commission of Pakistan

Financial Statements

For the year ended

30 June 2017

KPMG Taseer Hadi & Co.
Chartered Accountants
Sixth Floor, State Life Building No. 5
Jinnah Avenue, Blue Area
Islamabad, Pakistan

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Independent Auditors' Report to the Federal Government of Pakistan

Opinion

We have audited the financials statements of the Securities and Exchange Commission of Pakistan (the Commission), which comprise the statement of financial position as at 30 June 2017, and the statement of income and expenditure and comprehensive income, statement of changes in funds and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Commission as at 30 June 2017, and its financial performance and its cash flows for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Basis for opinion

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Commission in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

KPMG Taseer Hadi & Co.

As part of an audit in accordance with the auditing standards as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Commission to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is Atif Zamurrad Malik.

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants

Islamabad
26 September 2017

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Statement of financial poistion
As at 30 June 2017

	Note	2017	2016
		(Rupees in thousand)	
Non-current assets			
Property and equipment	5	510,786	339,016
Intangible assets	6	6,008	8,403
Long term investments	7	-	-
Loans and advances	8	284,754	158,425
Deferred tax asset	14	-	4,757
		801,548	510,601
Current assets			
Advances, deposits, prepayments and other recievables	9	162,211	117,305
Short term investments	10	2,656,665	2,393,714
Cash and bank balances	11	72,729	102,090
		2,891,605	2,613,109
Current liabilities			
Accrued and other liabilities	12	(1,118,132)	(974,553)
Payable to Federal Consolidated Fund	13	-	(57)
		(1,118,132)	(974,610)
Net current assets		1,773,473	1,638,499
Non-current liabilities			
Deferred tax liability	14	(413)	-
Provision for compensated absences	15	(166,968)	(157,286)
		(167,381)	(157,286)
NET ASSETS		2,407,640	1,991,814
REPRESENTED BY:			
SECP Funds		2,407,640	1,991,814
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 income and expenditure and other comprehensive income
For the year ended 30 June 2017

	Note	2017	2016
		(Rupees in thousand)	
Income			
Fees and other recoveries	17	2,810,693	2,494,824
Other income	18	238,253	180,088
		3,048,946	2,674,912
Expenditure			
Salaries, allowances and other benefits	19	1,858,634	1,658,986
Operating expenses	20	485,806	463,815
Depreciation and amortization	5 & 6	137,773	136,145
		2,482,213	2,258,946
Surplus of income over expenditure before tax		566,733	415,966
Taxation	21	(153,265)	(140,903)
Surplus of income over expenditure for the year		413,468	275,063

OTHER COMPREHENSIVE INCOME - NET OF TAX

	Note	2017	2016
Items which will be subsequently reclassified to profit or loss:			
Surplus/(deficit) on remeasurement of available for sale investments to fair value		931	(1,300)
Related tax effect		(280)	390
		651	(910)
Items which will not be subsequently reclassified to profit or loss:			
Actuarial gains/(losses) on staff retirement funds	12.1.4	2,474	(28,762)
Related tax effect		(767)	9,204
		1,707	(19,558)
Total other comprehensive income - net of tax		2,358	(20,468)
Total comprehensive surplus of income over expenditure		415,826	254,595

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 30 June 2017

	Assets acquisition reserve	Reserve for loan to employees	Surplous / (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 2015	1,466,231	270,000	988	-	1,737,219
Comprehensive income:					
Surplus of income over expenditure	-	-	-	275,063	275,063
Other comprehensive income	-	-	(910)	(19,558)	(20,468)
Total comprehensive income	-	-	(910)	255,505	254,595
Transfer to reserve for loan to employees	-	150,000	-	(150,000)	-
Transfer to asset acquisition reserve	105,505	-	-	(105,505)	-
Balance at 30 June 2016	1,571,736	420,000	78	-	1,991,814
Balance at 01 July 2016	1,571,736	420,000	78	-	1,991,814
Comprehensive income:					
Surplus of income over expenditure	-	-	-	413,468	413,468
Other comprehensive surplus/(deficit) of income	-	-	651	1,707	2,358
Total comprehensive income	-	-	651	415,175	415,826
Transfer to reserve for loan to employees	-	100,000	-	(100,000)	-
Transfer to asset acquisition reserve	315,175	-	-	(315,175)	-
Balance at 30 June 2017	1,886,911	520,000	729	-	2,407,640

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 2017

	Note	2017	2016
		(Rupees in thousand)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus of income over expenditure before tax		566,733	415,966
Adjustments for:			
- Depreciation and amortization		137,773	136,145
- Provision for pension		134,786	32,834
- Provision for gratuity		91,562	89,950
- Provision for compensated absences		18,729	15,723
- Provision for/(unwinding of) discount on long term loans		(38,873)	25,517
- Interest income		(154,235)	(163,016)
- Gain on sale of property and equipment		(73,207)	(8,098)
		116,535	129,055
Operating income before working capital changes		683,268	545,021
(Increase)/decrease in advances, deposits, prepayments and other receivables		(48,368)	807
Increase in accrued and other liabilities		64,606	191,185
		699,506	737,013
Contribution to pension fund		(36,173)	(220,860)
Contribution to gratuity fund		(108,979)	(21,729)
Compensated absences encashed		(9,047)	(6,711)
Payment to Federal Consolidated Fund		(57)	-
Income tax paid		(145,430)	(68,322)
		(299,686)	(317,622)
Increase in loans and advances		(87,456)	(68,471)
Net cash generated from operating activities		312,364	350,920
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(319,611)	(178,307)
Proceeds from sale of property and equipment		85,669	34,327
Investments made during the year		(3,359,243)	(2,697,141)
Proceeds from investments encashed		3,098,459	2,183,795
Interest received on investments and bank deposits		153,001	170,344
Net cash used in investing activities		(341,725)	(486,982)
Net decrease in cash and cash equivalents		(29,361)	(136,062)
Cash and cash equivalents at the beginning of the year		102,090	238,152
Cash and cash equivalents at the end of the year	11	72,729	102,090

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 2017

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, eight companies registration offices, three facilitation 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. The Commission is not required to comply with the requirements of IFRSs. However, to follow the best practices the Commission has adopted approved accounting stanadards as applicable in Pakistan as a frame work for preparation of Financial Statements.

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.

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:

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

(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 assumptins 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 Loans, advances and receivables

The Commission reviews the recoverability of its loan, advances and 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.

(f) Fair value of investments - available for sale

The fair value of available for sale investment is determined by reference to market interest rate at the reporting date. Any change in the estimate might effect carrying amount of investments available for sale with corresponding effect in SECP fund.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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 2017:

- Amendments to IAS 12 Income Taxes are effective for annual periods beginning on or after 1 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments further clarify that when calculating deferred tax asset in respect of insufficient taxable temporary differences, the future taxable profit excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are not likely to have an impact on Commission's financial statements.

- Amendments to IAS 7 Statement of Cash Flows are part of IASB's broader disclosure initiative and are effective for annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

- Amendments to IFRS 2 Share-based Payment clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognised for new and outstanding awards. The amendments are not likely to have an impact on Commission's financial statements.

- Transfers of Investment Property (Amendments to IAS 40 Investment Property-effective for annual periods beginning on or after 1 January 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on Commission's financial statements.

- Annual improvements to IFRS standards 2014-2016 cycle. The new cycle of improvements addresses improvements to following approved accounting standards:

- Amendments to IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2017) clarify that the requirements of IFRS 12 apply to an entity's interests that are classified as held for sale or discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The amendments are not likely to have an impact on Commission's financial statements.

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- Amendments to IAS 28 Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Commission's financial statements.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognised. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognised. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

- IFRIC 23 Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax.

- In addition, the Companies Act, 2017 was enacted on 30 May 2017 and Securities and Exchange Commission of Pakistan (SECP) vide its circular 17 of 2017 has clarified that the companies whose financial year closes on or before 30 June 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. The Companies Act, 2017 applicable for financial year beginning on 1 July 2017 requires certain additional disclosures and changes for certain accounting treatments including accounting for investments in associates which may require change in the relevant accounting policy.

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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.

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.

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.

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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) Funded Gratuity and Pension Scheme

Defined benefit funded gratuity and pension scheme for all eligible employees who complete qualifying period of service and age.

These funds are administrated by trustees. Annual contribution of the gratuity and pension funds are based on actuarial valuation using Projected Unit Credit Method, related details of which are given in Note 12 of financial statements.

Charge for the year is recognised in profit and loss account. Actuarial gain or lossess arising on actuarial valuation are recorded directly in other comprehensive income.

Calculation of gratuity and pension requires assumptions to be made of future outcomes which mainly includes increase in remuneration, expected long term return on plan assets and the discount rates used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

(ii) *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 2017.

4.5 Deferred Grant

Grants that compensate the Commission for expenses incurred are recognised in income and expenditure account as grant income on a systematic basis in the periods in which the related expenses are recognised. Grants related to assets are deducted from cost of related asset.

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 accounted for on time proportion basis using the applicable rate of return.

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4.7 Impairment

The carrying amounts of the Commision'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 receoveable amount. The recoverable amount is the higher of an asset's fair value less cost 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

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 determiries 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 become party to contractual provisions of the instruments. 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 Receivable

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 receivable are written off, while receivebles considered doubtful of recovery are fully provided for.

4.13 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank balances.

4.14 Payables

These are initially recognized at the fair value. Subsequent to the initial recognition these are stated at their amortized cost.

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.

4.16 Measurement of fair values

A number of the Commission's accounting policies and disclosures require the measurement of fair value, both for financial and non-financial assets and liabilities.

The Commission has an established control framework with respect to the measurement of fair values. Management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the approved accounting standards as applicable in Pakistan, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring the fair value of an asset or a liability, the Commission uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Commission recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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5. PROPERTY AND EQUIPMENT

	Leasehold land	Building	Leasehold improvements	Office equipment	Other equipment	Computer	Furniture and fixture	Vehicles	Sub-total	Capital Work-in-Progress (Note 5.1)	Total
	-----------	-----------	-----------	-----------	-----------	Rupees in thousand	-----------	-----------			
Cost											
Balance at 01 July 2015	2,053	38,948	90,955	76,855	14,980	367,642	37,484	299,187	928,104	22,768	950,872
Additions	-	480	4,535	13,110	2,986	17,642	14,918	116,887	170,558	2,095	172,653
Transfers	-	-	22,768	-	-	-	-	-	22,768	(22,768)	-
Disposals	-	-	(117)	(1,180)	-	(1,381)	(25)	(91,833)	(94,536)	-	(94,536)
Balance at 30 June 2016	2,053	39,428	118,141	88,785	17,966	383,903	52,377	324,241	1,026,894	2,095	1,028,989
Balance at 01 July 2016	2,053	39,428	118,141	88,785	17,966	383,903	52,377	324,241	1,026,894	2,095	1,028,989
Additions	211,790	-	3,270	8,487	146	58,433	2,582	30,948	315,656	947	316,603
Transfers	-	-	2,095	6,911	40	(6,951)	-	-	2,095	(2,095)	-
Disposals	(2,053)	-	(196)	(12,107)	-	(32,696)	(2,669)	(37,750)	(87,471)	-	(87,471)
Balance at 30 June 2017	211,790	39,428	123,310	92,076	18,152	402,689	52,290	317,439	1,257,174	947	1,258,121
Accumulated depreciation											
Balance at 01 July 2015	-	25,951	71,220	61,724	11,699	312,935	23,253	130,952	637,734	-	637,734
Charge for the year	-	1,963	12,320	9,312	1,794	31,226	3,634	60,297	120,546	-	120,546
Disposals	-	-	(117)	(1,145)	-	(1,142)	(25)	(65,878)	(68,307)	-	(68,307)
Balance at 30 June 2016	-	27,914	83,423	69,891	13,493	343,019	26,862	125,371	689,973	-	689,973
Balance at 01 July 2016	-	27,914	83,423	69,891	13,493	343,019	26,862	125,371	689,973	-	689,973
Charge for the year	639	1,972	12,796	10,532	2,077	36,772	4,023	63,559	132,370	-	132,370
Disposals/transfers	-	-	(199)	(6,438)	40	(38,049)	(2,519)	(27,843)	(75,008)	-	(75,008)
Balance at 30 June 2017	639	29,886	96,020	73,985	15,610	341,742	28,366	161,087	747,335	-	747,335
Carrying amounts - 30 June 2017	211,151	9,542	27,290	18,091	2,542	60,947	23,924	156,352	509,839	947	510,786
Carrying amounts - 30 June 2016	2,053	11,514	34,718	18,894	4,473	40,884	25,515	198,870	336,921	2,095	339,016
Rates of depreciation (per annum) / Useful life											
30 June 2017	99 years	5%	20%	30%	20%	20% / 25%	10%	20%			
30 June 2016	99 years	5%	20%	30%	20%	20% / 25%	10%	20%			

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		2017	2016
		(Rupees in thousand)	
5.1	**Capital worik in progress**		
	Capital work in progress includes the following:		
	Leasehold improvements and others	947	2,095
		947	2,095

6. INTANGIBLES

	Computer Software (Rupees in thousand)
Cost	
Balance at 01 July 2015	112,244
Additions	5,654
Balance at 30 June 2016	117,898
Balance at 01 July 2016	117,898
Additions	3,008
Balance at 30 June 2017	120,906
Accumulated amortisation	
Balance at 01 July 2015	93,896
Amortisation	15,599
Balance at 30 June 2016	109,495
Balance at 01 July 2016	109,495
Amortisation	5,403
Balance at 30 June 2017	114,898
Carrying amounts	
30 June 2017	6,008
30 June 2016	8,403
Amortization rate (%) per annum	25%

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	2017	2016
	(Rupees in thousand)	

7. LONG TERM INVESTMENTS

	2017	2016
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)
	-	-

7.1 Investment in Pakistan Institute of Capital Markets

This represents 73.68% (2016: 73.68%) investment in issued, subscribed and paid-up capital of Pakistan Institute of Capital Markets (the Institute) representing 5,600 (2016: 5,600) ordinary shares of Rs 5,000 (2016: 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 no director as at 30 June 2017 (2016: Nil) in the Institute.

Further, the Commission has undertaken to contribute an amount not exceeding Rs. 50,000 (2016: 50,000) to the assets of the institute in the event of its being wound up.

7.1.1 The following table summarises the financial information of the Institute as included in its financial statements for the period ended 30 June 2017, which have been used for accounting under equity method. The table also reconciles the summarised financial information to the carrying amount of the Commission's interest in associate.

	2017	2016
	(Rupees in thousand)	
Percentage of shareholding	**73.68%**	73.68%
Non current assets	**134**	176
Current assets (including cash and cash equivalents)	**37,875**	26,583
Total assets	**38,009**	26,759
Non-current liabilities	**4,212**	2,921
Current liabilities	**485**	983
Total liabilities	**4,697**	3,904
Net assets at fair value (100%)	**33,312**	22,855
Commissions share of net assets (73.68%)	**24,544**	16,840
Impairment loss on investment	**(28,000)**	(28,000)
Share in profits and assets not recognized	**3,456**	11,160
Carrying amount of interest in associate - note 7.1.2	**-**	-
Revenue	**28,257**	33,828
Profit from continuing operations (100%)	**10,795**	17,757
Other comprehensive income (100%)	**(132)**	(1,187)
Total comprehensive income (100%)	**10,663**	16,571
Commissions share of total comprehensive income - note 7.1.2	**7,856**	12,209

The information presented above for current year is based on un-audited financial statements of the Institute for the year ended 30 June 2017.

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7.1.2 The carrying amount of interest in associate in the Commission's financial statements in 2017 : Nil (2016: Nil). Share in profit of associate has not been recognized since the profits are not available for distribution. Further, on the basis of analysis of recoverable amount of the associate, the Commission recognized an impairment loss of Rs. 28,000 thousand in prior years.

8. LOANS AND ADVANCES

	2017	2016
	(Rupees in thousand)	
Advance for capital expenditure - note 8.1	**19,425**	26,830
Loans and advances - *considered good* - note 8.2	**340,815**	186,783
Less: Current portion of loans and advances	**(75,486)**	(55,188)
	265,329	131,595
	284,754	158,425

8.1 This includes an amount of Rs. 19,425 thousand (2016: 19,425 thousand) representing 5% bid money paid to Pakistan Railway for purchase of land.

8.2 These represent loans to employees as house building loans and general purpose loans as per their employment terms, secured against employees' retirement benefits. Loan is recoverable in periods up to June 2029 in monthly installments along with interest, if any.

9. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECIEVABLES

	2017	2016
	(Rupees in thousand)	
Current portion of loans and advances - *considered good*	**75,486**	55,188
Short term loans to employees - *secured, considered good* - note 9.1	**4,925**	2,543
Advances for expenses	**31,881**	14,245
Deposits	**3,175**	3,130
Prepayments	**7,625**	8,428
Advance tax - net - note 9.2	**-**	3,462
Fee receivable - *considered good*	**23,800**	13,855
Other receivables - *considered good*	**15,319**	16,454
	162,211	117,305

9.1 These represent the house rent advances given to employees recoverable/adjustable on monthly basis. These advances are secured against the employees' share of post employment benefits.

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		2017	2016
9.2	**Advance income tax/income tax payable - net**	(Rupees in thousand)	
	Opening balance	3,462	61,719
	Tax charge for the year:		
	Income and expenditure account	(148,375)	(135,783)
	Other comprehensive income	(767)	9,204
		(149,142)	(126,579)
	Tax paid duirng the year	145,430	68,322
	Closing balance	(250)	3,462

		2017	2016
10.	**SHORT TERM INVESTMENTS**		
	Available for sale:		
	Government Treasury Bills (T-Bills) - note 10.1	100,717	244,251
	Special Notice Deposit Receipts (SNDRs) - note 10.2	319,198	100,301
	Term Deposit Receipts (TDRs) - note 10.3	2,236,750	2,049,162
		2,656,665	2,393,714

10.1 This represents investment in three months Treasury Bills. The rate of mark-up is 5.99% (2016: 6.3%) per annum.

10.2 Investment in seven days "Special Notice Deposit Receipts (SNDR)" of National Bank of Pakistan carry rate of mark-up of 5.6 % per annum (2016: 5.5%).

10.3 Investment in Term Deposit Receipts (TDRs) with National Bank of Pakistan carry mark-up ranging from 6.00% to 6.10 % per annum (2016: 5.90% to 6.95% per annum).

		2017	2016
		(Rupees in thousand)	
11	**CASH AND BANK BALANCES**		
	Cash in hand	587	579
	Cash at bank - interest bearing accounts - note 11.1	72,142	101,511
		72,729	102,090

11.1 These carry mark-up rates ranging from 3.75% to 4% (2016: 4.25%) per annum.

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	2017	2016
	(Rupees in thousand)	
12 ACCRUED AND OTHER LIABILITIES		
Accrued expenses	126,169	109,970
Employees incentives payable	348,021	281,720
Accounts payable	10,797	16,359
Withholding tax payable	108	278
Payable to staff retirement funds - note 12.1	225,150	146,427
Unearned income - note 12.2	106,098	118,768
Income tax payable - net - note 9.2	250	-
Levies payable to Competition Commision of Pakistan	289,847	288,702
Other liabilities	11,692	12,329
	1,118,132	974,553

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12.1 Payable to staff retirement funds

	2017	2016
	(Rupees in thousand)	
Pension fund	**126,668**	36,174
Gratuity fund	**98,481**	110,253
	225,149	146,427

12.1.1 The amount recognized in the statement of financial position is as follows:

	Pension fund		Gratuity fund	
	2017	2016	2017	2016
	Rupees in thousand			
Present value of defined benefit obligation - note 12.1.5	**880,579**	730,004	**792,561**	685,096
Fair value of plan assets - note 12.1.6	**(753,911)**	(693,830)	**(694,080)**	(574,843)
	126,668	36,174	**98,481**	110,253

12.1.2 Changes in net liability

	Pension fund 2017	Pension fund 2016	Gratuity fund 2017	Gratuity fund 2016
Opening balance	**36,174**	220,863	**110,253**	16,607
Amount charged to income and expenditure account	**134,786**	32,834	**91,562**	89,950
Remeasurements charged in other comprehensive income	**(8,119)**	3,337	**5,645**	25,425
Contributions	**(36,173)**	(220,860)	**(108,979)**	(21,729)
Closing balance	**126,668**	36,174	**98,481**	110,253

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12.1.3 Amount charged to income and expenditure account

	Pension fund		Gratuity fund	
	2017	2016	**2017**	2016
	Rupees in thousand			
Past service cost	**113,363**	-	-	-
Current service Cost	**20,309**	21,269	**86,543**	89,347
Interest cost on defined benefit obligation	**63,029**	68,451	**59,234**	57,410
Interest income on plan assets	**(61,915)**	(56,886)	**(54,215)**	(56,807)
	134,786	32,834	**91,562**	89,950

12.1.4 The amount charged to other comprehensive surplusof income over expenditure is as follows:

	Pension fund		Gratuity fund	
	2017	2016	**2017**	2016
	Rupees in thousand			
Remeasurement (loss) - Experience adjustment	**(1,819)**	(4,100)	**(15,568)**	(11,887)
Gain / (loss) on plan assets, excluding interest income	**9,938**	763	**9,923**	(13,538)
	8,119	(3,337)	**(5,645)**	(25,425)

12.1.5 Changes in present value of defined benefit obligation

	Pension fund 2017	Pension fund 2016	Gratuity fund 2017	Gratuity fund 2016
Opening balance	**730,004**	668,229	**685,096**	567,065
Current service cost	**20,309**	21,269	**86,543**	89,347
Interest cost	**63,029**	68,451	**59,234**	57,410
Past service cost	**113,363**	-	-	-
Benefits paid	**(59,365)**	(32,637)	**(53,880)**	(40,613)
Amount received from the Government of Pakistan	**11,420**	592	-	-
Actuarial loss	**1,819**	4,100	**15,568**	11,887
Closing balance	**880,579**	730,004	**792,561**	685,096

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12.1.6 Changes in fair value of plan assets

	Pension fund		Gratuity fund	
	2017	2016	**2017**	2016
	------ Rupees in thousand ------			
Opening balance	**693,830**	447,366	**574,843**	550,458
Return on plan assets	**61,915**	56,886	**54,215**	56,807
Contributions	**36,173**	220,860	**108,979**	21,729
Benefits paid	**(59,365)**	(32,637)	**(53,880)**	(40,613)
Amount received from the Government of Pakistan	**11,420**	592	**-**	-
Acturial gain on assets	**9,938**	763	**9,923**	(13,538)
Closing balance	**753,911**	693,830	**694,080**	574,843
Actual return on plan assets	**71,853**	57,649	**64,139**	43,269

12.1.7 The expected charge for next financial year on account of defined benefit pension and gratuity is Rs. 38,079 thousand (2016: 22,903 thousand) and Rs. 96,581 thousand (2016: Rs. 89,685 thousand) respectively.

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	Pension fund		Gratuity fund	
	2017	2016	2017	2016
	Rupees in thousand			
12.1.8 Break-up of category of assets				
Pakistan Investment Bonds	-	-	-	52,532
Special Savings Certificates	743,364	652,295	676,316	521,914
Term Deposit Certificates	-	-	10,314	-
Bank balances	10,547	41,535	7,449	397
Fair value of plan assets	753,911	693,830	694,079	574,843

Funds covered were invested within limits specified by regulations governing investment of approved retirement funds in Pakistan.

The pension plan is a defined benefits plan invested through approved trust fund. The trustees of the fund are responsible for plan administration and investment. The Commission appoints the trustees. All trustees are employees of the company.

The plan exposes the Company to various actuarial risks: investment risk, salary risk and longevity risk from the pension and gratuity plan.

12.1.9 Principal actuarial assumptions

Actuarial valuation is carried out annually. Latest actuarial valuation was carried out as at 30 June 2017 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:

	Pension fund		Gratuity fund	
	2017	2016	2017	2016
Valuation discount rate - per annum	9.25%	9%	9.25%	9%
Salary increase rate - per annum	9.25%	9%	9.25%	9%
Withdrawal rates	Low	Low	Low	Low

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12.1.10 Sensitivity analysis

Reasonably possible change at reporting date to one of the relevant actuarial assumptions, holding other assumption constant, would have affected the

	Pension fund		Gratuity fund	
	Defined benefit obligation			
	Increase	Decrease	Increase	Decrease
	Rupees in thousand			
Discount rate (1% movement)	822,208	1,039,996	705,022	895,924
Future salary growth (1% movement)	975,581	871,163	898,971	701,068

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.

12.1.11 Disclosure for current and previous four annual periods for pension and gratuity plans

	2017	2016	2015	2014	2013
	Rupees in thousand				
Present value of the defined benefit obligations	1,673,140	1,415,100	1,235,294	885,641	821,879
Fair value of plan assets	(1,447,991)	(1,268,673)	(997,824)	(869,258)	(728,413)
Deficit in the plans	225,149	146,427	237,470	16,383	93,466
Experience adjustments on plan liabilities	17,387	15,987	220,456	(59,957)	53,125
Return on plan assets, excluding interest income	19,861	(12,775)	(16,134)	(1,126)	(5,780)

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12.1.11 Projected benefit payments form funds are as follows:

	Pension	Gratuity
	Rupees in thousand	
Year 1	37,124	35,311
Year 2	39,529	29,825
Year 3	43,282	36,116
Year 4	43,028	35,254
Year 5	57,646	40,120
Year 6 to Year 10	311,835	316,922
Year 11 and above	915,226	2,599,962

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.

	2017	2016
	(Rupees in thousand)	
13 Payable to Federal Consolidated Fund		
Balance at beginning of the year	57	-
Penalties collected during the year - note 13.1	18,731	25,064
Penalties deposited to the Fund during the year	(18,788)	(25,007)
Balance at the end of the year	-	57
13.1 Penalties collected during the year		
Company Law Division	12,149	11,502
Insurance Division	1,071	8,825
Securities Market Division	4,831	1,961
Specialised Companies Divison	680	2,776
	18,731	25,064

13.2 In terms of an amendment to the SECP Act, 1997 through Finance Act, 2012, effective 01 July 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 SECP Act, 1997 (amended through SECP Amendment Act, 2016) "any surplus of receipts over the actual expenditure including budgeted capital expenditure in a year shall be remitted to the Federal Consolidated Fund and any deficit from the actual expenditure shall be made up by the Federal Government". The amount payable to the Fund based on financial results is detailed below:

	2017	2016
	(Rupees in thousand)	
Accumulated surplus transferred to the Fund	415,175	255,505
Less: Transfer to reserve for loan to employees	(100,000)	(150,000)
Less: Amount retained for capital expenditures as per approved budget	(315,175)	(105,505)
	-	-
Payable to the Fund	-	-

13.2.1 The Commission has transferred Rs. 100 million and Rs. 315 million from the accumulated surplus to reserve for loan to employees and asset acquisition reserve respectively (2016: Rs. 150 million and Rs. 105 million respectively). The Commission believes that loans to employees are eligible deduction under the Act. Further, the assets acquisition reserve of Rs. 1.8 billion as at the reporting date is in line with the future capital expenditure including the proposed building, to which the reserve relates to.

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14 DEFERRED TAXATION

	2017	2016
	(Rupees in thousand)	
The net balance of deferred taxation is in respect of the following temporary differences:		
- Accelerated depreciation and amortization	**17,355**	13,056
- Profit on short term investments accrued but not due	**(27,355)**	(29,829)
- Discount on long term loan	**1,500**	13,163
- Impairment loss on investment in associate	**8,400**	8,400
- Remeasurement of investment available for sale	**(313)**	(33)
	(413)	4,757

15 PROVISION FOR COMPENSATED ABSENCES

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

	2017	2016
	(Rupees in thousand)	
Obligation at beginning of the year	**157,286**	148,274
Expense for the year	**18,729**	15,723
Encashed during the year	**(9,047)**	(6,711)
Obligation at end of the year	**166,968**	157,286

Principal actuarial assumptions

Latest actuarial valuation was carried out as at 30 June 2017 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows

	2017	2016
Valuation discount rate - per annum	**9.25%**	9.00%
Salary increase rate - per annum	**9.25%**	9.00%

16 CONTINGENCIES AND COMMITMENTS

16.1 Contingencies

(i) Certain companies/ individuals filed suits against the Commission in respect of claims aggregating to Rs. 2,131 million (2016: 2,181 million) for damages. 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. 392 million. (2016: Rs. 433 million).

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		2017	2016
		(Rupees in thousand)	
17	**FEES AND OTHER RECOVERIES**		
	Fees and other recoveries - note 17.1	2,897,622	2,571,984
	Less: Competition Commission of Pakistan levy - note 17.2	(86,929)	(77,160)
		2,810,693	2,494,824
17.1	**Fees and other recoveries**		
	Under the Companies Ordinance / Act and related fees	1,782,832	1,619,845
	Under the Modaraba Ordinance, 1980	14,984	7,131
	Under the Insurance Ordinance, 2000	335,797	290,836
	On transactions executed at stock exchanges and other fees	240,291	169,940
	Brokers' registration	20,655	26,485
	Non Banking Finance Companies	503,063	457,747
		2,897,622	2,571,984

17.2 This represents levy payable to Competition Commission of Pakistan under S.R.O 1292(I)/2008 under the Competition Act, 2010.

		2017	2016
		(Rupees in thousand)	
18	**OTHER INCOME**		
	Income on bank deposits	5,163	7,634
	Income on investments	149,072	155,382
	Gain on sale of property and equipment	73,207	8,098
	Miscellaneous income	10,811	5,884
	Grant received	-	3,090
		238,253	180,088
19	**SALARIES, ALLOWANCES AND OTHER BENEFITS**		
	Salaries	571,582	533,668
	House rent allowance	338,996	310,983
	Medical allowance	83,231	81,060
	Conveyance allowance	14,039	14,008
	Utilities	56,481	51,808
	Other allowance	499,464	484,452
	Provision for pension - note 12.1.3	134,786	32,834
	Provident fund contribution	49,764	44,500
	Provision for gratuity - note 12.1.3	91,562	89,950
	Provision for compensated absences - note 15	18,729	15,723
		1,858,634	1,658,986

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20 OPERATING EXPENSES

	2017	2016
	(Rupees in thousand)	
Repair and maintenance	59,206	58,018
Support staff cost	60,396	49,343
Travelling and conveyance	36,719	46,824
Telephone, postage and courier	25,009	27,642
Utilities	24,794	27,320
Rent and rates	145,951	143,406
Printing and stationery	14,712	17,302
Legal and professional charges	25,236	24,640
Fees and subscription	9,552	6,835
Human resource development	3,654	3,786
Insurance	12,598	12,995
Advertisement	11,478	7,288
Entertainment	430	794
Audit fee - note 20.1	435	435
Others	55,636	37,187
	485,806	463,815

20.1 Audit fee

	2017	2016
Statutory audit fee	345	345
Out of pocket expenses	90	90
	435	435

21 TAXATION

	2017	2016
Current tax		
- current year	146,588	136,856
- prior years	1,787	(1,073)
	148,375	135,783
Deferred tax	4,890	5,120
	153,265	140,903

21.1 The relationship between the tax expense and surplus of income over expenditure is as follows:

	2017	2016
	(Rupees in thousand)	
Surplus of income over expenditure	566,733	415,966
Tax at applicable tax rate of 31% (2016: 32%)	175,687	133,109
Effect of prior years charge	1,787	(1,073)
Others including permanent differences	(24,210)	8,867
Tax expense for the year	153,264	140,903

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22 TAX STATUS

(i) The Commission has filed the tax returns 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 of Income Tax, Audit Division [the "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. 892.60 million. The Appellate Tribunal Inland Revenue [the "ATIR"] had upheld the annulment of order of ACIT for Tax Year 2003 and maintained the order for the Tax Years 2004 to 2007, while disposing of the appeals filed by the Commission against the order of the Commissioner Appeals [the "CIR(A)"]. The Commission filed the reference applications before the Honourable Islamabad High Court (IHC), who held that the amendments brought in section 49 of the Ordinance through the Finance Act, 2007, are not applicable retrospectively. As a result of this, payment of tax demands previously made by the Commission under protest, stands refundable. The income tax department has filed an appeal in the Honorable Supreme Court of Pakistan against the order of the Honorable High Court of Islamabad.

(ii) The Officer Inland Revenue [the "OIR"] charged default surcharge aggregating to Rs. 111.90 million for delay in payment of the tax demands for the Tax Years 2004 to 2007. While disposing off the appeals filed by the Commission, the CIR (A) has upheld the charge of additional tax and directed the OIR to re-compute 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). 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 19 February 2009 was in force. However, since, in view of the order of the IHC, the tax demands for the Tax Years 2004 to 2007 stood vitiated, therefore, consequent charge of default surcharge is also liable to be deleted.

(iii) The tax authorities have amended the assessment of the Commission for the Tax Year 2008, thereby, disallowing the tax depreciation of Rs. 24.47 million claimed by the Commission. The CIR(A) has set-aside the amended assessment order on appeal filed by the Commission. Against the appellate order of the CIR(A), the Commission has filed an appeal before the ATIR, which is subjudice till to-date.

(iv) The Commission has filed the return for the Tax Years 2008 to 2016, which stood assessed in terms of Section 120 of the Ordinance. The Commissioner Inland Revenue [the "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 IHC. Against this rejection, the Commission has filed an Intra Court appeal to the Division Bench of the IHC, thereby addressing certain issues. Being not satisfied with the order of the IHC, the Commission as well as the Tax Department, have filed appeal before the Honourable Supreme Court of Pakistan.

(v) Consequent to reassessment proceedings for the Tax Year 2013, the tax authority amended the assessment of the Commission thereby making certain disallowances and curtailing income tax refund by Rs. 31,939,949. Being aggrieved with the amended assessment order, the Commission preferred an appeal before the CIR(A), who has set-aside the amended assessment order and has remanded back the case to the tax authority. Being not satisfied with the order of the CIR(A), the Commission has filed appeal before the ATIR, which is pending disposal till to-date.

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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 the Commission's risk management framework. The Commission is responsible for developing and monitoring the Commission's 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. The Commission does not hold any collateral as security against any of its financial assets. The Commission believes that it is not exposed to major concentration of credit risk.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the balance sheet date was:

	2017	2016
	(Rupees in thousand)	
Loans and advances	**340,815**	230,658
Advances, deposits and other receivables	**42,294**	33,439
Short term investments	**2,656,665**	2,393,714
Cash at banks	**72,142**	101,511
	3,111,916	2,759,322

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Geographically there is no concentration of credit risk. 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. 2,465 million (excluding markup). 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 banks and institutions of high credit ratings.

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
	2017	2017	2017
		Rupees in thousand	
Accrued and other liabilities	496,678	496,678	496,678
	496,678	496,678	496,678
	2016	2016	2016
		Rupees in thousand	
Accrued and other liabilities	420,378	420,378	420,378
	420,378	420,378	420,378

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.

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(a) **Interest rate risk management**

The interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate exposure arises from short term investment, and balances in deposit and saving accounts. At the balance sheet date the interest rate risk profile of the Commission's interest bearing financial instruments are as follows:

	Carrying amounts	
	2017	2016
	(Rupees in thousand)	
(i) Fixed rate instruments		
Cash at bank	**72,142**	101,511
Short term investment	**2,656,665**	2,393,714
	2,728,807	2,495,225

(ii) Fair value sensitivity analysis for fixed rate instruments

The Commission does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not effect profit and loss account.

(b) Currency risk management

(i) Exposure to currency risk

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

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23.4 Fair value of financial assets and financial liabilities

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information of financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount				Fair Value		
	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3
30 June 2017	Rupees in thousand				Rupees in thousand		
Financial assets measured at fair value							
Short-term investments	-	2,656,665	-	2,656,665		2,656,665	
	-	2,656,665	-	2,656,665			
Financial assets not measured at fair value							
Loans and advances	340,815	-	-	340,815			
Adances, deposits and other recievables	42,294	-	-	42,294			
Cash and bank balances	72,729	-	-	72,729			
	455,838	-	-	455,838			
Financial liabilities measured at fair value	-	-	-	-			
Financial liabilities not measured at fair value							
Accrued and other liabilities	-	-	(496,678)	(496,678)			
	-	-	(496,678)	(496,678)			

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	Carrying amount				Fair Value		
30 June 2016	**Loans and receivables**	**Available for sale financial assets**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**
	Rupees in thousand				Rupees in thousand		
Financial assets measured at fair value							
Short-term investments	-	2,393,714	-	2,393,714		2,393,714	
	-	2,393,714	-	2,393,714			
Financial assets not measured at fair value							
Loans and advances	230,658	-	-	230,658			
Adances, deposits and other recievables	33,439	-	-	33,439			
Cash and bank balances	102,090	-	-	102,090			
	366,187	-	-	366,187			
Financial liabilities measured at fair value	-	-	-	-			
Financial liabilities not measured at fair value							
Accrued and other liabilities	-	-	(420,378)	(420,378)			
	-	-	(420,378)	(420,378)			

Fair value hierarchy

The table analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfer between levels of the fair value hierarchy are recognised at the end of the reporting period during which the changes has occurred.

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24 CAPITAL RISK MANAGEMENT

The Policy Board of the Commission 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, directly or indirectly controlled by the Government of Pakistan through Government authorities, agencies, affiliates and other organizations. Transactions with these state-controlled entities 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 related parties of the Commission.

Transactions with related parties during the year and balances outstanding at the year end are as follows:

Transaction and balances with key management personnel's

(i) Loans

During the year, secured loans advanced to Commissioners were Rs. 11,750 (2016: Rs. Nil). No interest is payable on these loans and these loans are repayable in upto 24 months after issue date. At 30 June 2017, outstanding balance against loans advanced to the Commissioners was Rs. 5,175 thousand (2016: Rs. 1,925 thousand) included in loan and advances.

(ii) Key management personnel compensation

Key management personnel compensation comprised of the following;

	2017	2016
	(Rupees in thousand)	
Short term employee benefits	**123,242**	100,907
Post-employment benefit	**8,827**	8,160

Compensation of the Commission's key management personnel include salaries and contribution to post employment defined benefit plan.

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	2017	2016
	(Rupees in thousand)	
Other related party transactions		
Contributions made to employees funds'	**244,588**	242,589
Contribution to Pakistan Institute of Corporate Governance	**100**	100
Payment to Federal Board of Revenue against taxes	**145,645**	68,322
Purchase of land	**211,790**	-
Disposal of land	**2,053**	-
Balances outstanding at the year end		
Due to employees benefit plans	**225,149**	146,427
Investments in the Pakistan Institute of Capital Markets - at cost	**28,000**	28,000
Payable to Federal Consolidated Fund	**-**	57
Payable to Competition Commission of Pakistan	**289,847**	288,702
Short term investments in treasury bills and banks	**2,656,665**	2,393,714

26 AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue by the Commission on 26 SEP 2017

Chairman

COMMISSIONER

How to contact us

The SECP has placed instructions on filing of a complaint on its website. The information and forms have also been made available at the CROs and the Pakistan Stock Exchange. A service desk provides the very contact window to the general public, investors and regulatees for filing complaints, asking pertinent questions and requesting important information.

For investor education please click on the following link: www.jamapunji.pk
For enquiries dial our toll-free number: 0800 88008

or
Lodge your complaint through our Service Desk Management System at http://sdms.secp.gov.pk
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Write to us at queries@secp.gov.pk
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Faisalabad Chamber of Commerce and Industry Building, Second Floor, East Canal Road
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Sukkur
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Tel: 071-5630517 Fax: 071-5633757

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Abbreviations

ABS	Asset Backed Securitization	KYC	Know Your Customer
AMC	Asset Management Companies	MMCs	Modaraba Management Companies
AML	Anti-Money Laundering	MSCI	Morgan Stanley Capital International
APRC	Asia Pacific Regional Committee	MSS	Market Surveillance Suite
BPA	Bond Pricing Agency	NCSS	National Clearing and Settlement System
CDD	Customer Due Diligence	ORIC	Office of Research and Incubation Centre
CRO	Company Registration Office	QAB	Quality Assurance Board
CES	Centralized e-IPO System	PMN	Pakistan Microfinance Network
CKO	Centralized KYC Organization	ROSC	Report on Observance of Standards and Codes
DSTs	Debt Securities Trustees	SASRF	South Asian Securities Regulators' Forum
ESOS	Employees Stock Option Schemes	SDRCs	Small Dispute Resolution Committees
GDS	Government Debt Securities	SLB	Securities Lending and Borrowing
GEM	Growth and Emerging Markets	SMEs	Small and Medium Enterprises
IAIS	International Association of Insurance Supervisors	SRD	Systemic Risk Department
ICRS	Insurance Companies Returns Systems	TCI	Technical Committee on Insurance
IMF	International Monetary Fund	UNCAC	United Nations Convention against Corruption
FSAP	Financial Sector Assessment Program	VPF	Voluntary Pension Fund

Declaration of investment

Disclosure of investment by Commissioners of the Securities and Exchange Commission of Pakistan in pursuance of sub-section (6) of section 16 of the SECP of Pakistan Act, 1997. These disclosures were made on June 30, 2017.

Mr. Akif Saeed, Commissioner

Sr. No	Names of companies	Nature of interest	Number of shares
1	Tri-Pack Films Limited	Shares	646
2	JS Growth Fun	Units	681
3	Ibrahim Fiber Limited	Shares	3000
4	Oil & Gas Development Co. Limited	Shares	1000
5	Sui Southern Gas Co. Limited	Shares	1312
6	Chenab Limited	Shares	500
7	Dewan Farooque Spinning	Shares	500

Mr. Muhammad Zafar-ul-Haq Hijazi

Sr. #	Names of companies	Nature of interest	Number of units as of June 30, 2017
1	NIT	National Investment (Unit) Trust	30,462
2	NIT	NIT Islamic Equity Fund	1,421,471
3	NIT	NIT Islamic Pension Fund	767,931
4	Al Meezan Investment Management Ltd	Meezan Tahaffuz Pension Fund	15,039

* Mr. Zafar Abdullah, Mr. Tahir Mahmood and Mr. Fida Hussain Samoo have filed nil declarations.

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