



2020 ANNUAL REPORT



VISION

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



MISSION

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

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Chairman's Message

The annual report for the year 2020 outlines the ambitions, progress and notable achievements of the SECP. The responsiveness of the SECP team in the face of unprecedented challenges posed by Covid-19 pandemic can be credited to the success of reforms introduced over the last 12 months. During the year, SECP continued to build momentum by introducing facilitative measures for stakeholders, strengthening enforcement function and enable innovations. While some regional markets faced problems of operability, the capital market in Pakistan remained fully operational throughout the year inspite of extreme volatility, particularly in March, 2020. Improvements in the risk management framework through introduction of market halts and phased widening of circuit breakers from 5% to 7.5% initiated in December, 2019 proved to be a timely step. Simultaneously, the rationalization of margining regime and the removal of numerous operational bottlenecks related to the futures market, improved the market volumes manifolds on a year on year basis. The market also witnessed the launch of two first-ever Exchange Traded Funds and raising of Rs.200 billion by Government of Pakistan through the first of its kind listed Sukuk. The above indicate our unwavering commitment to reform and close synergy with key stakeholders. In the corporate sector space, SECP continued to be responsive, facilitating proactively to ensure business continuity and coping with the challenges related to the pandemic. The wide-ranging measures have been deeply appreciated by the regulated entities and investors alike.

Throughout the year, SECP's overriding focus remained on three specific areas. Firstly, creating an enabling regulatory environment for the business



community, attract investment and spur economic growth by simplifying the regulatory regime through effective stakeholder engagement and improved user experience through digitalization. Noteworthy reforms include simplification of IPO regulations, establishment of Growth Enterprise Market (GEM) at PSX, introducing corporate governance regime based on comply or explain approach, simplification of further issue of capital regulations, introduction of categorization of brokers, revamping of margin finance product, issuance of a master circular governing the entire NBFC space by consolidating compliance directives issued during the last decade and introduction of simplified 'Sahulat Account' for low risk investors. Further, in a bid to facilitate investors, the SECP has significantly reduced fees for mutual funds and insurance companies.

These reforms played a key role in improving country's ranking on World Bank's Ease of Doing Business Index by 28 points (from 136 to 108). The reforms have landed Pakistan among the world's top 10 business climate improvers according to the World Bank Group's Doing Business 2020.

Secondly, our efforts concentrated on enabling innovations as means for delivering financial services that expand market outreach and leveraging technology to bring about efficiency.

During the year, the SECP has launched a round the clock available digital Secured Transaction Registry to facilitate small businesses / farmers to access bank finance without having to mortgage their homes or land; over 85,000 charges have been registered since April 2020, as a result, placing Pakistan is among those countries in the world that have such a registry, backed by necessary legal framework. In order to tap the potential of startups and promote a culture of entrepreneurship, Regulatory Sandbox was launched allowing entities to conduct limited scale live testing of innovative products, services, processes, and business models. SECP received an overwhelming response from prospective participants and the Commission approved 5 concepts for testing in its first cohort.

I am glad to share that in order to facilitate new listings in the stock market and enhance capital formation, the SECP has digitalized the IPO process for both equity and debt issues. Another use of digital means for promotion of capital market was a successful collaboration with the stakeholders that resulted in issuance of Energy Sukuk - II through book building mechanism utilizing the debt market platform of PSX.

In the Insurance sector, the launch of a Centralized Insurance Repository is likely to bring efficiency, transparency and cost reduction in the industry by enabling digital storage of life insurance policies at a central database.

The SECP has relentlessly worked to develop a digital ecosystem under the 'Leading Efficiency through Automation Prowess' (LEAP) program for end-to-end digitalization of all its internal processes as well as outside interface. As part of this exercise a thorough analysis of its existing processes has been undertaken and significant progress has been made in terms of business process re-engineering. Eventually, when these processes are put in to place over the next 18-24 months, user experience, and time and cost of doing business will materially improve.

To modernize our communication channels, a Chatbot has been introduced on SECP's website to attend to public queries round the clock. On similar lines, a comprehensive repository of SECP administered laws has been added for the convenience of public at large.

Thirdly, in line with the principal goal outlined in last year's annual report to balance effective enforcement with an efficient regulatory environment, SECP successfully completed its first phase in moving towards a function-based structure by establishing and operationalizing Adjudication Division on 1st December, 2019. The driving force behind this initiative was to instill discipline and ensure a level-playing field; the SECP has placed a special focus on removing arbitrariness by the introduction of a penalty grid along with clearly articulated mitigating and aggravating circumstances that ensure objective enforcement actions. Furthermore, to ensure consistent application of law across all its regulated sectors, the Adjudication function was simultaneously centralized. These measures have not only ensured uniformity in proceedings but also resulted in complete segregation of investigations from adjudication, thus enabling independent and unbiased conclusions. While these are early days for the Division, the results have been encouraging in terms of the magnitude of cases handled as well as the reduced turnaround time. A total of 667 cases of non-compliances of the applicable legal regulatory framework were referred for Adjudication during the year and accordingly show cause proceedings were initiated. An aggregate of 709 cases were processed, and 374 orders were passed. Furthermore, 8 ongoing investigations were concluded and 4 criminal complaints were filed in courts.

The drive to ensure effective compliance with AML/CFT regime led to unprecedented enforcement actions against non-compliant institutions and imposition of dissuasive penalties amounting to Rs.32.280 million regarding 76 orders. These efforts were made to bring market discipline and discourage market malpractices and non-compliance with the regulatory regime. The SECP has also

implemented Targeted Financial Sanctions within its regulated sectors under UNSC Resolution.

Finally, apart from the above three main themes, a few other developments merit a mention. Implementation of the regulatory regime for corporate restructuring was another major development, as SECP licensed the first-ever Corporate Restructuring Company to undertake restructuring of nonperforming loans, rehabilitation and revival of commercially distressed businesses in the corporate sector.

Internationally, owing to continued engagement and continuous improvement in the legislative framework in line with the international benchmarks, I am glad to share that the SECP has been re-elected to the International Organization of Securities Commissions (IOSCO) Board for the fifth consecutive term of 2020-22.

SECP, along with other stakeholders, successfully supported the federal Government in developing and implementing a seven years masterplan for the capital market. The plan lays out a robust and multidimensional reform agenda that is expected to enhance efficiency, stability, and inclusiveness of the financial market.

During the year, the SECP's participation was also requested for the Sugar Inquiry Commission setup by the Federal Government to probe hike in sugar prices. The Sugar Inquiry Commission has submitted its final report to the Federal Cabinet. Based on recommendations set out in the report, SECP is devising a roadmap to improve its own processes and its corporate surveillance regime.

Considerable efforts were made during the year to further enhance capacity and capability of our staff while ensuring their wellbeing in the wake of Covid-19. A dedicated management training program was introduced under the title 'Hawks 2020'. As a progressive regulator, steps were taken to improve gender diversity at the workplace whereby female representation, during the last one year, represented 51% of total fresh hiring, and female officers now head 22% of the Departments within the Commission. Further, equal opportunity was provided to differently abled persons and resources from Baluchistan to promote inclusivity in our workforce.

Considering the year ahead, I would touch upon some initiatives that we will be pursuing during the year 2020-21.

Institutional strengthening through function-based restructuring in a phased manner, replacement of existing e-services with a modern business registry, end-to-end automation of internal processes, improved user experience, are priority areas for the next financial year. Work has already started on reorganizing the supervision function on modern lines. The principle objective is to strengthen the regulatory oversight through a centralized and technologically enabled offsite function that robustly monitors and identifies any regulatory violations and flags them for investigation, a function that will operate distinctly and separately from offsite monitoring. This will not only bring specialization, but also demarcate boundaries between the three core enforcement functions of surveillance, investigation and adjudication. The exercise will lead to the creation of a much stronger enforcement arm that is simultaneously transparent and independent. Such a change in the functional structure of the SECP is necessitated in light of the observations of the Sugar Commission as well as internal reports and findings on how to improve the efficiency and effectiveness of the Commission. In this regard, it is imperative to use technology across the board to achieve superior enforcement, including unified reporting interfaces and progress on introduction of XBRL for financial reporting.

While we have introduced a number of reforms for investor protection in the capital market, measures are underway for safeguarding custody of clients' assets through introduction of third party clearing and custody model. Additionally, it is essential to replace the existing net capital balance regime with liquid capital regime for brokers to effectively evaluate and monitor their ability to meet short and medium-term obligations. Development of alternate distribution channels and implementation of digital solutions has been at the forefront of the dialogue between SECP and Mutual Funds Association of Pakistan (MUFAP) which resulted in signing of an MOU between Central Depository Company (CDC) and MUFAP for the launch of a Digital Platform.

While a lot of good work has been done in the previous year, there needs to be an increased focus on linking SECP's work to the real economy and real business issues that face the country today. While a Collateral Management Company has been launched, there is an urgency to provide farmers, the opportunity to sell their produce by way of an electronic warehouse receipts on a recognized exchange. While GEM has been enabled and both equity and debt public offerings have started after a hiatus of 12 months, a lot more needs to encourage growth companies and SMEs to raise capital through the capital markets. Similarly, development of the bond market to enable public sector for raising capital for infrastructure demands is need of the hour.

In order to achieve sustainable market development, fostering competition and capital formation, it

is vital to introduce simplified and business friendly laws. Proposed amendments to the SECP Act and amended SECP Act focusing on transparency and improved governance has already been approved by the Federal Cabinet, while the drafts for a new NBFC law and a new insurance law are in public consultation stage. The objective of these laws is to modernize the framework for stimulating market development, upgrading prudential supervising ability, introducing enhanced investor protection and adapting technology-based distribution channels and innovative products. SECP also plans to propose amendments to Companies Act 2017 in order to promote entrepreneurial culture and supporting start-ups ecosystems by explicitly adding definition of start-up company, simplifying the issuance of stock options and share buy-back by private limited companies and provision of relaxations for testing innovative and creative business ideas. Another priority is the amalgamation of Securities Act, 2015 and Futures Market Act, 2016, to have a concise umbrella legislation for the securities and futures market in line with the global best practices. In parallel to the regulatory reform, we shall continue to reach out to Federal Board of Revenue and keep making the case for a fair and equitable tax regime that promotes regulated businesses, encourages capital formation, fosters product innovation and incentivizes corporatization and use of capital markets.

In the end, I would like to thank my colleagues for their tireless commitment and contribution for meeting the challenges brought about by COVID-19. I would also like to record my appreciation for my fellow Commissioners for their valuable support, without which SECP would not have been able to accomplish all these milestones in the past one year. I would like to reiterate that we, at SECP, are proud of what we have achieved, and look forward to building on these successes, as we continue to review and recalibrate our approach to accomplish SECP's mission.

I would also like to thank the Policy Board for actively engaging and providing valuable guidance and support in the implementation of our transformational initiatives that would not have been possible without the support of the worthy Board members. My special gratitude is reserved for the honorable Federal Minister for Finance and Revenue to the Government and other departments for supporting SECP all along.

I believe that moving forward, SECP shall strengthen further as a future ready regulator, and continue with reforms to strengthen the capital market in Pakistan.



Aamir Khan
(Chairman)

Capital Markets

Stock Market Overview

A total of 530 companies with paid-up capital of Rs1,391.477 billion were listed on Pakistan Stock Exchange (PSX) as on June 30, 2020. The KSE-100 index began the year at 33,901.58 points and ended at 34,421.92 on June 30, 2020, i.e., an increase of 1.53% since the beginning of the year. Market capitalization was Rs6,529.707 billion on June 30, 2020 which is 5.19% lower than June 30, 2019 market capitalization of Rs6,887 billion.

In the beginning of FY 2019-20, the KSE-100 witnessed a declining trend, however, positive recovery was witnessed towards the end of financial year. During the year, KSE 100 touched its lowest level of 27,228.80 on March 25, 2020 and highest level of 43,218.67 on January 13, 2020. Average daily turnover in ready and future markets was Rs196.364 million shares and Rs79.277 million shares, respectively. Foreign investment in the stock market exhibited a net outflow of \$284.832 million during the FY 2019-2020, however, it was 20% lower to the net outflows of \$ 356.04 million observed in the FY 2018-2019.

Covid-19 and its impact on Stock Exchange

In Pakistan, the first case of COVID-19 was reported in February, 2020. The virus spread into various regions nationwide and was officially classified as epidemic situation in March 2020, in response, the authorities decided to impose lock down across the country and all the industrial and retail sectors were affected by this lock down. Resultantly, the stock market started to decline due to this uncertain situation. With the increased number of infected cases reported in Pakistan, the stock market suddenly lost its momentum and panic like situation was witnessed in the market. Foreign investors withdrew their portfolio investments and investors started to offload their holding. During the month of March, eight downward market halts were triggered. However, despite all the turbulence and uncertainty, market operations were never halted even for a single day and settlements were executed smoothly in a timely manner that depicts strength and resilience of capital market in Pakistan.

Public Offerings & Private Placements

During the FY 2019-20, no new company was listed as compared to two companies in FY 2018-19 primarily owing to the Covid-19 pandemic. However, SECP granted approvals to two new companies i.e. Organic Meat Company Limited on April 17, 2020 and TPL Trakker Limited on May 14, 2020 to raise capital from the general public, which were subsequently listed at PSX. These companies offered their share capital to the general public through an Initial Public Offer (IPO). The public subscription for Organic Meat Company Limited and TPL Trakker Limited took place on July 14 to July 16, 2020 and July 22 to July 23, 2020 respectively.

Issue of Redeemable Capital

During the year, one issue of listed Sukuk, i.e. Rs2 billion by Bank Islami Pakistan Limited (Ehad Sukuk) was offered to retail as well as pre-IPO investors Out of total issue of Rs2 billion, Rs0.3 billion were offered to retail investors, whereas, Rs1.7 billion were offered to pre-IPO investors.

Despite COVID-19 pandemic, the IPO of Bank Islami Sukuk was over-subscribed. The issue was able to receive significant interest from institutional and retail investors generating Rs321 million of subscription against the IPO size of PKR 300 million. The IPO witnessed a remarkable response from online subscription channels with more than 80% applications (i.e. 105 applications) received via e-IPO platforms.

Privately Placed Issuance of Sukuk

Power Holding Limited (PHL), a public sector entity owned by the Ministry of Energy has raised an amount of Rs200 billion from the capital market through automated book-building platform of PSX resulting in oversubscription of 70%. This is the first time ever that book building mechanism for spread discovery of any debt instrument has been done through Pakistan's capital market. SECP played a vital role in engaging with all the stakeholders and ensuring that the transaction is successful in terms of process and timelines.

The oversubscribed transaction exhibited confidence of diverse group of investors and opened up further capital raising avenues for government projects. Bidders included NBFCs, pension & provident funds, insurance companies, banks and retail investors.

Developmental Reforms

SECP's capital market reform measures, aimed at developing a robust and transparent capital market include legal, structural, regulatory, operational, market and product development initiatives.

New Brokerage Regime

In order to enhance security of investor assets with the securities brokers and strengthen the overall brokerage industry, framework for a new regulatory regime has been introduced involving categorization of securities brokers according to their financial resources and governance standards. Securities brokers that would comply with enhanced net worth, corporate governance and, compliance requirements shall be allowed to retain custody of investor assets. Small sized brokerage houses shall not be maintaining custody of customer assets and therefore will be subject to less stringent regulatory requirements. This would enable such brokerage houses to operate at lower costs and accordingly focus on their core competence of trading and investment advice and aid in expanding market outreach.

Standardized Scale of Brokerage Commission

Minimum and maximum range of brokerage commission has been implemented for ensuring quality of brokerage service provided by securities brokers, reducing anomalies and supporting growth of the brokerage industry. In this regard, a minimum brokerage commission of 3 paisa per share or 0.15% of traded value, whichever is higher, has been made effective along with a maximum allowable commission rate of 2.5% of traded value.

Launch of Exchange Traded Funds (ETFs) and Murabaha Share Financing

PSX has successfully launched two ETFs, which will uplift investor base in the capital market by providing a new, low cost and well-diversified investment avenue for the investors. Further, in order to promote Shariah Compliant financing, Murabaha Share Financing (MSF) product has been introduced, which is a counterparty risk-based financing product in KMI-All Shares Index. With the launch of this platform by the National Clearing Company of Pakistan Limited (NCCPL), securities brokers, banks and financial institutions shall be able to extend share financing in Shariah compliant manner.

Introduction of Growth Enterprise Market

SECP in collaboration with the PSX has introduced an alternative board, the Growth Enterprise Market (GEM) to encourage smaller companies to list equity securities and avail the benefits of listing at the exchange. In order for a public company to be eligible to list at GEM, it should have audited accounts for the last 2 years and post issue paid-up capital of a minimum Rs25 million. The issuer may offer, by way of information memorandum, 10% of the post issue paid-up capital to eligible investors.

Rationalization of fee structure of frontline regulators

For enhancing ease of doing business and strengthening market participants, measures have been taken to reduce market costs for which fee structure of the PSX, CDC and NCCPL have been rationalized.

Wider Investor Outreach and Investor Facilitation

In order to enhance investor outreach, framework has been stipulated for enabling online account opening. Further, to increase the retail base, simplified account opening process has been introduced for low risk investors whereby maximum investment limit of Sahulat Account has been enhanced from Rs500,000 to Rs800,000. Further, a simplified non-trading Investor Account has been introduced for sales/income tax refund bonds, IPO facilitation and mandatory induction of private/public unlisted company shares in CDS.

Improvements in Deliverable Futures Market (DFM) segment

Various measures were taken to enhance activity in the DFM segment, such as permitting release of 50% MtM profit in DFC market on T+1 basis and inclusion of closeout mechanism in DFC market for managing risk. Further, amendments in the PSX Regulations were approved relating to reporting of blank selling in DFM to address practical difficulties being faced by the market participants. Further, basic deposit collected by NCCPL from brokers trading in the DFM has been permitted to be used towards margin requirements of brokers with NCCPL.

Collateral Management Companies

In order to promote electronic trading and warehouse receipt financing of agricultural commodities,

SECP promulgated Collateral Management Companies (CMC) Regulations after extensive stakeholder deliberation. The CMC Regulations provide the necessary framework for commodities placed in warehouses to be used as collateral for bank loans and trading of electronic warehouse receipts on the futures exchange.

Collateral management companies will provide storage and preservation services for a range of agricultural commodities and will issue warehouse receipts for agricultural commodity financing.

Subsequent to notification of CMC Regulations, two companies were issued NOC for formation of CMC. After licensing of CMCs, a fully operational regime is expected to promote electronic trading and warehouse receipt financing of agricultural commodities. It is envisaged that an efficient collateral management system would not only boost Agri-lending but also significantly reduce post-harvest losses in Pakistan's crop value chains.

Commodity Murabaha at PMEX

Commodity Murabaha with High-Speed Diesel (HSD) as underlying commodity has been revamped in compliance with observance of rules and conditions approved by the Shariah Advisory Committee of the SECP.

Notification of Rating and Investment Information Inc., Japan

SECP encourages credible foreign credit rating institutions to come to Pakistan and act as joint venture partners or technical collaborators with locals in the field of credit rating. In this regard Rating and Investment Information Inc., Japan has been specified as internationally recognized credit rating institution through notification dated September 23, 2019 under the Credit Rating Companies Regulations, 2016 for the purpose of entering into joint venture or technical collaboration arrangement with any credit rating company in Pakistan.

Regulatory Reforms

Revamping Margin Financing (MF) Product

Amendments were approved in the NCCPL Regulations to remove practical difficulties and introduce reforms in relation to removal of tripartite agreement, allowing pledging of 50% margin financed securities for brokers extending finance from their own resources in favor of NCCPL to meet margin requirement against exposure in ready market and removal of additional margin from proprietary account of brokers subject to fulfillment of additional conditions.

Central Depository Company as Paying Agent

Amendments were introduced in the Companies (Distribution of Dividends) Regulations, 2017 to allow CDC as a paying agent for payment of cash dividends directly into designated bank account of the shareholder.

Companies in violation/non-compliance of PSX Regulations

Amendments were approved in the PSX Regulations such that trading in shares of a non-compliant listed company may not be suspended immediately but rather in a phased manner keeping in view the interests of minority shareholders and in certain cases not to suspend trading in shares of companies.

Measures to improve Corporate Governance of SROs

To promote best practices for corporate governance, guidelines were issued for SROs in relation to performance evaluation of the Board, CEO and CRO, and for maintenance of panel of persons for independent directors. Moreover, directive was issued to PSX to reduced the size of its board of directors in line with international best practices.

Further, amendments were also introduced in licensing regulations of respective SROs wherein various measures were implemented inter alia including the following:

- Rationalizing composition of directors on the board
- Empowering the management on regulatory matters and reducing the role of board and committees in operational matters
- Increasing diversity on the boards of directors of the SROs
- Rationalizing experience and qualification requirements for senior management officers of SROs
- Limiting the number of terms an independent director can serve consecutively on the board of an SRO

- Addition of enabling powers of the SECP in the matter of appointment of independent directors of SROs

Measures to Improve Liquidity

In order to enhance trading capacity of market participants and improve liquidity, amendments were made in the NCCPL Regulations for discontinuing the 10% additional margins being collected from brokers and the 10% additional haircuts being applied by NCCPL on margin eligible securities (MES), and revision in slabs of liquidity margins, which would now be applicable only on large exposures of brokers. In addition, the security deposit requirements have been reduced. The pool of eligible collateral against margin requirements has also been increased and methodology for calculating haircuts on PIBs was prescribed for acceptance as MES and GOP Ijarah Sukuk has also been included in list of MES. Further, eligibility criteria of MTS eligible securities has been revised for selecting from top 200 securities instead of 100 securities.

Introduction of PMEX Rule Book

The regulatory framework of PMEX was scattered in multiple set of regulations and with the introduction of Futures Market Act, 2016, the Companies Act, 2017 and related developments necessitated a review of regulations of PMEX to align it with the statutes and to compile all regulatory provisions in one set, thereby removing redundancies and ensuring harmonization within different regulatory requirements. Therefore, a single document wherein all the regulations of PMEX have been compiled was introduced as the PMEX Rule Book.

Amendment in the Public Offering Regulations, 2017 – Capital Market Development

In order to encourage new issuers to tap capital market, safeguard the interest of general public, shift towards disclosure-based regime, promote listing of debt securities and make the IPO process more efficient, various amendments have been introduced in the Public Offering Regulations, 2017.

Through these amendments, the eligibility criteria for listing of companies have been reviewed in order to enable those issuers to raise funds that have a track record of less than three years and have no profitability during the last two years. Further, the requirement of audited accounts has been reduced from 5 years to 2 years and certain parameters for green field projects have been introduced. An exit offer mechanism has also been introduced for the protection of interest of investors. Further, through these amendments book runner has been allowed to waive the margin requirement of the institutional investors including foreign investors and the scope of disclosures in the offering document have been enhanced.

Further, to increase retail and institutional participation, in capital market by expanding the universe of marginable eligible securities and making government securities a more lucrative form of investment, CDC after thorough consultation with the Commission and NCCPL, effective February 06, 2020 has devised a mechanism for allowing TREC holders & their clients to pledge their government securities as margin against their equity trades.

This would allow the TREC holder & their clients to have provision to replace pledged securities by pledge release through NCCPL as well as re-pledge other government securities. An added benefit of this proposed mechanism is that the beneficial ownership will remain with investors who will continue to receive coupon payments in their IPS accounts.

In the same context, custody fee on Government securities charged by CDC has also been abolished.

Amendment in the Credit Rating Companies Regulations, 2016

Credit Rating Agencies (CRAs) play vital role in development of financial markets and conduct independent, professional and impartial assessment of the credit risk associated with a particular instrument or a corporate entity. In order to provide more conducive regulatory environment to CRC, SECP has introduced certain amendments in the Credit Rating Companies Regulations, 2016. These amendments have been designed to provide ease of doing business and promoting rating business without compromising quality of ratings. Pursuant to these amendments, SECP has abolished the requirements for disengagement period of two years for private ratings, submission of annual accounts of associated concerns and obtaining documents relating to default status of associated concern. In addition, the requirements for submission of industry specific studies, additional copies of application, submission of updated resume, and dissemination of the financial statements of CRC on their website also removed.

Further, to encourage new professional entrants with extensive research experience, individuals have been allowed to hold 40% of shareholding of credit rating company. To ensure that CRC focus on their core function, CRC have been allowed to outsource their internal audit and compliance functions to independent chartered accountants' firms.

Risk Management

While SECP diligently manages risk related to all regulated segments including capital market, insurance and non-banking financial companies (NBFCs), however, there was a need for a wider and focused monitoring of systemic risk.

During the year, the Commission established a dedicated Systemic Risk Wing that is mandated to identify and mitigate threats to financial stability of the regulated financial markets. Moreover, Systemic Risk Review Committee was reorganized to ensure senior oversight of untoward developments with the potential of transforming into systemic risk shocks. The Wing is required to adopt a proactive approach by maintaining an active liaison with other stakeholders including State Bank of Pakistan (SBP), Ministry of Finance and NCCPL. To stay abreast with international developments in risk management, the Wing will strengthen liaison with research cells of IOSCO and FSB. The Wing will monitor macroeconomic developments along with supervision of market-related indicators to keep the Commission updated on potential flashpoints. Details of measures to strengthen risk management at SECP are as follows:

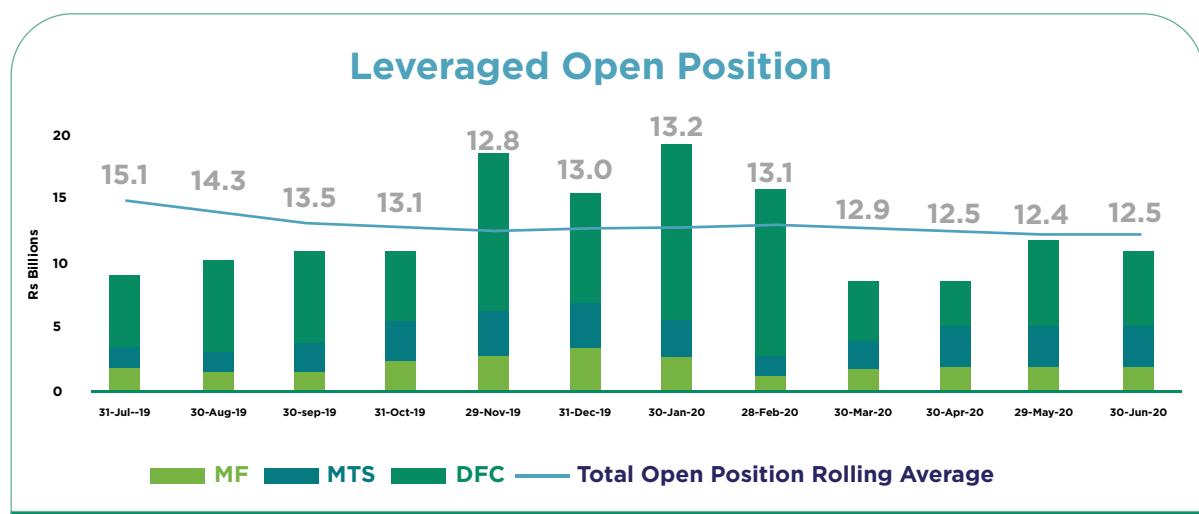
Establishment of National Financial Stability Council

Ministry of Finance, SBP and SECP have established National Financial Stability Council (NFSC) on May 14, 2020 with the view to promote inter-agency collaboration, to identify and deliberate on issues pertaining to systemic risk and to improve financial system stability.

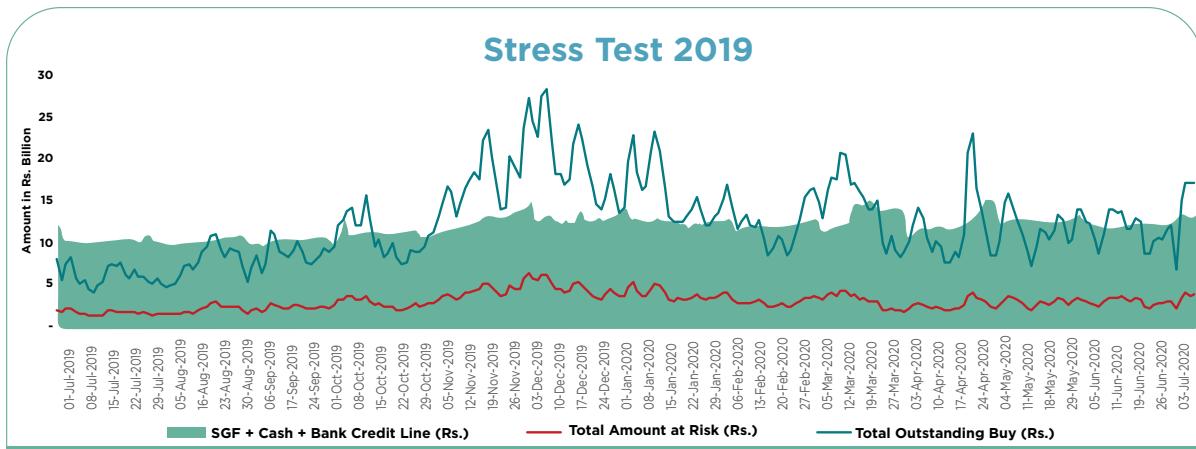
Risk Identification and Assessments

Risk management encompasses a holistic view to identify all important risk areas whether they are related to markets or macroeconomic developments. With respect to capital market, for both ready and futures trading, primary focus remains on market liquidity, leverage and settlement.

Mutual funds make major part of the NBFC. Net sales i.e. issuance minus redemption, NAVs and concentration are covered to identify any untoward movement. Likewise, risks related to insurance industry including solvency, reinsurance and investments are part of risk management monitoring. Onsite and offsite mechanisms keep a vigilant oversight on the insurance sector.



The Wing in collaboration with NCCPL, has conducted various simulations and assessments including stress tests and reverse stress tests, under different stress scenarios to assess potential risks, sufficiency and resilience of margins, Settlement Guarantee Fund (SGF) and other resources of clearing house. The amount of risk is compared against the default management resources available to NCCPL i.e. a combination of cash margin, bank credit line and SGF. The average amount of risk was Rs2.80 billion (calculated on the basis of risk probability) and average outstanding buy was Rs12.11 billion, observed during FY 2019-20 which stayed well covered with the available resources.



Circuit Breakers and Trading Halts

Introduction of Index-based market halts as a risk management tool was a timely decision. Selling pressure was witnessed in the stock market at the peak of COVID-19 pandemic however, market halts provided resistance and allowed adequate cooling-off period to investors to assess the market. The stock exchange witnessed market halts 9 times since its implementation in January and in some cases, market also witnessed stocks rebound after a trading halt.

Clearing House Risk Management Initiatives

NCCPL has also strengthened its risk management framework in consultation with the SECP. These inter-alia include the development of deliverable futures close out mechanism and adjustments of maximum allowable exposure limits based on monthly NCB values.

Measures to Provide Ease of Doing Business

Following measures have been taken to provide ease of doing business to investors and capital market participants:

- Certain requirements of the Centralized KYC Organization have been rationalized including proof of address and source of income, mobile number of clients and number of days for intermediaries to address deficiencies and IBAN
- Simplification in the listing requirements and reducing related documentation
- Inclusion of more financial institutions as clearing members in the NCCPL
- Improved disclosure requirements specially for related party transactions
- Rationalizing certain office/branch office registration requirements and conditions for broker's office/branch office
- Shares of PSX blocked at the time of offer for sale unblocked to enhance liquidity of brokers
- Payment of profits to brokers on the cash kept as collateral against base minimum capital requirement
- Eliminate requirement of separate audit of NCB and make it part of annual audited financial statements, and deletion of certain documentation requirements for licensing of securities brokers to remove redundancies and enhance ease of doing business
- Inclusion of treasury bills and Pakistan investment bonds in the list of acceptable collateral for debt market
- Removal of requirement to place quarterly financial statements on website by brokers
- Allowing securities lending by asset management companies on behalf of collective investment schemes
- Requirement to submit specific pledge authority to the bank in the case of each pledge transaction was relaxed upon request of market participants and replaced with one-time pledge authorization and submission of declaration by the broker to the respective pledgee on fortnightly basis
- To encourage more participation of the financial institutions in capital market, banks have been exempted from licensing requirements to act as underwriter and bankers to an Issue
- The annual renewal of securities and futures advisors has been simplified for the companies and scheduled banks, providing the services of advisory and distribution of mutual funds to multiple

assets management companies

- Amendments introduced in the Futures Brokers (Licensing and Operations) Regulations, 2018 wherein requirement to maintain a minimum net capital balance was relaxed. Moreover brokers were given a period of 30 days to comply with the minimum paid-up capital and net worth requirements before the exchange initiates punitive proceedings against the non-compliant broker. Moreover, the requirement for the compliance officer to prepare a compliance report and submit to the board of directors was relaxed to be made on a quarterly basis and the minimum qualification requirement for the appointment of Chief Executive Officer was relaxed in case where the candidate possesses five years of relevant experience of the financial services sector/capital markets/commodity business

Ease of Doing Business - Public Offer of Securities

In order to promote public offer / listing of securities and to bring ease of doing business, certain amendments have been introduced in the regulatory framework of PSX whereby:

- Approval processing timelines have been improved and PSX is now required to process approval within 10 working days for publicly placed debt backed by GOP's debt servicing guarantee and within 15 working days for listing of equity securities and publicly placed debt securities not guaranteed by GOP
- Requirement of information memorandum has been relaxed for listing of privately placed debt security with instrument rating of "A" and above and for debt backed by debt servicing guarantee from GOP
- Credit rating requirement has also been relaxed for debt listing backed by debt servicing guarantee from the GOP
- Audited accounts requirement that the accounts older than 6 months cannot be considered for public offering has been relaxed to 8-months
- Centralized E-IPO system has been up-graded and now the TREC holders/ Brokers have been allowed to submit the application on the behalf of their clients in IPO

Measures taken in wake of COVID-19

As a consequence of COVID-19 pandemic, supportive measures were taken to ensure continuation of capital market operations and provide maximum facilitation to market participants. To curtail blank selling in the stock market, blank sale transactions in DFM were allowed only on uptick or zero-plus tick for DFM April 2020 contract in 36 securities. Further, the duration of index-based market halts was increased from 45 mins to 60 mins to give sufficient time to intermediaries to deposit MtM margins.

The SROs were directed to ensure effectiveness of their business continuity plans to deal with any crisis situation. Further, the securities brokers were also allowed to activate and operate the disaster recovery terminals for trading purposes during normal operations of PSX.

To facilitate securities brokers in meeting any shortfall in deposit requirements against base minimum capital, relaxation was provided to the extent of marking to market of margin eligible securities. Further, securities brokers with financial year ending on December 31, 2019, were given 30 days relaxation to hold annual general meetings. Also, the requirement of performing biometric verification at the time of opening of new investor account was relaxed and the same can be performed within 90 days of the opening of account.

Future Outlook

Regulatory Reforms

The Securities Act, 2015 and Futures Markets Act, 2016 are being reviewed for introducing necessary reforms, including removing practical difficulties and redundancies, facilitating ease of doing business and ensuring a modern and updated law. Further, the regulatory framework including the regulations of Self Regulatory Organization will be reviewed for reforms targeted at ease of doing business, addressing over-regulation and removal of practical difficulties.

Professional Clearing Member (PCM)

Regulatory framework for PCM will be introduced and efforts will be made to develop and implement PCM model for bringing independent third party custodial service providers for facilitation of the brokerage industry and the development of overall capital market while enhancing investor protection.

Development of Derivatives and Leveraged Markets

Globally, derivatives products serve as an important medium for providing variety of investment alternatives to investors. In this regard, necessary steps are being taken to develop derivatives market with particular focus on cash settled products. Further, efforts are being made to revamp the existing leveraged products for removing anomalies and increasing ease of access to credit in the capital market.

Implementation of New Capital Adequacy Regime

A new capital adequacy regime shall be implemented for securities brokers through introduction of liquid capital to replace the existing method of allowing market exposures against net capital balance, which would bring efficiency and accuracy in the process.

Review of Public Offering framework

Public offering framework is being reviewed with respect to bringing ease in listing process; expanding the universe of Consultant to the Issue; introducing book building mechanism for debt instrument and to include measures to address liquidity concern with respect to debt instruments..

Review of Market Making Regulations

Review of the market making framework of PSX with the objective to create liquidity in the secondary debt market.

Review of the Regulatory Framework for Credit Rating Companies

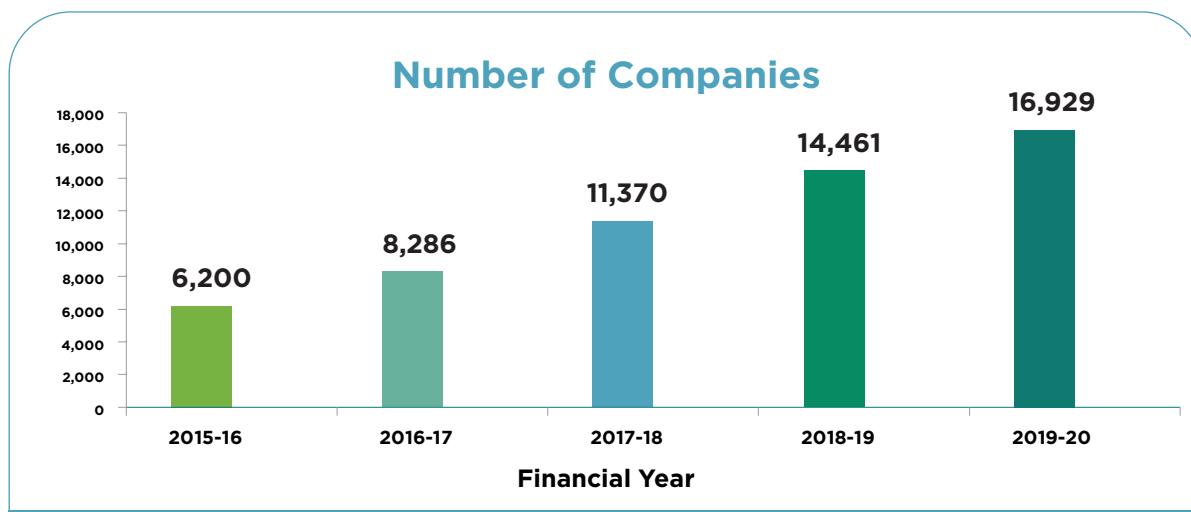
In order to promote ease of doing business, removing certain anomalies and encouraging rating businesses, certain amendments in the Credit Rating Companies Regulations, 2016 are proposed to be introduced in consultation with stakeholders.

Corporatization

Corporatization is the process of transforming non-corporate entities and businesses into a formal business structure. The SECP, through its Company Registration Offices (CROs) has presence in 09 major cities. CROs are instrumental in continuous growth of corporate sector in the country. The SECP has recently reformed the company registration process and made it simple, easy and cost effective. The turnaround time for incorporation of a company has been reduced significantly.

Sector Overview

During the year, SECP registered 16,929 new companies, indicating a growth of 17% compared with the corresponding financial year. This has raised the total number of registered companies to 120,395. In the new incorporations, approximately 71% companies were registered as private limited companies, 26% were registered as single-member companies. Three percent were registered as public unlisted, association's not-for-profit, trade organizations, foreign companies and limited liability partnership. In 2019-20, 98 % companies were registered online and around 44% companies registered same day.



In the period under review, trading sector took a lead with the incorporation of 2,863 companies, followed by IT with 2,027, services with 1,929, construction with 1,752, tourism with 829, real estate development with 773, food and beverages 637, education with 609, corporate agricultural farming with 496, engineering with 437, marketing and development with 398, textile with 370, pharmaceutical with 349, mining and quarrying 294, healthcare with 284, transport with 282, chemical with 264, auto and allied with 195, fuel and energy 189, logging with 186, e-commerce with 181, communication with 165, cosmetics and toiletries with 157, broadcasting and telecasting with 152, power generation with 142, cable and electric goods with 140, paper and board with 134, steel and allied 74, arts and culture with 53, wood and wood products with 50 and 518 companies in other sectors. Foreign investment has been reported in 550 new companies. Moreover, 27 foreign companies have established places of business in Pakistan during the last fiscal year.

Licensing Under Section 42 of the Companies Act

During the financial year 2019-20, the SECP has issued 46 licenses to not-for-profit associations under section 42 of the Companies Act, 2017, with objects of arts, sports, social services, charity etc. Besides, licenses of 45 not-for-profit associations have been renewed, while licenses of 30 not-for-profit associations were revoked due to non-compliance. As of June 30, 2020, the number of companies licensed under section 42 of companies act totaled 933.

Regulatory Functions

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, returns filed by beneficial owners and trading data of PSX. The SECP received 1,737 returns both from the listed companies and beneficial owners during the year under review.

Schemes of Arrangements

The schemes of arrangement, amalgamation and reconstruction enable companies to consolidate their resources, achieve synergies in business operations and exploit tax-planning opportunities. It also enhances a company's capacity to deal with systemic risk and increase its market presence through conglomeration. Presently, schemes of arrangement of small-sized companies are approved by the SECP. The aggregate number of schemes of arrangement, amalgamation or reconstruction dealt with during the preceding three years are as follows:

Particular	2018	2019	2020
Scheme of Arrangements/ Reconstruction/ Amalgamation	23	28	50

Regulatory Applications/Approvals

The SECP's Company Law Division processes applications filed by listed and unlisted companies under various provisions of the law for granting regulatory approvals under the applicable legal regulatory framework. Tabular representation of processing of such applications are given below:

Application for other regulatory approvals	2018	2019	2020
Appointment of cost auditors	8*	-	-
Withholding of dividend	17**	-	-
Extension in time to hold AGM	36	45	39
Extension in filing quarterly accounts***	21	28	70
Exemption from preparation and filing the consolidated accounts	13	14	28
Group companies registration/ deregistration	7	1	46
Approvals for extension of loans to directors of a company	3	3	3
Applications for empanelment as Provisional Manager and Official Liquidators under section 315			70
Exemptions from requirements of the Code of Corporate Governance	7	72	13
Others	10	17	24

* In terms of requirements of section 250 of the Act, requirements relating to audit of cost accounts are not applicable, as the SECP has not issued any directive for mandatory cost audit.

** In terms of requirements of section 243 of the Act, companies without the SECP's approval may withhold the payment of dividend of a member where the member has not provided the complete information or documents as specified by the SECP.

***Due to covid related circumstances, more companies sought extension in filing quarterly accounts, however as per law one month extension for first quarter was allowed.

Approvals, Permissions, Inspection of Record, Issuance of Copies and Registration of Charges

Under the provisions of the Companies Act 2017, tabular presentation of regulatory approvals granted are as follows:

Relevant section of the Act	Nature of approval / permission sought	Total
Section 32	Amendment in memorandum and articles of association	233
Section 10	Availability of Name	26,205
Section 13	Change of name	354
Section 42	Grant of license to associations	46
Section 42	Renewal of License to associations	45
Section 46	Conversion of public companies into private companies	15
Section 83	Further issue of capital	137

Section 100, 106, 109	Registration, modification, satisfaction of charge and Condonation of delay in submission of particulars of charge	9,388
Sections 132	Extension in period for holding of AGMs by non-listed public and private companies	214
Section 133	Holding of an EOGM at a shorter notice	1
Section 147	Calling of overdue meetings	117
Section 221	Inspection of books of account and other books and paper	15
Section 225	Exemption from disclosure requirements	07
Section 228	Exemption from preparation and filing the consolidated accounts	18
Section 229	Change in Financial Year	05
Section 246	Appointment of Auditors	16
Section 464	Issue of certified copies of documents	65,556
Regulation 19 of the Companies (Registration Offices) Regulations, 2018	Inspection of records maintained with CROs	10,944
In terms of Regulation 7(xiv), Regulation 7(xvi) and Regulation 7(xvii) of the Associations with Charitable and Not for Profit Objects Regulations, 2018	Appointment of directors, CEO, acquittal as subscriber and investment in associated companies	393
Sub-regulation (1) of regulation 4 of the Intermediaries (Registration) Regulations, 2017.	Registration of intermediaries	28
Group Companies Registration Regulations, 2008	----	----
Other	Information provided to different Govt. Agencies e.g. NAB, FIA, FBR and other Govt. departments	1663
	Miscellaneous minor activities (except information provided to different agencies)	2,332
	Total	117,848

Key Achievements

Improvement in ranking of World Bank's Ease of Doing Business Index

This is the second consecutive year when Pakistan has improved its position on World Bank Ease of Doing Business Index. As per World Bank's latest rankings on ease of doing business for 2020, released on October 24th 2019, Pakistan has improved its position by 28 points from 136 to 108 which is an unprecedented improvement.

Out of 6 reform areas acknowledged in 2020 report, the highest improvement of 58 points has been made in Starting a Business indicator where SECP is leading the reform process. Pakistan's ranking in this indicator has improved from 130 to 72 and is placed at 2nd position in South Asian countries in terms of ease of Starting a Business. This improvement is primarily due to integration

of SECP eServices with the Federal Board of Revenue (FBR) and the Employees Old Age Benefits Institution (EOBI) at the Federal level and with Business Registration portals of Punjab and Sindh at the Provincial level. After this integration, SECP's eServices is offering one window facility for company registration with FBR (NTN registration), EOBI, provincial employees social security institutions (PESSI/SESSI), Labor Department and Excise and Taxation Department of Punjab and Sindh. As a result of this reform, number of procedures to start a business as recorded in the Doing Business Report 2020 have been reduced from 10 to 5 and Pakistan has been able to ranked at first in South Asia and 6th among the top ten reformers globally.

Launch of Secured Transactions Registry

The Financial Institutions (Secured Transactions) Act, 2016 (STA), enacted on July 01, 2016, provides a comprehensive legal framework for creation, perfection, priority and enforcement of security interest on movable assets. STA applied to both incorporated and unincorporated entities with certain exemptions. The charges created by companies continue to be registered in the register maintained by the SECP under the Companies Act, 2017 while charges created by unincorporated entities are required to be registered in the Secured Transactions Registry (STR) established under section 19 of the STA.

The administrative powers under the STA relating to operationalization of the STR have been entrusted to the Commission through the Financial Institutions (Secured Transactions) (Amendment) Ordinance, 2020. The SECP, with financial support from DFID (UK), has launched the STR on April 30, 2020.

Key Features of the STR

- It is a fully electronic registry available 24/7.
- Registration process is fully automatic having no manual intervention.
- It is searchable by general public free of charge.
- It is integrated with register of charges for companies being maintained by the SECP such that search of charges created by incorporated or unincorporated entities is available at a single interface.
- A fee of Rs500 is being charged for registration of charge created prior to April 30, 2020 and Rs1000 for charge created subsequently.

Benefits of the STR

- Use of movable assets as collateral will be encouraged.
- Improved access to finance for SMEs who does not own real property.
- Increased protection for secured creditors.
- Transparency- data of all charges created by incorporated and unincorporated entities is available online.
- Filing of security agreement is not required for registration of security interests in the STR allowing advance registration of security interest based on authorization by the entity.

SECP in collaboration with World Bank/IFC and SBP worked together for making STA adaptable legal framework for secured transactions in line with the international best practices through Financial Institutions (Secured Transactions) (Amendment) Ordinance, 2020. The scope of the Act has been extended to future assets, products and replacements of original assets, all types of debts and obligations and absolute assignment of receivables and the secured creditors have been granted absolute priority in case the customer defaults. Besides, the SECP has been granted fully autonomy to manage the functions of the STR.

Launch of STR and subsidiary legislation under the STA i.e. Financial Institutions (Secured Transactions Registry) Rules, 2019 and the Secured Transactions Registry Regulations, will help improve Pakistan's ranking in Getting Credit Indicator of EODB index. Till June 30, 2020, in the first two months of its launch, the STR registered over 85,000 charges.

Improvement in One Stop Shop

Integration of SECP eServices with Federal and Provincial agencies has been further improved to further reduce the time for business registration. Now provincial and EOBI certificates can also be viewed (by companies as well as SECP) in eServices account of a company. This reform, besides facilitating the entrepreneurs, will improve Pakistan's position in global rankings.

Corporate Rehabilitation Regulations, 2019

The Corporate Rehabilitation Act, 2018 (CRA) was enacted to provide a framework for rehabilitation and re-organization of distressed corporate entities and their businesses. The SECP has notified the Corporate Rehabilitation Regulations, 2019. Under CRA Regulations, a company or the qualifying creditor may file a petition in the High Court for order of mediation. The Court, after notice and hearing, may pass an order for appointment of insolvency expert(s) from a panel maintained by SECP to act as mediator to achieve acceptance of plan of rehabilitation filed by the company or the qualifying creditor. The Regulations provide eligibility criteria for enlistment in the panel of insolvency expert(s), manner of determination of remuneration of insolvency expert(s), fees and expenses payable to the administrator appointed under the CRA and code of conduct for insolvency expert(s).

Integration with FMU and BOI

Pakistan Mutual Evaluation Report 2019, recommended that the Financial Monitoring Unit (FMU) should have access to key databases of other agencies. SECP successfully completed the integration with FMU. SECP is the first public sector entity in Pakistan to be successfully integrated with FMU. Moreover, integration of data of foreign companies with BOI has been completed to expedite the process of registration or renewal of branch/liaison office by foreign companies.

MoU with Intellectual Property Organization

The SECP and the Intellectual Property Organization (IPO-Pakistan) have signed an MOU for mutual sharing of information of registered companies and trademarks while registering a new company or processing an application for registration of trademarks. This collaboration would benefit business community at large by ensuring protection of registered company names as well as trademarks. Further, an MOU has been signed with FBR for sharing of data, Consequent to this collaboration, NTN to foreign companies & LLPs will be issued immediately after their registration with the SECP through SECP-FBR integrated online system. Similarly, NTN to directors appointed subsequent to incorporation will be issued immediately after recording of their appointment with the Registrar.

Listed Companies (Code of Corporate Governance) Regulations, 2019

In order to encourage listed companies to adopt best practices and facilitate ease of doing business, SECP shifted from rule based corporate governance framework towards a combination of mandatory practices and recommended practices on basis of 'comply or explain approach'. The principles are essentially driven from OECD principles and this approach has been adopted by majority of the jurisdictions and is acceptable globally. It is expected that the new governance regime will not only facilitate the listed companies in complying with the CCG Regulations but will also reduce regulatory burden on them as some of the requirements are shifted to, "comply or explain", approach. The Regulations comprises of 8 mandatory and 29 non-mandatory requirements. Moreover, to further facilitate compliance with CCG Regulations, SECP has disseminated checklist, guidebook and FAQs on new Regulations.

Amendments to fourth and fifth schedules of Companies Act, 2017

SECP through its notification SRO 888(I)/2019 dated July 29, 2019 specified the amendments in fourth and fifth schedules of the Companies Act, 2017. The amendments to the respective schedules were made to reduce the excessive disclosure and compliance burden, increase ease of doing business and facilitate business community without compromising the decision-making needs of users.

Companies (Further Issue of Shares) Regulations, 2020

With the perspective of ease of doing business, SECP has revamped further issue subsidiary legislation and issued Companies (Further Issue of Shares) Regulations, 2020. The revised framework is comparatively brief and more specific. Further, SECP has also prepared a guide book on further issue of shares with the objective to facilitate raising of capital by the listed companies and to encourage offering of employees stock options Schemes. The guide book highlights various aspects of the Regulations for better understanding the procedure for raising further capital through different modes.

Amendments to the Listed Companies (Buy-Back of Shares) Regulations, 2019

SECP has amended the listed Companies (Buy Back of Shares) Regulations, 2019. Pursuant to the amendments carried out, now the listed companies can buy-back their own shares after expiry of the six months period from the last issue of further share. Earlier this restriction was for three years.

Further it was clarified that issuance of bonus shares is not considered as further issue of capital for purpose of these Regulations and the requirement of maintenance of 25% free float by the purchasing company has been removed. To facilitate market participants, a checklist was prepared for monitoring compliance with the Listed Companies (Buy-Back of Shares) Regulations, 2018.

Panel of Provisional Managers and Official Liquidators Regulations, 2019

The Commission issued the Panel of Provisional Managers and Official Liquidators Regulations, 2019 under Section 315 of the Companies Act, 2017. The regulations came into force vide SRO 1352(I)/2019 dated November 11, 2019. The regulations provide the eligibility criteria for inclusion in the panel of provisional managers and official liquidators. The purpose of the regulations is to enable SECP to maintain a panel of qualified provisional managers and official liquidators, to be used by the Courts for appointment of such individuals for winding up of companies.

Panel of official liquidators and provisional managers is being maintained and placed on SECP's website at <https://www.secp.gov.pk/data-and-statistics/corporates/>. This initiative will reduce the administrative burden on the Courts and facilitate the winding up process.

Drafting of SOE law pursuant to IMF conditionalities

The drafting of SOE law is one of the structural reforms agreed by the Federal Government with the IMF. The Federal Government has formed a task force on SOE law, comprising representatives from private and public sectors including SECP, which is in the process of developing the draft of the proposed law. SECP has provided its detailed feedback during the draft law formulation stage, which is currently in progress.

Regulatory Reliefs to Dilute the Impact of Corona Virus

Cognizant of the unprecedented challenges to businesses owing to Covid-19, SECP has been proactively providing regulatory relief and facilitation to companies and stakeholders. The measures taken therein are summarized below:

- One-month general extension was provided for finalization of financial statements of companies having year end December 2019 and March 31, 2020 and placing them before shareholders in Annual General Meeting
- Furthermore, due to abnormal decline in PSX index, companies were given relief from IFRS-9 by deferring the recognition of marked to market losses in Profit and loss accounts for quarter ended March 31, 2020 till June 30, 2020
- Companies are encouraged to make necessary arrangements for the use of technology and related applications in order to enable them to work from home to meet regulatory compliances.
- The companies were advised to consider provision of video link facilities, webinar or other electronic means in general meetings for communication and decision making by with the shareholders
- The companies can circulate the notices of general meetings and annual reports to members, by post or electronically. Companies should draw attention of members through public notice in print media and inform them about the electronic source from where notice, reports etc. may be accessed
- The Commission through a press release also advised companies to direct their CSR activities towards prevention, detection and cure of COVID-19 and ensure effective contingency planning, business continuity, while mitigating health risk to employees, customers and communities

Future Outlook

- SECP is collaborating with banks to provide facility for opening bank account through SECP eServices at the time of Company Incorporation.
- Establishment of National Business Centre(s) exclusively for business registration.
- Creating awareness about CRA and CRC among corporate entities and legal practitioners for revival of distressed corporate entities or management of non-performing assets.
- To review procedural requirements for registration of charges under the Companies Act, 2017 to consider practicability of making the companies registry of charges on movable assets a notice-based registry consistent with the Secured Transactions Registry established by the SECP under the Financial Institutions (Secured Transactions) Act, 2016 in order to move towards unification

of both registries in line with international best practices.

- Introduction of digital certificates for company incorporation for end to end digitization of the incorporation process.
- Establishment of a data exchange mechanism with Pakistan Single Window, an initiative taken by the Federal Government through Pakistan Customs and Federal Board of Revenue to introduce e-governance in the external trade sector
- Review of the Group Companies Registration Regulations 2008 to simplify the requirements specified therein
- Review of the Public Sector Companies (Corporate Governance) Rules, 2013 consequential to the ongoing drafting of State-Owned Enterprises law by the Federal Government
- Proposed reinstatement of the cost audit requirement in cement, sugar, vegetable ghee & cooking oil, chemical fertilizer and wheat flour sectors under section 250 of the Companies Act, 2017 pursuant to the recommendation received from the Government
- Development of Risk-Based Supervisory Framework for corporate sector to enable proactive inspection or investigation of companies
- Proposing amendments in the Partnership Act, 1932 in coordination with the provincial authorities to introduce therein the concept of limited liability partners and encourage private equity investment through such entities
- Specifying limits for incurrence of capital expenditures and disposal of fixed assets by the board of directors as required under section 183 of the Companies Act 2017, through amendments to the Companies (General Provisions and Forms) Regulations, 2018

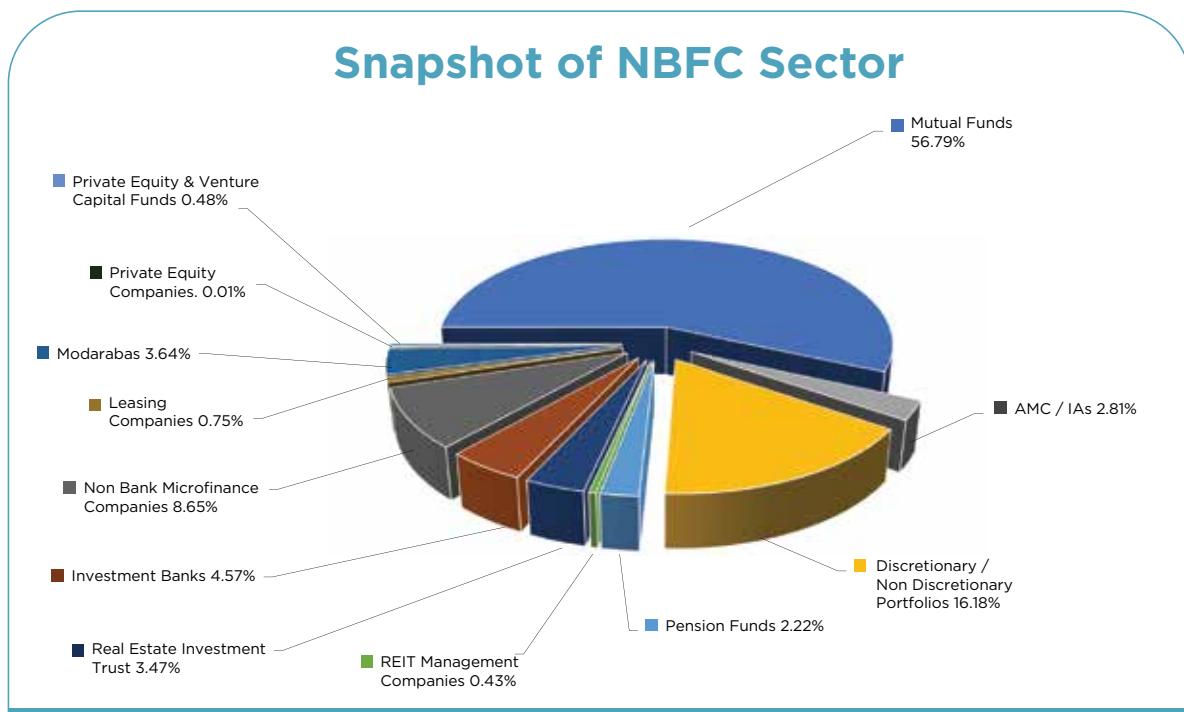
As a step towards digitization, SECP will be undertaking the following steps:

- Digital financial reporting for companies through Extensible Business Reporting Language (XBRL)
- Automation of departmental processes under LEAP and Business Process Re-engineering
- Development of an online portal for all the electronic submissions i.e AGM notices, financial statements- interim or annual which are currently being submitted electronically on the designated email addresses.
- Development of Online Portal OR System for Reporting of Investments out of the Employees Contributory Funds' by companies.

Non-Banking Financial Sector

Sector Overview

On June 30, 2020, the asset size of NBFC sector stood at Rs1,412.42 billion as compared to Rs1,140.36 billion reported as on June 30, 2019, reflecting an overall increase of 23.86%. The diagram and table below illustrate the details of the total asset size of the NBFC sector as of June 30, 2020:



Description	No. of entities	Total Assets (in million rupees)	As percentage of total assets
Mutual Funds/Plans	309	802,151.43	56.79%
Discretionary / Non-Discretionary Portfolios	-	228,585.33	16.18%
Pension Funds	19	31,346.81	2.22%
AMC / IAs	23	39,657.00	2.81%
Real Estate Investment Trust	1	48,993.00	3.47%
REIT Management Companies*	7	6,003.30	0.43%
Non-Bank Microfinance Companies	25	122,164.08	8.65%
Investment Banks	12	64,555.00	4.57%
Modarabas	28	51,429.78	3.64%
Leasing Companies	7	10,639.00	0.75%
Private Equity & Venture Capital Funds	5	6,779.00	0.48%
Private Equity Companies*	4	113.38	0.01%
Total	440	1,412,417.11	100.00%

*There are seven REIT Management Companies (RMCs), however, assets of six RMCs are included in section pertaining to RMC whereas assets of one RMC, which also holds license to undertake investment advisory services, is included in AMCs/IAs.

*Lakson Investments Limited and JS Investments Limited (which hold licenses for Asset Management and Investment Advisory Services) have also been authorized to act as a Private Equity Company. Both companies' assets are included in the assets of AMCs/IAs.

Asset Management Companies

The total size of the mutual fund industry on June 30, 2020 stood at Rs802.15 billion and the total number of funds (including plans) were 309. As of June 30, 2020, Money Market funds dominated the AUMs of the mutual fund industry with the largest share of 41.16%, while Income funds held the second largest industry share i.e. 24.76%, followed by Equity funds with industry share of 23.28%.

Regulatory Reforms implemented during the year

In order to foster growth of the mutual fund industry and promote ease of doing business, the SECP instituted several regulatory reforms in the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations, 2008).

Relief extended to the Asset Management Companies , pursuant to Policy Board direction, was a major step to significantly reduce the SECP's annual monitoring fee for mutual funds with a view to improve investor returns and allow the AMCs to spend more on marketing and awareness activities. The fee has been reduced to 0.02% effective from July 1, 2019. Further, the NBFC formation, licensing and registration fee for notified entities was also reduced in order to encourage development of the financial sector.

Moreover, the following steps were taken during the year to develop the mutual fund industry and protect its investors:

- Reduced operational burden and documentation requirements to streamline the approval process of constitutive documents
- Enhanced investment limits in a collective investment scheme (CIS) by a pension fund through amendments to Employees Contributory Funds Regulations, 2018 to boost growth
- Permitted CIS to participate in Securities Lending & Borrowing (SLB) Market to enhance liquidity
- Required disclosure of consolidated data relating to costs and returns associated with mutual funds to be made available on MUFAP's website to enhance comparability and help investors' informed investment decision making; and
- Implemented investors' suitability assessment keeping in view the risk classification of the CIS and investment plans to ensure making of an informed investment decision

Furthermore, the launch of first ever Exchange Traded Funds (ETFs) in Pakistan remained a major milestone that was achieved during the year. The Commission, in order to promote and reduce the cost burden for launch of ETFs, allowed relaxations to the newly launched funds and slashed registration fee to 25% for first five ETFs. The NCCPL also waived the requirement of security deposits. The first two ETFs namely UBL Pakistan Enterprise and NIT Pakistan Gateway ETF were launched on March 24, 2020.

Facilitation in Wake of COVID-19

The Commission vide Circular No.11 of 2020 and Circular No.16 of 2020, dated April 9, 2020 and April 21, 2020 respectively has granted the following relaxations to the industry in the wake of COVID-19:

- Time to regularize the regulatory exposure limits breaches due to redemption was extended from four months to six months
- Time for announcement of daily Net Asset Value (NAV) of CIS was extended from 18:30 pm to start of next working day
- Time for submission of regulatory monthly returns for the month of March 2020 extended up to April 30, 2020
- Maximum limit for application of discretionary discount limit for asset management companies for valuation of debt securities was enhanced
- The time period for classification of a debt security to non-performing category was extended from 15 days to 180 days and rescheduling of such facilities were allowed during the extended period
- AMCs were allowed to inform investors through SMS or email in lieu of sending account statements
- Requirements of obtaining mandatory certification for mutual fund distributors was extended from six months to nine months

- Deadline for making necessary changes in the constitutive documents/forms regarding risk categorization of collective investment schemes was extended for sixty days
- The time period for submission of the quarterly financial statements of Open End Scheme and Close End Scheme for the quarter ended on March 31, 2020 under Regulation 38(2)(f) of the NBFC Regulations, 2008 was extended by 30 days i.e. till May 31, 2020
- Time to ensure compliance with minimum fund size for Open End Schemes under Regulation 54 (3b) of the NBFC Regulations, 2008 was increased to 180 days for Open End Schemes currently non-compliant with minimum fund size requirement and Open-End Schemes that may become non-compliant within next 90 days of issuance of the circular
- The maximum period of borrowing by mutual funds for redemption purposes extended from existing 90 days to 365 days to support the mutual funds industry

In addition, the following actions were also undertaken to support the mutual fund industry and ensure business continuity:

- Monitoring of the patterns of investments and redemptions of the Collective Investment Schemes'
- Close monitoring of the impact of Covid-19 pandemic on asset management industry especially in the context of sufficiency of the risk management framework and continuity of business
- The SECP instructed MUFAP to coordinate with its members to ensure that all AMCs had proper business continuity plans (BCP) in order to ensure uninterrupted operations
- The SECP also instructed the trustee of mutual funds to assess the readiness of its systems/ services regarding BCP at least in the areas, such as, alternative ways of communication with Asset Management Companies, employees and regulators, off-site backup of key records systems and information and remote access arrangements
- The SECP advised MUFAP to communicate measures taken by AMCs to provide relief to the investors in the current situation, which may include reduction in management fee, sales load, online investments and redemptions etc

Investment Advisory

At present, seventeen (17) AMCs have the licenses to conduct the business of investment advisory in addition to business of asset management services while (4) NBFCs have exclusive licenses to offer investment advisory services.

Private Fund Management

Four (4) NBFCs namely PNO Capital Limited, Ijarah Capital Partners Limited, Lakson Investments Limited and JS Investments Limited have the license to undertake Private Equity and Venture Capital Fund Management services. These NBFCs have launched five funds namely PNO Pakistan Fund-1, Lakson Private Equity Fund, Lakson Venture Capital Fund I, Pakistan Emerging Market Fund-1 and JS Motion Picture Fund. As of June 30, 2020, the total asset size of Private Equity funds stands at Rs6,779.00 million.

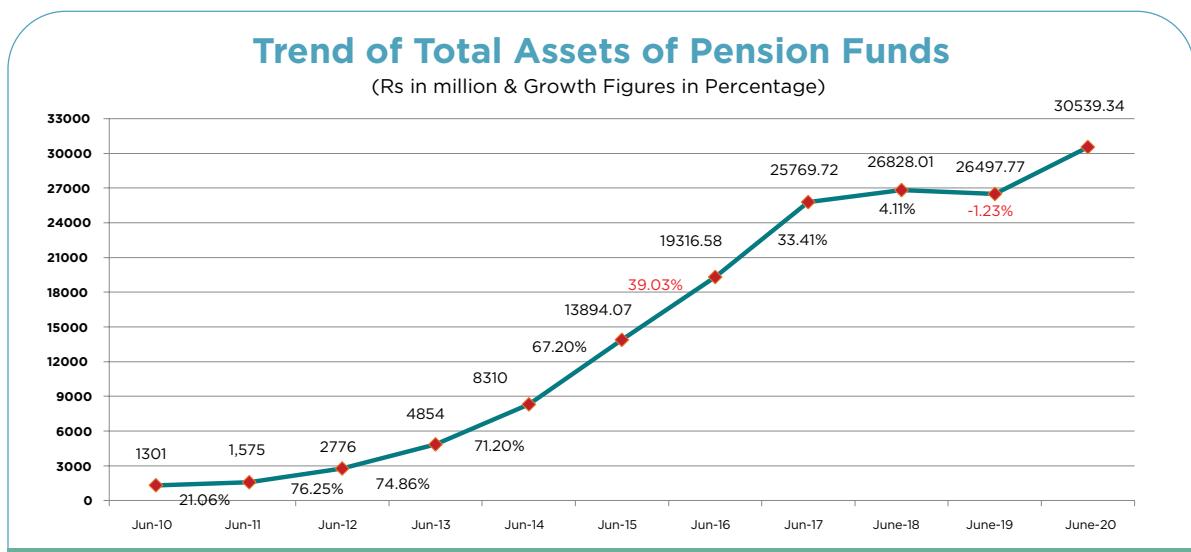
Size of private equity funds as of June 30, 2020

S.No.	PE Fund Name	Total Assets (Rs Million)
1.	PNO Pakistan Fund-I (Plan A)	673
2.	Pakistan Emerging Market Fund-I	4,393
3	Lakson Private Equity Fund	1,502
4.	Lakson Venture Capital Fund	111
5.	JS Motion Picture Fund	100
	Total	6779

Voluntary Pension System

As of June 30, 2020, the total assets of the pension schemes stood at Rs31.35 billion out of which 64.29% were invested in Sharia-compliant pension funds and 35.71% in conventional pension funds. The key statistics in respect of pension fund industry as of June 30, 2020 are as follows:

Details related to Voluntary Pension Schemes	
Total assets of pension fund industry	Rs31.35 billion
Total number of pension funds	19
Shariah-compliant pension funds	10
Conventional pension funds	9
Number of pension fund managers	10



Real Estate Investment Trusts (REITs)

During the period under review, two new REIT management companies (RMCs) were granted license to undertake REIT management services, raising the number of RMCs to seven (7). The SECP during this period also accorded approval for registration of the country's first developmental REIT Scheme under the REIT Regulations, 2015.

Currently, there is only one rental REIT scheme i.e. Dolmen City REIT, which was launched by Arif Habib Dolmen REIT Management Company Limited and has successfully completed nearly five years of operations. As of June 30, 2020, the fund size of Dolmen City REIT was Rs48.99 billion.

Short-term and inadequate tax incentives for promotion of documented real estate sector through Real Estate Investment Trusts (REITs) affecting further interest in this area. The SECP intends to propose relevant tax reforms to FBR for proportion of REITs. However, the SECP in order to support the development of financial sector, reduced the fees for permission to form NBFC, grant of license to undertake REIT management services and fee for registration of REIT Scheme. Furthermore, public consultation on amendments to further streamline the REIT Regulations, promote ease of doing business and introduce the concept of Infrastructure REITs is also underway.

The SECP during current year also successfully implemented a push-through approach for development of REITs industry through a first of its kind outreach program entailing one-to-one targeted sessions with stakeholders including businesses, land owners, developers etc. As part of the program, the SECP directly approached over 100 potential entrants through targeted sessions with nearly 30 interested stakeholders. Consequently, two new RMC licenses have been granted while two applications for grant of license are in process.

Lending Non-Bank Finance Companies (NBFCs)

Lending NBFCs are licensed to undertake investment finance services, leasing, housing finance services and discounting services. Companies licensed to carry out investment finance services include investment finance companies and non-bank microfinance companies (NBMFCs). NBMFCs were brought into SECP's regulatory ambit pursuant to amendments to the NBFC regulatory framework in 2015.

During the year, the SECP continued to review the regulatory framework for lending NBFCs to identify and remove any barriers to growth of the sector. Aiming to promote ease of doing business, several regulatory impediments identified during the process were removed through necessary amendments to the law governing NBFCs. This process is ongoing and the SECP strives to foster growth of this sector and financial inclusion of marginalized segments of the society.

As part of this ongoing effort, during the year, the SECP in consultation with stakeholders introduced further amendments to Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations). Some key amendments are summarized as follows:

- Allowed non-deposit taking NBFCs to extend unsecured finance up to 10% of NBFC's equity, to facilitate issuance of sub-debt in line with their risk appetite
- Required NBFCs to maintain general reserve of 1% of their unsecured portfolio
- Allowed non-deposit taking NBFCs to take exposure against unsecured debt security issued by microfinance banks (MFBs), NBFCs and DFIs as per the board's approved policy
- Enhanced single borrower / group exposure limits for Infrastructure Finance Companies and non-deposit taking NBFCs involved in whole sale lending
- Relaxed restrictions for NBFCs not having access to public funds
- Barred encashment/ redemption of Certificates of Investment (COIs) before expiry of their maturity period
- Mandated NBMFCs to obtain membership of private credit bureaus and initiate data sharing;
- Defined Small Enterprise, Medium Enterprise and SMEs ; and
- Introduced concept of low cost housing allowing higher loan to value ratio and relaxed insurance and valuation requirement

During the year, in order to facilitate the NBFC engaged exclusively in the business of issuance of guarantees in enhancing the quality of debt instruments for financing infrastructure projects in Pakistan, the SECP introduced the concept of Qualified Capital and specified its terms and conditions. The measure substantially enhanced the capacity of such guarantee issuing NBFCs to take exposure against instruments issued to finance infrastructure projects. SECP has also approved formation of one such company to issue guarantees against debts instrument to finance infrastructure project. The initiative will go a long way to facilitate better access to commercial finance for infrastructure projects in Pakistan.

During the year, SECP incorporated and licensed a corporate restructuring company (CRC) being first of its kind in Pakistan, to act as a catalyst in restructuring of non-performing loans, and rehabilitation and revival of commercially distressed businesses in the corporate sector. The CRC is a specialized institution with skills to cope with not only the Non-Performing Loans of financial sector but the restructuring of distressed and sick corporate entities. The acquisition, management, restructuring and resolution of non-performing loans in the financial sector by the CRC will aid in reducing their adverse impact on the growth and stability of the country. Additionally, SECP actively coordinated with the State Bank of Pakistan, in proposing amendments to the Corporate Restructuring Companies Act, 2016 (Act) with a view to facilitate CRCs to carry out their operations efficiently for smoothly carrying out the purposes of the Act. The amendments are currently with Ministry of Finance for approval and enactment.

Facilitations in wake of COVID-19

To facilitate lending NBFCs in the wake of unprecedented circumstances posed by outbreak of COVID-19 (Coronavirus) pandemic and ensuring lockdown, the SECP in consultation with the stakeholders and industry associations took several facilitative measures, including:

- Allowed NBFCs to defer repayment of principal and reschedule the loans based on borrowers' request, without affecting the status of such borrowers in CIBs. Additionally, Non-Bank Microfinance companies were further advised to be considerate in deciding requests of micro borrowers and to accept such requests through SMS and phone calls
- Timeline for implementation of IFRS 9 for NBFCs which was previously extended till June 30, 2020 has been further extended by one year with implementation date for the periods ending "on or after June 30, 2021"
- Letters were issued to provincial governments for inclusion of selected branches of NBFCs in the list of essential services during the lockdown period to ensure uninterrupted continuity of their operations

The SECP, taking cognizance of the threat posed by COVID-19 pandemic to the non-bank microfinance sector organized a stakeholder's forum with participation from SBP, NBP, PPAF, World Bank, IFC, DFID and industry participants to devise a way forward and strategy response to cope with this crisis. The forum aimed at taking stock of the situation, organizing efforts from all stakeholders and providing all possible support to the industry. A Working Group was formed to further analyze the issues faced by the sector, devise comprehensive proposals to address the issues and take up the proposals at appropriate forums including ministry of finance, SBP and multilateral donor agencies.

Leasing Companies

The number of leasing companies is seven as on June 30, 2020 compared to six as on June 30, 2019. One of the leasing companies whose license was cancelled and was previously excluded, has filed an appeal against cancellation of license and the appeal is pending adjudication at the Appellant Bench. Resultantly, asset size of leasing companies marginally increased to Rs10.64 billion as of June 30, 2020 from Rs10.16 billion as of June 30, 2019.

Investment Finance Companies

The total number of investment finance companies increased from ten on June 30, 2019 to twelve on June 30, 2020. During the year, two new licenses were issued to IFCs. One of the newly licensed company has introduced financial services through collaborative interoperable digital ecosystems and offers a payment platform encouraging individuals to save, invest and buy protection digitally through the use of mobile phones. The other investment finance company will mainly engage in business of providing discounting services to Small & Medium Enterprises (SMEs). The winding up of a company whose license was cancelled last year due to non-compliances with the NBFC regulatory framework is sub-judice before the Honorable Lahore High Court. The company has also filed an appeal before the Appellate Bench, where the decision on the appeal is pending. The total asset size of investment finance industry is Rs64.55 billion as of June 30, 2020 as against asset size of Rs63.19 billion as of June 30, 2019.

Non-Bank Microfinance Companies

During the year, the SECP continued its efforts to facilitate smooth transition of microfinance institutions (MFIs) into formal non-bank microfinance companies (NBMFCs). For this purpose, regular consultations were undertaken with key stakeholders such as Pakistan Microfinance Network (PMN) and Pakistan Microfinance Investment Company (PMIC).

During the year, one NBMFC was wound up, while a new NBMFC was licensed in June 2020 to provide micro-credits in Pakistan. As of June 30, 2020, the number of licensed NBMFCs is twenty-five (25). The total assets of NBMFCs increased to Rs122.16 billion as of June 30, 2020 as against assets of Rs116.72 billion on June 30, 2019.

Housing Finance Companies

SECP, in order to promote housing finance business and to make necessary amendments in the regulatory framework, embarked on a comprehensive consultative process through conferences and bilateral meetings with the relevant stakeholders. In collaboration with World Bank Group and Pakistan Mortgage Refinance Company (PMRC), a roundtable conference for the promotion of housing finance companies and developing the housing sector in Pakistan was held in Karachi in October 2019 while another awareness session was held in February 2020 in Karachi with the members and representatives of NBFI and Modaraba Association of Pakistan. It was followed by a series of bilateral meetings with stakeholders and potential housing finance investors for awareness raising of the stakeholders on the existing regulatory framework and opportunities in the housing finance sector and their feedback was gathered for improving the regulatory framework regarding Housing Finance business. The feedback was duly considered while making necessary amendments in the NBFC Regulations.

These initiatives, triggered interest of several stakeholders for formation of housing finance companies. SECP has granted formal approval for formation of one Housing Finance Company (HFC). The company after incorporation is in the process of completing formalities for obtaining the HFC license. Further, two more prospective housing finance companies are at an advance stage of submission of documents for obtaining SECP's formal approval to form an NBFC. Additionally, as a result of proactive consultation and awareness raising campaign of the SECP, Pakistan Mortgage Refinance Companies has extended funding facilities aggregating to Rs650 million to a NBMFC and a Modaraba company for their housing business portfolios.

Moreover, SECP is in the process of finalizing an Advisory Agreement with International Finance Corporation (IFC) for enhancing cooperation for the promotion of housing finance business in Pakistan.

The total assets of companies licensed to undertake lending business, including investment banks, leasing companies and non-bank microfinance companies have increased to Rs197.35 billion on June 30, 2020 as compared to Rs190.06 billion as on June 30, 2019. As of June 30, 2020, the total asset size of the lending NBFCs is as follows:

Lending NBFC	Number of entities (as on June 30 , 2020)	Total assets (In billion rupees) as of June 30, 2020)
IFCs	12	64.55
NBMFCs	25	122.16
Leasing companies	7	10.64
Total	44	197.35

Modaraba

Due to popularity of Islamic financial products and enhanced awareness about modaraba institutions among the masses, investors have started showing interest in establishing modarabas. During the year under report, several investors showed interest in establishing Modarabas and their respective applications are under review. However, owing to ongoing pandemic situation, investors are cautious and waiting for a suitable time to re-initiate their investment endeavors.

SECP, in view of the COVID-19 situation, has taken a number of measures to provide ease to customers of Modarabas in repayment of facility and relaxed provisioning requirements for Modarabas till March, 2021. Going forward, the Commission has also modified the effective date for applicability of IFRS-9 for Modarabas till June 30, 2021.

On the legislative front, amendments in the Modaraba Companies and Modaraba Rules, 1981 after public consultation were approved by the Commission and Policy Board and submitted to Ministry of Finance for approval and notification.

A new set of Modaraba Regulations was prepared, during the year. The Draft Regulations were published in the official Gazette and the public consultation process was completed. After legal vetting and approval of the Commission, the Regulations will be notified.

Proposed amendments to Modaraba Ordinance, 1980 were approved by Federal Cabinet and the bill is due to be introduced in Parliament. Subsequent to the promulgation of amended modaraba regulatory framework, it is intended that a series of investor awareness sessions will be conducted in all big cities of Pakistan, with emphasis on attracting potential investors towards the Modaraba concept and offering facilitation to them to establish and float Modarabas.

As of June 30, 2020, total number of modaraba companies registered with the SECP were 33. Similarly, 29 Modarabas were operating with total assets of Rs51.43 billion. The funds raised through issuance of certificate of musharakah were Rs10.35 billion.

Future Outlook

The NBFI sector is recognized as a vital component for economic progress in developing economies due to its growing significance as a valuable alternative to bank financing. It plays a crucial role in supporting economic activity and employment generation through access to diversified financing means and investment alternatives for segments other than conventional banking. The SECP, in order to achieve a well-diversified NBFI sector shall be pursuing the following measures during the coming year:

- Finalization of separate primary law for NBFCs and collective investment vehicles to provide a dynamic regulatory framework for rapid and effective development of the sector
- Promulgation of amended NBFC Rules, 2003 to provide flexible NBFC licensing regime to promote and encourage new entrants
- Revamp regulatory framework to allow investment advisor to manage and launch traded and listed CIS
- Enabling provision relating to regulatory Sandbox will be proposed
- Notification of Amended VPS Rules, 2005 in order to facilitate and promote development of Voluntary Pension System
- Launch of IT based Investor Portal/Distribution Platform by MUFAP in collaboration with CDC for increasing outreach and achieving the goal of customer protection
- Ensuring development of 3 to 5 years Plan for addressing liquidity issues, digitalization/technology embracement, product diversification for the non-bank microfinance sector by PMN and industry participants
- Ground set for transformation of not for profit NBMFCs to for profit NBMFC
- Notification of amendments to the REITs Regulations, 2015 for further streamlining the regulations and introducing the concept of infrastructure REITs
- To carry out all requisite steps for the promulgation of Modaraba amendments bill
- Finalization and issuance of notifications for the amendments proposed in the existing Modaraba Rules and Prudential Regulations
- Completion of subordinate legislations under the Modaraba amendments bill (subject to promulgation of Modaraba amendments bill)

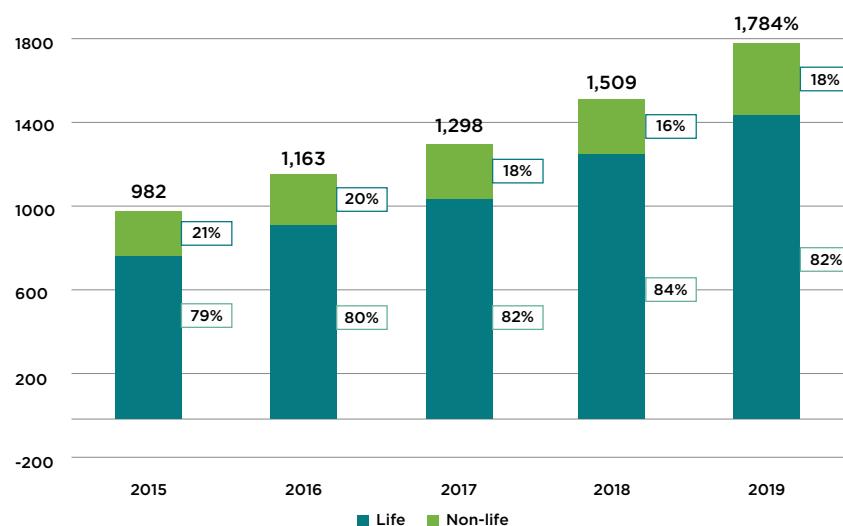
Insurance

Sector Overview

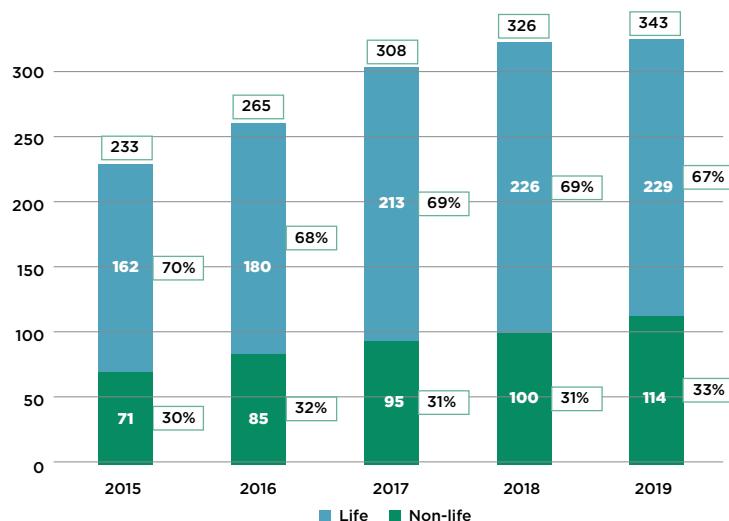
The insurance industry showed modest growth in life or non-life insurance sector in the last calendar year. As of December 31, 2019, the total assets of the insurance industry stand at Rs1,784 billion compared to Rs1,509 billion as of December 31, 2018, showing 16% increase in asset size year on year basis. On the revenue side during the year 2019, the industry has underwritten total direct gross written premium (GWP) amounting to Rs343 billion compared to Rs326 billion in 2018 demonstrating a growth of around 5% in GWP. The reinsurance premium underwritten by the only non-life reinsurance company in Pakistan, owned by the Government of Pakistan, amounts to Rs18 billion.

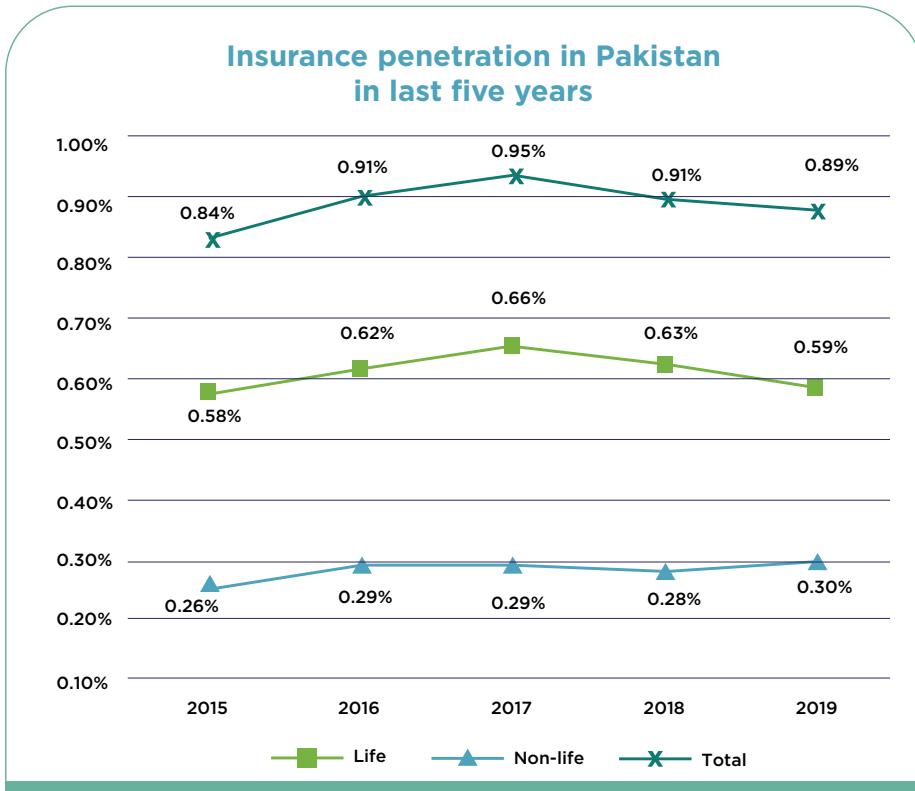
According to sector-wise analysis, the life insurance industry owns assets amounting to Rs1,456 billion and non-life insurance sector owns assets amounting to Rs328 billion. On the revenue side, the life insurance sector has underwritten premium of Rs228.6 billion and non-life insurance sector has recorded premium amounting to Rs114.9 billion during the year 2019. Higher cost of business in the insurance sector is hampering growth and penetration. Since insurance enables risk mitigation and addresses financial fragility issues, SECP would take up the matter with provincial governments to rationalized taxation cost on insurance.

Insurance Industry Assets (Amount in billions)



Life and Non-life Insurance Premium (Amount in billions)





Licensing and Approvals

Authorization as Window Takaful Operator

During the year, authorization to conduct window takaful operations was granted to one (1) conventional life insurer, after which, total number of window takaful operators has reached to twenty nine (29). Seven (7) life insurers and twenty two (22) non-life Insurers are authorized to conduct window takaful operations in Pakistan.

Life Insurance Products Approval

During the year, 139 new life insurance products and supplementary riders have been approved by the SECP including the innovative products with technology based product features and proposed to be distributed through digital platforms.

Licensing of Insurance Surveying Companies and Authorized Surveying Officers

During the period under review, 618 licenses of insurance surveying companies and authorized surveying officers have been issued, of which, 227 licenses were issued to the surveying companies and 391 licenses were issued to the Authorized Surveying Officers (ASOs).

Licensing of Insurance Brokers

During the year, July 2019 to June 2020, the insurance broking license of 15 brokers was renewed while fresh license to three (3) new insurance brokers was issued. The entry of new insurance brokers is a good sign for market as it will bring healthy competition, improve intermediation while it can be attributed to relaxed paid-up capital requirements and minimal barriers to entry.

Development Initiatives

During the period under review July 2019 to June 2020, the following measures were undertaken.

SECP Regulatory Sandbox Initiative

To promote innovation in financial sector and enable the new startups to flourish, the SECP has issued the SEC Regulatory Sandbox Guidelines, 2019. This is Pakistan's first Regulatory Sandbox in the financial services industry. The guidelines allow limited scale, live testing of innovative products, business models, services or solutions in the Regulatory Sandbox in a controlled environment and under close supervision of the regulator. The regulatory sandbox is available for all the regulated sectors of the SECP i.e. insurance, capital markets, non-banking financial services and overall corporate sector. The results of regulatory sandbox can guide required innovation in financial

services, and evolution in the regulatory framework that is required to enable such innovation.

The first Cohort of the Regulatory Sandbox was announced in February, 2020 through which, various applicants relating to regulated sectors of SECP submitted their solutions for testing in the regulatory sandbox. Thirteen applicants were able to make it to post screening stage, in which, their ideas will be thoroughly reviewed and evaluated, before a final go-ahead for testing in the regulatory sandbox. The areas under which applications were received included, digital insurance, equity based crowdfunding, donation based crowdfunding, P2P lending, digital identity platform, centralized online platform for mutual funds and robo advisory.

Centralized Insurance Repository for Life Insurers

Through collaboration between life insurance industry and central depository company of Pakistan (CDC), the centralized insurance repository has been launched through which, life insurance industry will store and share details of life insurance and family takaful polices in dematerialized form. The repository is aimed at assisting the underwriting function of the insurance companies to determine the appropriateness of an insurance policy, the level of insurance coverage and affordability of the insurance policy for the customer which will ultimately result in need-based selling and substantial reduction in mis-selling and mispricing. Life insurance companies are actively sharing policy information under the Repository and have so far uploaded data of more than 2.5 million policies.

Guidelines on Cybersecurity Framework for Insurance Sector, 2020

Amid increasing reliance of the insurance sector on technology in distribution and in offering innovative products, it becomes imperative that adequate measures are taken to make information technology systems of insurance companies and their partners, secure and resilient. Accordingly, the SECP has issued Guidelines on Cybersecurity Framework for Insurance Sector, 2020 which stipulates various risk management measures to ensure secure and resilient information technology systems of insurance companies, enabling the protection of private and confidential data of both the insurance companies and the policyholders and maintaining the confidence of policyholders in the insurance sector.

Draft Corporate Insurance Agents Regulations, 2020

Vide S.R.O. 343(I)/2020 dated April 28, 2020, the SECP notified the Draft Corporate Insurance Agents Regulations, 2020 for eliciting public opinion thereon. The draft regulations aim to provide enhanced regulatory framework with wider scope for business undertaken through corporate insurance agents (including banks) and technology based distribution channels by addressing issues of market conduct, misselling and by strengthening the regime for protection of interests of insurance policyholders. The draft regulations shall, when finalized, repeal the Bancassurance Regulations, 2015 and the SEC Directive on Corporate Insurance Agents (excluding Banks) and Technology Based Distribution Channels, 2017. Comments from all stakeholders are being received which shall be considered in the finalization of the Regulations.

General Takaful Accounting Regulations, 2019

During the year under review, the SECP notified the General Takaful Accounting Regulations, 2019 vide S.R.O 1416(I)/2019 on November 20, 2019. The Regulations provide the principles and Rules for accounting and reporting of general takaful business of dedicated general takaful operators and window general takaful operations of conventional insurance companies. The Regulations also contain the formats for reporting of financial statements and regulatory returns of general takaful/ window general takaful operators.

Reporting of Family Window Takaful Operations by Life Insurance Companies

In order to promote standardization in the reporting of Family Window Takaful Operations by Life Insurance Companies, the SECP through Circular No. 15 of 2019 dated November 18, 2019 provided requirements to life insurance companies for the presentation of their family window takaful results in the financial statements, notes to the accounts and preparation of separate financial statements of family window takaful business. To reduce cost of doing business, consolidation was allowed through this Circular.

Draft SEC Reinsurance Brokers Regulations, 2020

The SECP has formulated the draft SEC (Reinsurance Brokers), 2020 for regulation of reinsurance brokers doing business in Pakistan. The proposed Regulations stipulate various regulatory requirements such as minimum paid up capital, statutory deposit, professional indemnity insurance,

the requirement to obtain license from the SECP, filing and reporting, disclosure requirements and certain other provisions relating to conduct of reinsurance brokers. One of the key feature of draft Regulations is to prohibit dual role of the licenced insurance brokers by acting as direct insurance broker and reinsurance broker on the same risk either on their own or through their associates or affiliates. The requirement has been proposed to ensure optimization of local risk retention in the non-life insurance industry and to avoid conflict of interest of insurance local brokers along with their foreign affiliates in a single non-life insurance policy. The draft Regulations have been issued for eliciting public opinion thereupon, after which, it will be finalized and notified after due regulatory approvals.

Adoption of International Financial Reporting Standard (IFRS) 17 – Insurance Contracts

During the year under review, efforts were made for adoption of IFRS 17 – Insurance Contracts with effect from the international implementation date of January 1, 2022, which was subsequently deferred by the IASB to January 1, 2023. After extensive consultation, the IAP has been advised to provide an industry wide roadmap to the SECP with goalposts at intervals of every six months for implementation of IFRS 17 from the international implementation date.

Measures for Ease of Doing Business

Reduction in Regulatory Fee for Ease of Doing Business

In order to promote ease of doing business and to reduce cost of doing business, the SECP notified revision in the regulatory fee charged to insurance companies and insurance brokers through S.R.O 1226(I)/2019 dated October 15, 2019 and through amendments to the Insurance Rules, 2017 vide S.R.O 550(I)/2020 dated June 10, 2020. Through these notifications the annual supervision fee applicable on insurance companies has been reduced by the SECP from rupees 2 per thousand of gross premium underwritten to rupees 1.6 per thousand of gross premium underwritten and the application fee for fresh licence and renewal of licence of insurance brokers has been reduced by 50%.

Introduction of simplified submission requirements for life insurance products

With an aim of adding to ease of doing business and bringing efficiencies in the processing of life insurance products submission, simplified submission requirements for standardized products of the life insurers have been introduced vide S.R.O 234(I)/2020.

Policy Advocacy with Provincial Revenue Authorities on Abolishment of Sales Tax on Life Insurance, Health Insurance and Reinsurance Services

During the year under review the SECP continued policy advocacy with the provincial revenue authorities for abolishment of sales tax imposed on life, health and reinsurance services. As a result of continuous efforts, the Sindh Revenue Board along with Punjab Revenue Board initiated stakeholder dialogue for devising way forward on the subject. Additionally, the Sindh Revenue Board also decreased the effective rate of sales tax rate on life insurance products to 3% from 13%.

Amendments to the Code of Corporate Governance for Insurers, 2016

In order to promote ease of doing business and to reduce cost of doing business, amendments to the Code of Corporate Governance for Insurers, 2016 were notified by the SECP vide S.R.O 277(I)/2020 dated April 1, 2020 removing the requirement for submission annual statement of compliance with section 11 and 12 of the Insurance Ordinance, 2000 along with its certification from external auditors.

Draft Insurance Ordinance (Amendment) Bill, 2020

During the year under review, the Draft Insurance Bill, 2019 was revisited and was transformed into the Draft Insurance Ordinance (Amendment) Bill, 2020. The Draft Insurance Ordinance (Amendment) Bill after obtaining of requisite approvals shall be placed for eliciting public opinion. The draft bill envisages amendments to the Insurance Ordinance, 2000 aimed at development of insurance market, improvement in market conduct of industry players and improved compliance with International Core Principles of the International Association of Insurance Supervisors.

Relaxation to Industry from Application of IFRS 16 (Leases)

Keeping in view the difficulty faced by insurance companies in application of the requirements of IFRS-16 (Leases) due to its major impact on their solvency positions, the SECP has provided relaxation and relief to the insurance sector by extending the regulatory reporting deadlines and relaxations from the IFRS – 16.

Measures to Curtail Impact of COVID 19 Outbreak

The lockdown and economic disruptions due to COVID-19 has affected the insurance sector indiscriminately. The SECP, taking cognizance of its responsibility, has facilitated the insurance industry to prepare for coronavirus impact by providing relaxation and relief in regulatory reporting and statutory filing requirements under applicable regulatory framework. The SECP also advised the insurance industry to prepare comprehensive plan envisaging how it will manage the effects of the coronavirus outbreak and assess disruptions and other risks to its services and operations. Specific measures were also taken to provide necessary relief to the policyholders:

Facilitating Motor Insurance Policyholders through Free Extension of Coverage

Taking into account the anticipated low claim ratio in motor insurance business due to lockdown, the SECP through Circular Letter dated April 28, 2020 has encouraged insurance companies to take steps to facilitate and pass on the benefit of low claim ratio to motor insurance policyholders by granting one month free of cost extension in insurance coverage to all motor insurance policyholders.

Relaxation from Requirements of IAS 39

Impairment of Available for Sale Investment: Keeping in view the effects of the COVID – 19 on the investment portfolios of insurance companies, the SECP through S.R.O 414(I)/2020 dated May 11, 2020 allowed relief to companies/entities from the requirements contained in IAS 39 in relation to their Available for Sale (AFS) Equity Investments by allowing them to show impairment loss (if any, due to significant or prolonged decline in fair value of AFS equity investment portfolio), as at March 31, 2020, in the statement of changes in equity.

Facilitation of Policyholders during lockdown

Considering the coronavirus situation, the SECP, through a circular, has asked insurance companies to waive non-mandatory requirements for claims processing. SECP has also advised insurers to use alternative methods for verifying the authenticity of claims. To facilitate policyholders, the SECP has asked companies to consider extension in grace period of payment of renewal premiums under insurance policies. Moreover, insurance companies have been encouraged to utilize digital or online payment modes for receipt of insurance premium and disbursement of claim payments, utilize electronic mediums such as SMS, emails, mobile applications, online portals etc. for claims handling, delivery of policy documents and issuance of pre-authorizations for treatment in hospitals. Also, insurers have been asked to consider providing coverage against claims incurred in non-panel hospitals along with recommendation for increasing list of panel hospitals.

Extension in Renewal of License, Filing of Accounts, and holding AGMs

The SECP provided relaxation and relief to the insurance industry by extending the timeline for renewal of insurance brokers' license, insurance surveyors and insurance surveyors' and authorized surveying officers' license. The Companies which had difficulty in holding AGM within due time were allowed a general extension of 30 days. Similar extension was allowed in respect of filing of returns.

Relaxation to Industry from Application of IFRS 16 (Leases)

Keeping in view the difficulty faced by insurance companies in application of the requirements of IFRS-16 (Leases) due to its major impact on their solvency positions, relief to the insurance sector was provided by extending the regulatory reporting deadlines and relaxations from the IFRS - 16.

Future Outlook

- Insurance Ordinance (Amendment) Bill, 2020 to introduce significant regulatory reforms in the primary insurance law
- Promulgation of Corporate Insurance Agents Regulations, 2020
- Promulgation of SEC (Reinsurance Brokers) Regulations, 2020
- Gradual Shifting towards Risk Based Capital (RBC) and Solvency Regime for the insurance sector
- Introduction of registration regime for digital-only insurance companies after successful completion of testing and experimentation under regulatory sandbox
- Revision of Unit linked Products and Fund Rules, 2015 for improved regulation of investment management parameters so as to optimize the return to policyholders in respect of unit linked insurance products

Islamic Finance

Islamic finance assumes a center stage in SECP policies which has instituted a number of measures on the regulatory front for effective regulation of Islamic financial services. The Islamic Finance Department (“IFD”) at SECP is mandated to embed Islamic finance in the corporate sector and capital market for development of vibrant primary and secondary markets for Islamic financial products and services and to facilitate the development of Islamic finance through an enabling legal, regulatory and compliance framework.

IFD serves as a backbone of SECP for ensuring Shariah compliance in the capital market by coordinating and providing advisory in the following areas:

- Shariah Compliant Companies
- Shariah Compliant Securities
- Modarabas
- Takaful Operators / Windows
- Islamic Non-Bank Financial Institutions
- Islamic Mutual Funds/Pension Funds
- Islamic REITs

Under the Shariah Governance Regulations, 2018, during the year one more Shariah Compliant Company has been registered bringing the total registered Shariah compliant companies to three and registration of two more Shariah compliant companies are in process. Six certificates for Shariah Compliant Securities have been issued. The Regulations encompass different elements of Shariah governance such as Shariah compliance, internal and external Shariah audit, Shariah screening, Shariah related disclosures, Shariah advisor's responsibilities, and provides a certification mechanism for Shariah compliant companies and securities.

Under the Shariah Advisors Regulations, 2017, during the year nine more Shariah Advisors have been registered and registration of four more Shariah Advisors are in process. These regulations have enhanced the quality of Shariah advisory and offered the opportunities for registration of more Shariah advisors leading to more competitiveness and professionalism in the Shariah advisory services.

For creation of awareness and materializing the objective of Memorandum of Understanding signed between SECP and CEIFs (centers of excellence for Islamic finance), IFD has conducted four training and awareness sessions in collaboration with LUMS and ACCA.

SECP has been gradually adopting Accounting and Shariah Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) to achieve a highest level of standardization in the operational and business practices of Islamic financial institutions. So far SECP has adopted seven Shariah standards and draft notification for adoption of seven more Shariah standards has been issued. More, AAOIFI's Shariah standards are being reviewed for adoption.

SECP has reconstituted its Shariah Advisory Committee (SAC) comprising of renowned religious scholars. The SAC has approved the first ever Shariah compliant Exchange Traded Fund.

Recently, SECP approved SUKUK amounting to Rs2 billion of Bank Islami Pakistan Limited, Rs25 billion of K-Electric to be listed on PSX and “Pakistan Energy Sukuk-II” of up to Rs200 billion.

Adjudication, Prosecution and Civil Litigation

The Commission oversees compliance of various laws and regulations pertaining to corporate sector, capital market and licensed entities through its various operating divisions. The Commission has continued its focus on restructuring and functional alignment. In this regard, the Commission established centralized Adjudication Division w.e.f. December 02, 2019, with the approval of Policy Board of the SECP.

The newly set up Adjudication Division is quasi-judicial arm of the Commission. It aids in ensuring independence of adjudication function in line with IOSCO principles and best practices. The Commission thereby replaced earlier decentralized adjudication functions with explicit and standardized formats, operational protocols and adjudication penalty grid administered under a single Division. This newly established Adjudication Division shall assist in judicious use of power by authorized officers invariably corresponding to the gravity of default and quantum of penalty to be imposed. The Commission foresees that in the forthcoming financial year, Adjudication Division shall enhance effectiveness of the Commission by fair and consistent decisions, embrace technological transformation of operations and minimizing any risk of arbitrariness in the discharge of its judicial function.

The Adjudication Division consist of three departments namely:

- Adjudication Department – I (dealing with listed companies and entities having additional registration or licensing requirements)
- Adjudication Department – II (dealing with unlisted companies and the Registry functions)
- Adjudication Advisory and Litigation Department

Adjudication Department – I is primarily assigned the adjudication function in respect of licensed entities and listed companies. In this regard, the Department comprises of two wings i.e. Licensed Entities Wing and Listed Companies wing. Since inception of Adjudication division, enforcement actions initiated and penalties imposed by the Adjudication Department – I are summarized in table given below:

Particulars	Total ARNs Assessed	SCN issued	Orders	Amount of penalty (Rs)
Listed companies	300	155	147	24,488,250.00
Licensed entities	409	271	229	61,280,000.00
Total	709	426	376	85,768,250.00

The Adjudication Department – II is primarily assigned the adjudication function in respect of unlisted companies including in certain filing defaults of listed and licensed companies.

The adjudication powers related to Adjudication Department-II are exercised at four levels including Commissioner (CCD), Head of the Department, Wing Head and three adjudication officers posted at CROs in Karachi, Lahore and Islamabad. The adjudication powers have been delegated to respective authorized officers having regard to seriousness of default. During the year 2019-20, enforcement actions initiated and penalties imposed in respect of defaults falling under the jurisdiction of Adjudication Department – II (December 19-June 2020) are summarized in table given below:

Adjudication Recommendation Notes (ARNs) Processed	2152
Show Cause Notices Issued	1419
Orders Passed	1032
Amount of Penalties Imposed (Rs)	11,025,000

Relief during Covid-19

During the year, owing to Covid - 19, major interventions were undertaken to minimize disruption and continuity of centralized adjudication function by adopting tech-enabled operations. Internally, the operational guidelines have been amended by Commission allowing service of notices and orders through email, use of video conferencing facility for conducting hearings and extension in timeline for adjudication process. In view of facilitative interventions, SCNs and Orders were served through emails to respondents in addition to traditional UMS on registered address. Moreover, Commission has also relaxed time limit for submission of reply for companies whose offices were closed and access of relevant records was not possible. In order to protect the employees as well as stakeholders, Commission has resorted to holding hearings though video conferencing application allowing respondent of notices to participate from any venue outside SECP Office.

Enforcement

During FY 2019-20, SECP consolidated and augmented its efforts to ensure compliance with the regulatory laws by the corporate sector and capital market participants with the objective to implement SECP's regulatory framework in its true spirit.

Capital Markets

Capital markets participants

In addition to two new investigations initiated for the market abuses, the following actions were performed during the period:

- Eight ongoing investigations were concluded
- Restrictions were imposed on 22 persons through prohibitory orders to either restricting their participation in the capital market or restricting the trading practices being carried by such persons
- Adjudication proceedings were proposed in Six (6) cases
- Four new criminal complaints were filed in the court for criminal prosecution

Enquiries initiated against market participants	2018	2019	2020
Market Manipulation	4	5	1
Insider Trading	2	2	1
Total	6	7	2

Prohibitory Orders	Number of Persons
Violation	
Insider trading	3
Market manipulation	17
Total	20

Cases referred for criminal prosecution	Number of cases
Violation	
Insider trading	3
Market manipulation	19
Other Market Abuses	19
Total	22

Takeovers

With regard to takeovers of listed companies, during the period under review, 14 intended acquires made public announcements of intention for acquiring more than 30% voting shares of 10 listed companies. The takeover process was completed in two cases, while public announcements of intention were withdrawn in three cases and the rest of the cases are in process. Adjudication proceedings was recommendation for alleged violations of section 109(2) of the Securities Act.

Corporate Sector

Offsite surveillance, inspections/investigations and adjudication

Corporate Supervision Department is involved in active surveillance and monitoring of listed companies and their associated undertakings with respect to their compliance with applicable legal regulatory framework in order to safeguard interest of minority shareholders and other stakeholders. During the year 2020, 158 annual audited financial statements of listed companies and their associated undertakings having intercompany transactions were examined. Where warranted, explanations were sought to check compliance of various provisions of the Act and administered laws and proceedings were initiated in cases of identified violations. 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	2018*	2019	2020
Examination of accounts	568	231	158
Warnings against examination issued	78	42	15
Cases referred for Adjudication	304	342	225
Show cause proceedings initiated**	161	258	50
Cases concluded through orders & warnings**	182	143	78

* During the year 2018 and onwards, the department increased its focus on risk based supervision of listed companies whereas unlisted companies, which are not associated or subsidiaries of listed companies, have been excluded from its focus.

**W.e.f December 1, 2019, Adjudication function was separated from the department into centralized Adjudication Division.

Breakdown of the regulatory actions taken against the companies, their directors and auditors under various provisions of the Act over the preceding three years is given hereunder:

Break-up of regulatory actions taken during the last three years			
Particulars	2018	2019	*2020
Inter-corporate financing	7	6	3
Powers of directors	4	10	3
Making false incorrect statements	13	9	3
Actions against auditors	3	8	2
Non-preparation and submission of consolidated financial statements	5	1	1
Irregularities in provident fund	10	5	3
Non/ late holding of annual general meeting	10	13	6
Meetings of board of directors and disclosure of interest	9	7	4
Enforcing compliance with the provisions of the Act	28	12	6
Circulation of quarterly accounts	31	25	21
Application for revision and review of orders	8	2	1
Others (winding up orders, inspection and investigation orders, non-maintenance of website etc.)	50	42	25
Total orders	182	143	78

*W.e.f December 1, 2019 Adjudication function was separated from the department into centralized Adjudication Division.

**During the year under review, 85 Adjudication Recommendation Notes (ARNs) were generated for non-transmission of Financial Statements and non-holding of AGMs. All these ARNs were forwarded to the concerned Adjudication department. 46 Warning letters for non-transmission of Financial Statements and non-holding of AGMs were issued under Sections 132, 223 and 237 of the Companies Act, 2017.

Inspection/ Investigations

In order to strengthen surveillance and monitoring of corporate sector, department conducted number of inspections and investigations of listed companies during the year. Grave violations identified included syphoning of assets by directors, unauthorized lease of entire undertaking/factory, benefiting the directors and related parties at the cost of shareholders of listed companies, depriving shareholders of reasonable return, unauthorized sale/misappropriation of significant assets, misstatement in financial statements, non-maintenance of proper books of accounts etc.,

Data relating to inspections/ investigations conducted during the last three years is given below:

Inspections/investigations conducted during the last three years			
Particulars	2018	2019	*2020
Inspections	9	5	10
Investigations	2	-	1

*During the year 2019-20, ten (10) inspection proceedings and one (1) investigation proceeding were concluded through inspection/investigation reports whereas one interim inspection report was also issued. Further, five investigation proceedings were initiated during the year, out of which three (03) investigation proceedings are in process, whereas Courts have stayed the proceedings of two investigations. Furthermore, two inspections were initiated during the year which are sub-judice.

Non-Banking Finance Companies (NBFCs)

Offsite Examination and Enforcement

The SECP regularly examines the financial health and regulatory compliance level of non-banking finance companies (NBFCs), notified entities (NEs) and modarabas. These periodic reviews and Inspections are based on published information, data received electronically through Specialized Companies Returns System (SCRS) on a monthly basis and information called from the regulated entities.

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, non- bank microfinance companies, and modarabas), REIT Schemes and Private Equity Funds was conducted on annual basis.

The findings are taken up with respective entities through compliance and warnings letters and adjudication proceedings are proposed in case of violations / non-compliances. Statistics of offsite examinations conducted during the last three years are as follows:

Category of entity	Total number of offsite reviews conducted		
	2017-18	2018-19	*2019-20
Asset Management Companies	38	37	19
Investment advisors	4	6	3
REIT management companies	4	4	3
Private equity	1	2	2
Investment banks	16	14	6
Non-bank microfinance companies	40	49	24
Leasing companies	14	16	5
Modarabas	54	56	25
Total	171	184	87

* In previous years, the offsite reviews were conducted on half yearly basis (twice a year), whereas, in FY 2019-20, the offsite reviews were conducted on annual basis (once in year). This was done due to decrease in offsite monitoring team and emphasis on AML/CFT compliance.

During FY 2020, show cause notices and orders were issued to different NBFCs and modarabas in respect of violations of various regulations of the AML and CFT Regulations 2018. Monetary penalties were also imposed on the entities for non-compliance with the AML and CFT regulatory framework.

Onsite Inspection

During FY 2020, total seventeen onsite inspections were conducted, out of which five were full scope regular inspections whereas, twelve were AML and CFT related thematic inspections of the regulated entities. Regular inspections included inspection of three asset management companies (AMC), one microfinance company and one Modaraba. Further, inspection of one AMC was in progress as of June 30, 2020.

Statistics pertaining to various types of enforcement actions taken against regulated entities during the last three years are given below:

Enforcement actions	2017-18	2018-19	2019-20
Compliance letters	377	352	122
Warnings/directions	13	6	26
Show cause notices	5	19	52
Orders	4	18	47
Total	399	395	247

Insurance Sector

Offsite Supervision Function

The SECP having cognizance of this responsibility has a dedicated Department entrusted with the task of offsite supervision of the insurance sector. The offsite supervision department monitors and examines all the returns filed by the insurers and insurance brokers under the applicable regulatory framework. The synopsis of activities of offsite supervision department undertaken during the period under review is presented below:

Nature of actions/ correspondence	Numbers
Offsite reports completed	61
Adjudication proceedings recommended	46
Warning/advice letters	45

Onsite Inspections

The onsite inspection of the regulated insurance entities 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. The activities undertaken by the onsite inspection function during the period under review are presented below:-

Nature of actions/ correspondence	Numbers
Onsite inspections / investigations conducted	25
Adjudication proceedings recommended	18
criminal proceedings proposed	1
Warning/advice letters	3
No. of show-cause notices issued *	No. of orders passed * Amount of penalty imposed (In million rupees) *
25	49 4.7

* Note: Please note that the figures are only for five months till November 30, 2019 when the Adjudication function was carried out by the Enforcement Department of Insurance Division itself. The figures may also be incorporated in the Adjudication Department's write-up for the year under review.

International Relations

International Organization of Securities Commissions (IOSCO)

IOSCO is the international standard setter in the field of securities regulation, has members from 115 countries covering more than 95% of the world's capital markets. It is committed to establishing and maintaining consistently high regulatory standards for the securities industry. SECP has been a member of IOSCO since 1998 and on its board since 2012 and has been re-elected for the fifth consecutive time on the board of the IOSCO this year. SECP is also engaged on various IOSCO forums, including Assessment Committee, Growth and Emerging Markets (GEM) Committee, Asia Pacific Regional Committee (APRC). 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.

Central Asia Regional Economic Cooperation- First Capital Market Regulators' Forum (CAREC)

The Central Asia Regional Economic Cooperation (CAREC) first Capital Market Regulators' Forum was held in Islamabad on August 29-30, 2019 to discuss regional cooperation for development of respective capital markets, enhancing access to finance, and supporting private sector development. It was jointly organized by SECP, ADB, CDC and NCCPL. SECP has also received in-principle approval from the Cabinet for initiation of negotiation on MMOU with the CAREC member countries. Accordingly, the draft MMOU was shared with Economic Affairs Division for onward sharing with CAREC member countries for further necessary action.

Financial Market Development Program (FMDP)

Financial Market Development Program (FMDP) of the Asian Development Bank (ADB) has been finalized after thorough consultative sessions and discussion with ADB consultants. As per the said program, the ADB will grant a loan facility of \$ 600 million to GOP in two tranches. Policy conditions (Sub Program I and Sub Program II) for the said loan have been finalized. As per the Aide Memoire, certain policy conditions for Sub Program I were required to be completed by March 31, 2020 for which amendments have been proposed by the ADB in the SECP Act, 1997 to enhance SECP's autonomy, operational and financial efficiency, and to establish a special tribunal for financial market related cases. Moreover, SECP has been able to achieve timely compliances with the policy conditions, including introduction of new broker model for the brokerage industry, installation of state-of-the-art market surveillance system at PSX and establishment of Growth Enterprise Market (GEM). In addition, SECP has introduced internal policy to ensure gender mainstreaming and made valuable contributions to towards the Capital Market Master Plan and draft Netting Bill to promote issuance of derivatives.

Setting Up Innovation Office

The SECP carries 'financial inclusion' at the heart of its institutional goals. To promote an ecosystem that thrives on introduction of new and innovative financial products and services, SECP issued Regulatory Sandbox Guidelines 2019 and applications were invited under its first cohort from all eligible persons including registered companies and unregistered startups. SECP's Regulatory Sandbox is available for the Insurance sector, Non-Banking Finance Sector, Capital Markets, and overall corporate sector, with primarily focus on Fintech related initiatives.

Further as a part of its efforts to promote startups, SECP has decided to set up an innovation office. The said innovation office will facilitate innovators through dedicated sessions to discuss ideas and proposals on quarterly basis, in collaboration/ engagement with the National Incubation Centers (NICs). A mechanism to filter the startups/individual innovators and standard operating procedures for engagement with them are being formulated.

Bilateral Matters

SECP has entered into bilateral agreements with 16 regulators in other jurisdictions pertaining to cooperation and exchange of information. Moreover, proposal for signing of bilateral MoU with regulatory counterparts in Uzbekistan, Abu Dhabi, Saudi Arabia and Philippines have been initiated. Cabinet approval for signing MoU with Philippines has been received and in process of securing signature of authorized person(s) of Securities and Exchange Commission of Philippines.

Future Outlook

Keeping in view the importance of being an active member of international bodies recognized as global standard setter for regulators, 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 IOSCO members.

Digital Transformation

In the era of accelerated disruption, digital transformation is surely making inroads across the globe. Organizations have now started emphasizing more towards this change, especially after the COVID-19 pandemic. Digital transformation connects technology, data science, devices and business strategy leading to improvements in a business process or customer experience. Thus, for any organization, digitalization has become critical part of its business process, operations and value chain.

LEAP - Leading Efficiency through Automation Prowess

The SECP Policy Board directed the Commission to initiate work on automation. As a result, SECP has embarked upon its journey of digital transformation, end-to-end process automation to improve service quality, promote transparency and enable user friendly environment for all its regulatees. The project named LEAP (Leading Efficiency through Automation Prowess) entails launch of STR, which has been completed, replacement of corporate registry system, introduction of XBRL and end-to-end process automation. LEAP will also play a significant role in improving Ease of Doing Business ranking for Pakistan.

LEAP project is funded through Financial Inclusion Programme (FIP) funds, a grant by UK Government to Government of Pakistan. Department for International Development (DFID) has endorsed Karandaaz as its lead implementation partner for the purpose of implementation of LEAP project for SECP. The FIP Steering Committee approved the LEAP Programme on October 04, 2019. The Commission and SECP Policy Board in November 2019 granted approval for signing of framework agreement between SECP and Karandaaz.

Secured Transaction Registry (STR)

Secured Transaction Registry (STR), the first milestone under LEAP, went Live on 30th April, 2020. This initiative is in line with international best practices and methodology of World Bank Ease of Doing Business Index which aims to improve access to finance for SMEs through use of their movable assets as collateral besides providing a mechanism for protection of secured creditors.

STR is an electronic database in which financial institutions can record charges or security interests created by unincorporated entities or individuals on their movable assets. Any person may search for existing security interests on movable assets of Entities (other than companies) registered in the STR. STR is a critical enabling factor of Pakistan's National Financial Inclusion Strategy (NFIS). This initiative is expected to usher a new era of SME growth, and is in line with the government's vision and reforms agenda for a vibrant and sound economy. So far, more than 105,000 loans have been registered by financial institutions in the last five months.

Business Process Re-Engineering (BPR)

BPR activity is a business management strategy which involves the radical redesign of the core business processes to achieve dramatic improvements in productivity, turn-around time (TAT) and quality. The BPR activity for process optimization was undertaken in which list of business processes was reviewed and finalized in consultation with business departments and the list consisting of 245 business processes was categorized in seven top level categories namely, company registration, licensing, filing and compliance, supervision and enforcement, adjudication, regulatory approvals and administrative and support functions. Process optimization was performed to convert the business processes into customer journeys to streamline the scope of project. To-Be model (level 1) was prepared to reflect the future state of company registration, unified licensing and integrated supervision function. Once this exercise is completed, it shall reduce complexities in business processes, enhance user experience and promote transparency and internal efficiency.

Digital Transformation Workshops

SECP has always been on the forefront in the development of its employees, who are the torch bearers in any change, adoption and transformational journey. In this regard, several workshops have been conducted using design thinking approach and adoption of future technologies in collaboration with industry experts like IBM, Oracle and SAP, on topics related with API and Organizational Maturity Model, digital transformation, Data Science, Artificial Intelligence (AI) and Analytics. This has helped greatly in benchmarking state of the art industry practices, technologies and how their adoption within SECP can be made possible.

Automation Initiatives

SECP has launched Artificial Intelligence (AI) built Chatbot service which is available 24/7 for the public. This initiative makes SECP the first public sector organization to implement an AI driven Chatbot in Pakistan. With its inception, users can now get in touch and take response straightaway from SECP website without any human intervention.

There are multiple initiatives which have been implemented in the domain of ERP that involves implementation of Provident Fund Application, Promotion & Performance Management System, Automation of internal requisition process, automated financial accounting for STR invoice and payments, Documents Management Portal for Securities Market and digitalization of filing of shareholders information for listed companies. Also, Rules / Regulations Search Repository has been launched on SECP website to facilitate users for efficient and quick search.

63 eServices processes have been made Cross Border Compliant. Also, automation of LLP registration and compliance and simplification of user registration, name reservation and company incorporation processes have been completed. SECP has also adopted Software Quality Assurance (QA) automation to increase applications speed, reliability and quality. So far multiple business processes in eServices and the SECP website have been tested through this tool.

Facilitating Transparency

SECP has developed Anti-Money Laundering/ Countering Financing of Terrorism (AML/CFT) framework to safeguard the regulated financial sector inter-alia the stockbrokers, commodities brokers, NBFCs and Modarabas, the Insurers/Takaful operators, and NPO's from being used by money launderers and terrorist financiers for illicit purposes. Further, under section 14 - Reporting of Transactions of the SECP AML/CFT Regulations, 2018, the regulated entities were required to report to the Commission on bi-annual basis the number of STRs reported to Financial Monitoring Unit. Therefore, an automated system has been implemented for electronic filing of AML/CFT returns by the reporting entities and the subsequent supervision.

Additionally, SECP and Board of Investment (BOI) systems integration was completed to facilitate approvals across different government departments. Similarly, SECP was the first public sector entity integrated with Financial Management Unit (FMU) in line with FATF standards.

ISO 27001 Recognition

ISO/IEC 27001 is the most widely used information security standard prepared and published by the International Organization for Standardization (ISO) that assesses implementation, monitoring, maintenance, and continuous improvement of Information Security Management System (ISMS). SECP has been awarded the ISO certification for its enterprise ISO/IEC 27001:2013 ISMS against its phase-01 and phase-02 scope. This certification testifies that the information handling and security has been managed in accordance with global standards and protocols.

Investor Education

SECP's Investor Education department conducted 71 awareness sessions during the year for a diverse audience including professional bodies , CDC, PSX, SMEDA, Incubation Centers, Bahawalpur Chamber of Commerce, S&P Global, National Police Academy, NUST, Riphah International University and University of Wah. These programs were held in Islamabad, Lahore, Karachi, Faisalabad, Khuzdar, Swabi, Peshawar, Gujranwala, Gilgit, Quetta, Skardu and Multan.

SECP also welcomed universities from across the country to its head office to apprise the students about SECP and its regulatory domain. The universities include Bahria University, University of Punjab, IM Sciences Peshawar, Comsats, GC University Faisalabad, NUST Islamabad. Further, it collaborated with the Institute of Financial Markets of Pakistan (IFMP) to conduct awareness sessions in Iqra University and FAST University Islamabad.

To expand its outreach to fresh graduates, entrepreneurs and research institutes, the SECP signed MOUs with 06 institutes including Institute of Social and Policy Sciences, Mehran University Engineering and Technology Jamshoro, University of Malakand, Forman Christian College, Lahore, University of Wah and University of Balochistan.

Using social media, relevant information and material was shared through the Jama Punji web portal, including Jamapunji Facebook and Twitter pages and 8181 SMS service. Since the launch of Jamapunji portal on June 8, 2015, more than 4 million people have visited the Jamapunji portal till date to get education related to financial planning, investment basics, and protection from scams and frauds, to verify companies' registration status etc. Jama Punji's presence on Facebook and Twitter has gathered much interest.

Complaints Handling

During the year, SECP efficiently handled more than 1100 complaints through the Pakistan Citizen Portal related to its regulatory domain. The performance of SECP was acknowledged by the Ministry of Finance through an appreciation letter issued on 28 April 2020 in which it was stated that the complaints were handled by SECP in a highly professional, meticulous and efficient manner in accordance with the PMDU User's Guidelines Manual.

During the year, through the internal Service Desk Management System (SDMS), SECP has handled more than 6500 complaints and more than 22,500 queries related to its regulatory domain.

Anti-Money Laundering

The SECP is committed to implementing the measures set out in the FATF standards to protect SECP regulated financial sector from being used by money launderers and terrorist financiers for illicit purposes. SECP is responsible for ensuring AML/CFT compliance by stockbrokers, commodities brokers, NBFCs and Modarabas, Insurers, corporates and NPO's.

FATF Action Plan and Mutual Evaluation of Pakistan

Pakistan Mutual Evaluation Report (MER) was adopted by APG during October 2019, and Pakistan was placed on accelerated follow-up. SECP has demonstrated significant progress towards fulfilling FATF obligations under the Action Plan, and is an active member of the working group constituted by FMU for this purpose.

In addition, SECP using FATF's assessment methodology has taken effective measures in addressing ML/TF deficiencies by ensuring "technical" compliance with the FATF Recommendations, as well as the "effectiveness" of the implemented AML/CFT regime.

Improvements in Regulation, Guidelines and Directives

SECP is focused on further improving its laws, regulations and directives in order to keep its AML/CFT governance regime aligned with FATF standards. In this regard, a comprehensive exercise is ongoing to remove deficiencies identified in the latest MER of Pakistan. Significant progress been made with respect to amendments in SECP's AML/CFT regulatory framework to align it with the FATF standards as well as implementation of international best practices for improving compliance by the regulated sector. Measures undertaken include:

- Enhancing laws and mechanisms to address Beneficial Ownership disclosure requirements through amendments in Companies Act 2017, Limited Liability Partnership Act 2017, Companies (Incorporation) Regulations 2017, Companies (General Provisions & Forms) Regulations 2018, Foreign Companies Regulations 2018 and Limited Liability Partnership Regulations 2018
- Amendments in SECP AML/CFT Regulations 2018
- Revision to AML/CFT Guidelines for NPOs 2018
- Dissemination to regulatees of updated SECP Guidelines on Anti-Money Laundering, Countering Financing of Terrorism and Proliferation Financing
- Automated notification of Directives for compliance with targeted financial sanctions issued by the Ministry of Foreign Affairs on UNSCRS, and by NACTA/Ministry of Interior for updates in list of proscribed persons under the Anti-Terrorism Act, 1997
- Contributed to the development of National Risk Assessment 2019, and developed policy framework for Designated Non-Financial Business and Professions (DNFBPs) by leading the working group formed by the Ministry of Finance
- Integrated SECP's database with GoAML System of FMU
- Guidance on Risk Based Approach to AML/CFT during COVID-19 pandemic
- Issuance of an enforcement strategy for identification of and action against UNSC designated and locally proscribed persons and entities

Outreach and Awareness Raising

SECP conducted a series of workshops in Karachi, Islamabad and Lahore for its regulated sectors, namely Securities and Commodities market, Insurance/Takaful companies, Non-Banking Finance Companies and Modaraba sector. A total of 23 awareness sessions attended by over 800 participants from SECP regulated sectors were jointly organized with UNODC. In addition, compliance forum meetings were held with the respective industry associations of Securities Brokers, NBFCs and Insurance. SECP also participated in outreach activities for DNFBPs and NPOs in collaboration with UNODC and NACTA, respectively. NPOs were sensitized based on an extensive risk assessment of the sector undertaken jointly by SECP, FBR, MOI, NACTA, etc. Moreover, Frequently Asked Questions and pictorial guidelines on Online AML report filings were also issued and placed on SECP website.

Risk-based Supervisory Approach

SECP has intensified efforts to develop and maintain an AML/CFT regime that is robust, and can effectively respond to the constantly evolving threats and vulnerabilities. These efforts are aimed at

protecting the integrity of the financial system and preventing its abuse for criminal and terrorism purposes. During the fiscal year, inspections focusing on TFS and Transnational TF Risk, Beneficial Ownership and Compliance Function of 125 Securities Brokers, 18 NBFCs and 21 Insurance Companies were conducted. These resulted in dissuasive penalties amounting to Rs42.33 million being imposed through 154 enforcement orders for AML/CFT breaches of SECP AML/CFT Regulations 2018.

Improvements in Compliance by SECP Regulatees

The effectiveness of the sanctioning regime of SECP has encouraged the adoption of remedial measures among its regulated universe. The Regulated Persons (RPs) have enhanced their focus through upgradation of risk-based controls, including strengthening of transaction monitoring systems and name screening solutions, data cleansing, increasing the number of ML/TF analysts and provision of additional training to improve understanding of ML/TF risks. These measures have enabled RPs to minimize chances of repetition/ recurrence of regulatory violations with respect to AML/CFT.

Securities and Exchange Policy Board



MR. S. MASOUD A. NAQVI

Chairman, Securities and Exchange Policy Board

E X O F F I C I O M E M B E R S



Mr. Naveed Kamran Baloch
Secretary, Finance Division



Mr. Yousaf Naseem Khokhar
Secretary, Commerce Division

P R I V A T E S E C T O R M E M B E R S



Mr. Sadeq Sayeed
Member



Mr. Adnan Afridi
Member



**Mr. Muhammad
Khashih-ur-Rehman**
Secretary, Law
& Justice Division



Mr. Aamir Khan
Chairman, SECP



Mr. Jameel Ahmed
Deputy Governor
State Bank of Pakistan



Mr. Veqar ul Islam
Member



Syed Asad Ali Shah
Member



Mr. Khalid Mirza
Member

The Commission



MR. AAMIR KHAN

Chairman, Corporate Supervision Department (Company Law Division), Adjudication Department, Prosecution and Legal Affairs Division, Support Services Division

Aamir Khan has 30 years of experience in banking and capital markets, covering corporate, investment, SME and institutional banking in Pakistan and Canada. He has served in senior positions at Standard Chartered Bank, Royal Bank of Canada, and American Express Bank Ltd. He is well versed in corporate lending, treasury and credit risk management, and has extensively worked on structured financial products, international trade and cross-border transactions. Prior to being appointed as a Commissioner, he served as an Executive Director at the SECP, where he headed several departments. He also played a key role in a number of initiatives at the SECP, including the launch of commodity Murabaha at PMEX, agriculture-related initiatives, bringing microfinance companies within the SECP's regulatory ambit, finalizing of laws and improving ease of doing business. A former Chevening Scholar, he has an MBA degree, as well as an M.Sc. in international banking from the UK. He is also an associate of the Institute of Bankers in Pakistan.

MR. SHAUKAT HUSSAIN

Commissioner, Company Law Division (Corporate and Compliance Department and CRO's), Insurance Division, Islamic Finance Department, Appellate Bench, Investor Education Department

Mr. Shaukat Hussain is a commerce graduate and a fellow member of the Institute of Cost and Management Accountants of Pakistan (ICMAP). He has professional experience of over 32 years. Before assuming charge as a Commissioner on March 27, 2018, he was Executive Director/ Registrar of Companies and HOD of Corporatization and Compliance Department at the SECP. He joined the SECP as a Joint Registrar in September 2000. He has headed the SECP's offices in Karachi, Islamabad and Peshawar. He has also worked as Director, Securities Market Division. Prior to joining the SECP, he had worked with a professional accountancy firm, a development financial institution and listed companies of both public and private sectors.



MR. SHAUZAB ALI

Commissioner, Securities Market Division, Information Systems & Technology Department, International Relations Department

Mr. Shauzab Ali is a chartered accountant with more than 25 years professional experience with focus on public policy and finance, development finance, capital markets, corporate and investment banking, portfolio management and financial management. Before his appointment in the SECP as Commissioner in March 2018, he was associated with the Asian Development Bank where he was responsible for all public and financial sector activities of the Bank in Pakistan. He has also worked at Standard Chartered and Allied Bank at senior positions in corporate and investment banking and financial control functions. After qualifying as a chartered accountant he worked with the NBFC sector for more than 5 years in senior positions, including CFO of an investment bank and the Lahore Stock Exchange.



MR. FARRUKH SABZWARI

Commissioner, Specialized Companies Division (Policy, Regulation and Development Department & Supervision & Enforcement Department)

Mr. Farrukh H. Sabzwari is an MBA in finance with more than 25 years of professional experience in the capital markets in Pakistan and abroad. Before joining the SECP as a Commissioner in December 2018, he was the CEO of BMA Capital Management, one of Pakistan's largest firms dealing in financial services. His previous senior management roles include a 7-year stint with Credit Suisse Securities in Singapore as Director APAC Equities Sales from 2010 to 2017. Prior to that, he was CEO at KASB Securities, a Merrill Lynch JV partner in Pakistan, a position he held from 2005 to 2009. He also spent more than 8 years at CLSA, a Citi-owned boutique investment firm, as Country Manager and Head of Sales for Pakistan from 1995 to 2001, and subsequently as VP subcontinent sales in New York in 2001-2003. He completed his Singapore Broker License and Indonesian Capital Market Exams in 2010 and his Series 7 and 63 in New York in 2001.

**MS. SADIA KHAN**

Commissioner, Specialized Companies Division (Supervision & Enforcement Department), Insurance Division (Supervision Department), Anti-Money Laundering Department

Ms. Sadia Khan has pursued a versatile career path traversing investment banking, financial regulation, family businesses and entrepreneurship across three continents. With Masters degrees in Economics from both Cambridge University and Yale University, Ms. Sadia started her career at Lehman Brothers in New York. After obtaining her MBA from INSEAD in France, she has worked with various international institutions and local regulatory authorities, including the Asian Development Bank in the Philippines, the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan. For the past two decades, Sadia has remained a passionate advocate of corporate governance and has served on various boards as an independent director. Her book entitled "Corporate Landscape of Pakistan" was published by Oxford University Press in 2017. In 2014, the French Government conferred on her, the prestigious French award, "Chevalier de l'Ordre National du Mérite" (Knight of the National Order of Merit). Prior to her appointment as Commissioner SECP, she has been serving as the President and CEO of the Pakistan Institute of Corporate Governance (PICG).

Commission's Secretariat

Commission's Secretariat performs the duties and responsibilities of secretarial nature as entrusted to it under the SECP (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 number of Commission's meetings held during the financial year 2019-20 and attended by the Commissioners are as under:

S.No.	Name of Commissioner	Number of Meetings held	Number of meetings attended
1	Mr. Aamir Khan, Chairman	74	74
2	Mr. Tahir Mahmood, Commissioner	18	17
3	Mr. Shaukat Hussain, Commissioner	74	67
4	Mr. Farrukh H. Sabzwari, Commissioner	74	72
4	Mr. Shauzab Ali, Commissioner	74	72
5	Ms. Sadia Khan, Commissioner	20	19

Conduct of Business

During the year, the secretariat convened 70 regular and four emergent meetings of the Commission, wherein 714 working papers of departments/divisions, 16 Note to Commission and 137 other business items were considered and decided appropriately. Besides, the Commission also passed 34 resolutions by circulation and decided urgent matters of departments/divisions. The Commission's Secretariat on behalf of the Commission, issued 157 statutory regulatory orders/notifications and facilitated issuance of 29 circulars.

Appellate Bench

The Appellate Bench of the SECP is a quasi-judicial forum which is legally mandated to hear appeals filed against the orders passed either by a Commissioner or any other officer authorized by the SECP. The Appellate Bench comprises of two Commissioners. The Appellate Bench Registry of the Commission is headed by the Registrar Appellate Bench. Administratively, the Registrar reports to the Commissioner, Company Law Division.

Future Plans

In order to dispose of pending appeals, the Appellate Bench Registry has planned to fix appeals on a fortnightly basis. The Appellate Bench besides conducting hearings at the Head office in Islamabad in order to facilitate regulated entities, also conducts hearings through video conferencing from the Commission's CRO offices in Lahore and Karachi. Due to the recent pandemic, the Appellate Bench Registry is also facilitating litigants to attend hearings through video conferencing app Zoom. With the appointment of more Commissioners and availability of Appellate Benches, the issue of pendency of appeals is being resolved.

Between July 2019 and June 2020, the Appellate Bench disposed of 41 appeals and conducted 150 hearings. The early hearing of appeals has been a demand of the regulated entities and it is expected that by the end of the financial year 2020-21, the Appellate Bench shall clear the backlog of pending appeals.

In collaboration with IS&T Department, the Appellate Bench Registry has put in place a database which provides information on the status of pending appeals and appeals disposed of by the Appellate Bench and all the orders passed by the Appellate Bench are uploaded on the SECP website.

Senior Management

Mr. Muhammad Asif Jalal Bhatti

Executive Director HOD,
Adjudication Department II



Ms. Musarat Jabeen

Executive Director/ Chief
Spokesperson/HOD
Chairman's Secretariat,
International Relations
Department, Systemic Risk



Mr. Ali Azeem Ikram

Executive Director
HOD, Adjudication Department-I



Mr. Bilal Rasul

Secretary to the Commission
/Policy Board
HOD, Islamic Finance/
Appellate Bench Registry



Mr. Abid Hussain

Executive Director
HOD, Finance Department
Support Services Division and
Special Projects/BPR



Mr. Jawed Hussain

Executive Director
Chairman Secretariat
as Advisor



Mr. Imran Inayat Butt

Executive Director / HOD
Policy, Regulation and Development
Department, Market Supervision
& Risk Department – Securities
Market Department



Ms. Bushra Aslam

Executive Director/HOD/
Registrar Modaraba
Administration Department



Mr. Muzzafer Ahmed Mirza

Executive Director/HOD
Prosecution and Legal Affairs
Division



Ms. Khalida Habib

Executive Director/HOD
Policy Regulation and
Development Department,
Specialized Companies
Division



Mr. Mubasher Saeed Saddozai

Registrar of Companies/HOD
Corporatization and Compliance
Department, CROs-Company
Law Division



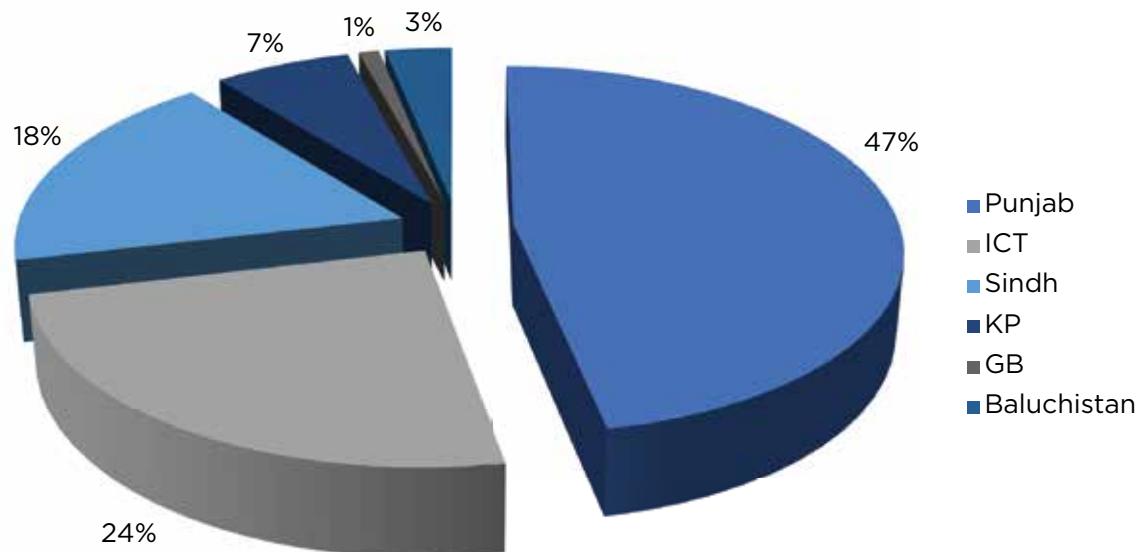
Mr. Abdul Rahim Ahmad

Director / HOD, Information
Systems and Technologies
Department Information
Security Department



Data and Statistics

Province wise new incorporation during FY 2019-20



Foreign Companies Portfolio

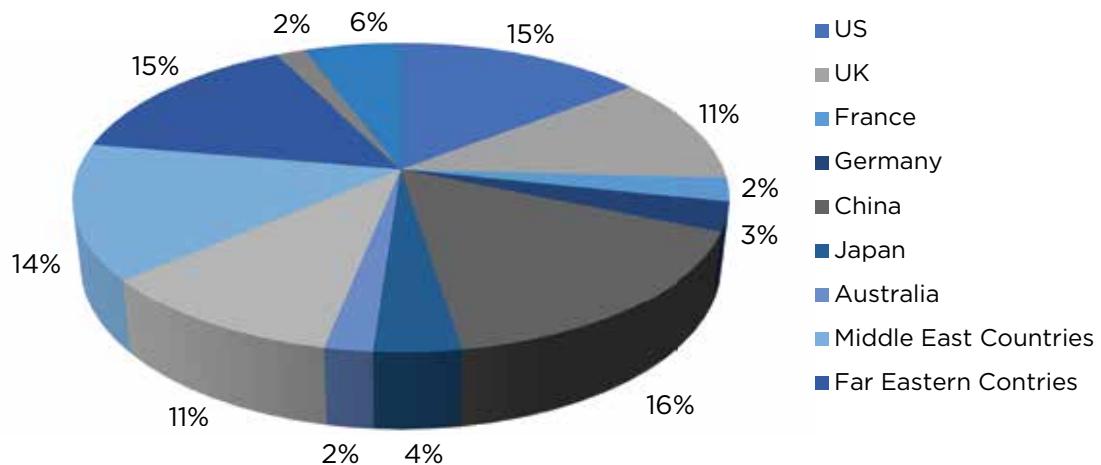


Table 1: Number and type of companies

TOTAL NUMBER OF COMPANIES AS ON 30.06.2020	
Type of Companies	Total
Companies limited by shares:	
Public listed	518
Public unlisted	2,678
Private	101,026
SMCs	13,059
Total companies limited by shares	117,281
Associations not-for-profit u/s 42	933
Companies limited by guarantee u/s 43	72
Trade organizations	316
Foreign companies	1,054
Private Companies with unlimited liability	1
Public Companies with unlimited liability	1
Companies under section 505(1)-(d)	3
Limited Liability Partnership	734
Total Companies	120,395

Table 2: Capitalization breakdown as of June 30, 2020

	Listed companies	Unlisted public companies	Private companies	SMCs	Total	% age
Paid up capital upto Rs 100,000	-	475	45,115	9,987	55,576	44.05%
Paid up capital from Rs 100,001 to 500,000.	1	308	15,817	1,531	17,657	15.16%
Paid up capital from Rs 500,001 to 1,000,000	-	137	11,709	919	12,765	10.96%
Paid up capital from Rs 1,000,001 to 10,000,000	10	376	20,967	523	21,876	20.70%
Paid up capital from Rs 10,000,001 to 100,000,000	105	675	5,750	88	6,618	6.45%
Paid up capital from Rs 100,000,001 to 500,000,000	168	411	1,263	10	1,852	1.79%
Paid up capital from Rs 500,000,001 to 1,000,000,000	75	98	213	1	387	0.38%
Paid up capital from Rs 1,000,000,001 to above	159	198	192	-	549	0.51%
	518	2,678	101,025	13,059	117,280	100%

Table 3 : Sector-wise distribution

Sector	Newly incorporated companies for the financial year ending June 30, 2020	Total companies as of June 30, 2020
ARTS AND CULTURE	53	107
AUTO AND ALLIED	195	1,542
BROADCASTING AND TELECASTING	152	1,323
CABLES AND ELECTRIC GOODS	140	1,205
CARPETS AND RUGS	8	94
CEMENT	9	148
CHEMICAL	264	2,161
COMMUNICATIONS	165	3,256
CONSTRUCTION	1,752	9,670
CORPORATE AGRICULTURAL FARMING	496	2,945
COSMETICS AND TOILETRIES	157	284
ECOMMERCE	181	181
EDUCATION	609	2,885
ENGINEERING	437	3,334
FINANCE AND BANKING	12	1,182
FOOD AND BEVERAGES	637	4,362
FOOTWARE	20	134
FUEL AND ENERGY	189	2,223
GINNING	3	342
GLASS AND CERAMICS	18	319
HEALTHCARE	284	1,600
INFORMATION TECHNOLOGY	2,027	9,500
INSURANCE	13	430
JUTE	-	20
LEATHER AND TANNERIES	27	456
LODGING	186	1,041
MARKETING AND ADVERTISEMENT	398	835
MINING AND QUARRYING	294	1,417
PAPER AND BOARD	134	1,657
PHARMACEUTICAL	349	2,532
POWER GENERATION	142	1,616
REAL ESTATE DEVELOPMENT	773	3,330
SERVICES	1,929	14,474

SPORT GOODS	26	311
STEEL AND ALLIED	74	861
SUGAR AND ALLIED	3	196
SYNTHETIC AND RAYON	18	255
TEXTILE	370	5,686
TOBACCO	11	107
TOURISM	829	9,563
TRADING	2,863	16,291
TRANSPORT	282	2,337
VANASPATI AND ALLIED	15	487
WOOD AND WOOD PRODUCTS	50	367
MISCELLANEOUS / OTHERS	335	7,329
TOTAL	16,929	120,395

Table 4: Foreign companies' data by country / region

Country	Newly Incorporated Companies FY 2019-20	Number of Companies as on 30-06-2020
US	1	153
UK	2	120
France	0	26
Germany	1	32
China	11	170
Japan	1	38
Australia	0	21
Middle East Countries	6	111
Far Eastern Countries	2	148
Other European Countries	3	156
Other Asian Countries	0	18
Other Countries	0	61
Total	27	1,054

Capital Market (in numbers)

Number of IPOs and funds raised during last three years:

Year	Number of IPOs	Fund raised (including premium amount) (In billion rupees)	Capital listed (In billion rupees)
2019-20*	-	-	-
2018-19	2	5.795	10.161
2017-18	4	4.047	5.015

*updated till June 05, 2020

Privately Placed Debt Securities

As per the data shared by the companies with SECP, privately placed debt securities number are summarized below:

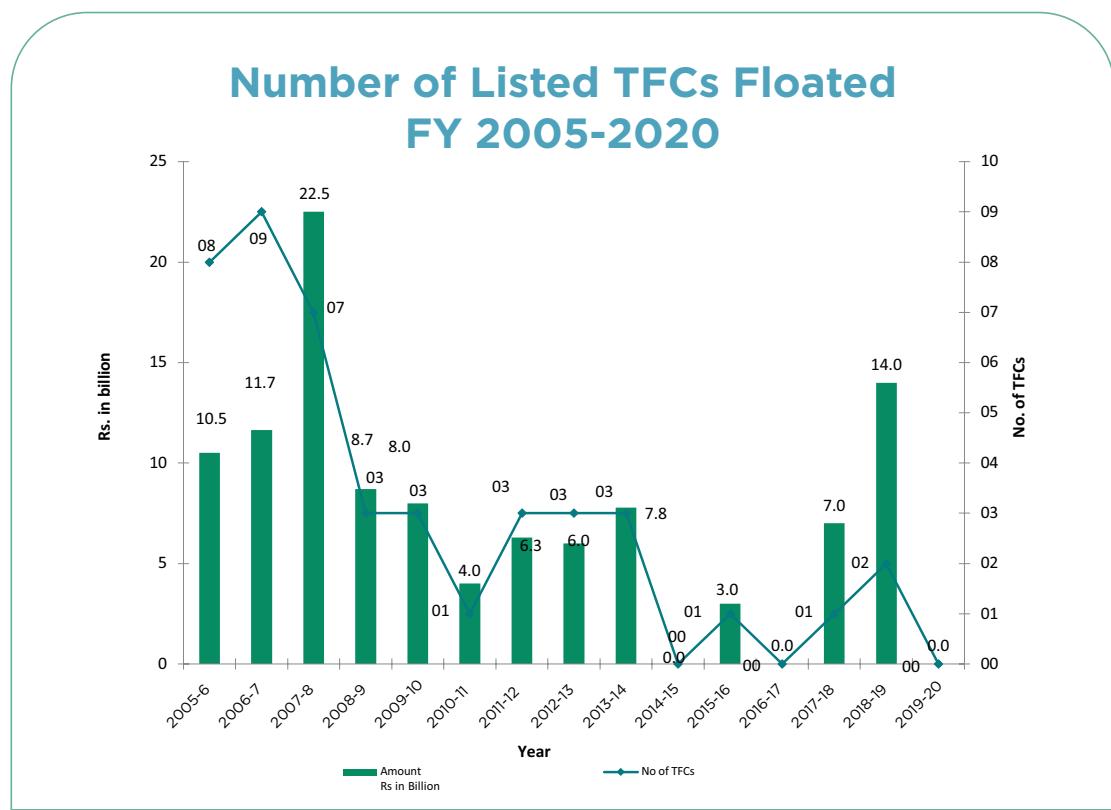
Sr. No.	Name of Security	Number of Issues	Amount (in billion rupees)
1.	Privately Placed Sukuks	07	222.20
2.	Privately Placed Commercial papers	09	44.6
3.	Privately Placed Term Finance Certificates	03	19.37
	Total	19	286.17

* Including Sukuk Issued by Power Holding Ltd. (Pakistan Energy Sukuk II) of Rs200 billion.

Corporate Debt Securities Outstanding

Sr. No.	Name of Security	Number of Issues	Amount (in billion rupees)
1	Sukuk (Listed & Privately Placed)	49	700.22
2	Privately placed TFCs and listed on OTC	43	116.99
3	Listed Term Finance Certificates	13	34.71
4	Privately Placed Commercial Paper	05	18.720
	Total	110	870.64

*updated till June 05, 2020



FINANCIAL STATEMENTS

2020





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**INDEPENDENT AUDITOR'S REPORT
TO THE FEDERAL GOVERNMENT OF PAKISTAN**

Opinion

We have audited the financial statements of Securities and Exchange Commission of Pakistan (the Commission), which comprise the statement of financial position as at June 30, 2020, and the statement of income and expenditure and other comprehensive income, statement of changes in funds and 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 June 30, 2020 and its financial performance and its cash flows for the year then ended in accordance with the accounting and reporting standards as applicable in Pakistan.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) 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 ethical requirements that are relevant to our audit of the financial statements in Pakistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 the accounting and reporting 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 misstatements, 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 auditor's report that includes our opinion. Reasonable assurance is high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's 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.



As part of an audit in accordance with ISAs, 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 auditor's 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 auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Other Matter

The financial statements of the Commission for the year ended June 30, 2019, were audited by another auditor who expressed an unmodified opinion on those statements on October 3, 2019

The engagement partner on the audit resulting in this independent auditor's report is Shahzad Qazi.

Hussain Chaudhry
 Crowe Hussain Chaudhury & Co.
 Chartered Accountants
 Date :- 11 SEP 2020
 Place : Islamabad



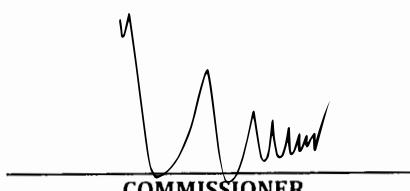
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2020

	Note	2020 (Rupees in thousand)	2019
NON-CURRENT ASSETS			
Property and equipment	6	441,216	455,493
Right of use of assets	7	155,758	-
Intangible assets	8	198,175	2,649
Long term investments	9	1,055,398	-
Loans and advances	10	344,703	262,873
Deferred tax asset	11	61,696	69,687
		2,256,945	790,702
CURRENT ASSETS			
Advances, deposits, prepayments and other receivables	12	376,310	204,335
Short term investments	13	2,178,658	3,072,857
Cash and bank balances	14	54,669	40,626
		2,609,638	3,317,818
CURRENT LIABILITIES			
Current maturity of lease liabilities	15	(198,825)	-
Accrued and other liabilities	16	(1,325,276)	(1,078,431)
Payable to Federal Consolidated Fund	17	(185)	(1,478)
		(1,524,286)	(1,079,909)
NET CURRENT ASSETS		1,085,352	2,237,909
NON-CURRENT LIABILITIES			
Provision for compensated absences	18	(182,927)	(170,648)
Lease liabilities	15	(24,463)	-
		(207,390)	(170,648)
NET ASSETS		3,134,906	2,857,963
REPRESENTED BY:			
Securites & Exchange Commission of Pakistan Funds		3,134,906	2,857,963
CONTINGENCIES AND COMMITMENTS	19		

The annexed notes 1 to 30 form an integral part of these financial statements.



Chairman

Commissioner

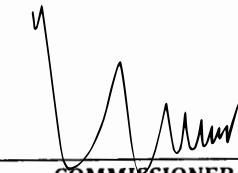
**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF INCOME AND EXPENDITURE AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2020**

		2020	2019
	Note	(Rupees in thousand)	
INCOME			
Fees and other recoveries	20	2,858,731	2,726,127
Investment and other income	21	429,003	275,977
		<u>3,287,734</u>	<u>3,002,104</u>
EXPENDITURE			
Salaries, allowances and other benefits	22	2,057,229	2,116,423
Operating expenses	23	467,815	548,399
Depreciation on tangible fixed assets	6	122,890	113,315
Depreciation on right to use of assets	7	170,797	-
Amortization of intangible assets	8	8,181	2,575
		<u>2,826,911</u>	<u>2,780,712</u>
SURPLUS OF INCOME OVER EXPENDITURE BEFORE TAX		<u>460,823</u>	<u>221,392</u>
TAXATION	24	131,321	64,914
SURPLUS OF INCOME OVER EXPENDITURE AFTER TAX FOR THE YEAR		<u>329,501</u>	<u>156,478</u>
OTHER COMPREHENSIVE INCOME /(DEFICIT) - NET OF TAX			
Items which will not be subsequently reclassified to income & expenditure			
Actuarial (losses)/ gains on staff retirement funds	16.1.4	(74,026)	(11,233)
Related tax effect		21,468	3,258
Total other comprehensive income - net of tax		(52,558)	(7,975)
TOTAL COMPREHENSIVE SURPLUS OF INCOME OVER EXPENDITURE		<u>276,943</u>	<u>148,503</u>

The annexed notes 1 to 30 form an integral part of these financial statements.



CHAIRMAN

COMMISSIONER

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

Assets acquisition reserve	Reserve for loan to employees	Accumulated comprehensive (deficit)/ surplus of income over expenditure	Total
Rupees in thousand -----			

Balance at July 01, 2018

2,089,460 620,000 - 2,709,460

Comprehensive income:

Surplus of income over expenditure
Other comprehensive income

-	-	156,478	156,478
-	-	(7,975)	(7,975)
		148,503	148,503

Total comprehensive income
Transferred to reserve for loan to employees
Transferred to asset acquisition reserve

2,089,460	620,000	148,503	2,857,963
-	100,000	(100,000)	-
48,503	-	(48,503)	-
		2,137,963	2,857,963
		720,000	-

Balance at June 30, 2019

2,137,963 720,000 - 2,857,963

Comprehensive income:

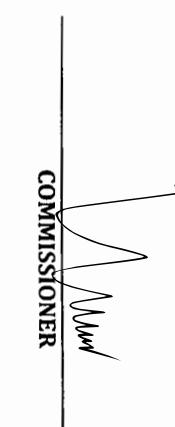
Surplus of income over expenditure
Other comprehensive surplus/(deficit) of income

-	-	329,501	329,501
-	-	(52,558)	(52,558)
		276,943	276,943

Total comprehensive income
Transferred to asset acquisition reserve

276,943	-	276,943	276,943
-	(276,943)	-	-
		2,414,906	2,414,906
		720,000	720,000
		3,134,906	3,134,906

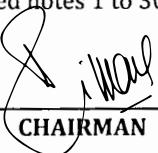
The annexed notes 1 to 30 form an integral part of these financial statements.


CHAIRMAN
COMMISSIONER

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020**

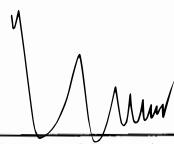
	Note	2020	2019
		(Rupees in thousand)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus of income over expenditure before tax		460,823	221,392
Adjustments for:			
- Depreciation on tangible assets		122,890	113,315
- Depreciation on ROU		170,797	-
- Amortization		8,181	2,575
- Amortization of short term investment		(4,315)	-
- Provision for pension		46,918	58,125
- Provision for gratuity		93,718	93,374
- Provision for compensated absences		23,252	15,198
- Discounting / (unwinding of) discount on long term loans to employees - net		(34,749)	87,794
- Interest income		(418,367)	(261,895)
- Gain on sale of property and equipment		(4,871)	(4,111)
		3,453	104,375
Operating income before working capital changes		464,276	325,767
Decrease / (increase) in advances, deposits, prepayments and other receivables		(177,430)	(41,026)
Increase in accrued and other liabilities		217,029	(17,305)
		503,875	267,436
Contribution to pension fund		(131,886)	(445,413)
Contribution to gratuity fund		(33,868)	(66,515)
Compensated absences encashed		(10,973)	(6,575)
Taxes paid		(96,407)	(86,082)
		(273,134)	(604,585)
Increase in loans and advances		(47,080)	(81,499)
Increase in payable to Federal Consolidated Fund		(1,293)	852
Net cash generated from operating activities		182,367	(417,796)
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(320,501)	(77,811)
Payments against operating lease		(122,358)	
Proceeds from sale of property and equipment		13,052	11,613
Investments - net		12,955	(31,895)
Interest received on investments and bank deposits		248,528	322,401
Net cash used in investing activities		(168,324)	224,308
Net increase / (decrease) in cash and cash equivalents		14,043	(193,488)
CASH AND CASH EQUIVALENTS			
At beginning of the year		40,626	234,114
Cash and cash equivalents at end of the year	11	54,669	40,626

The annexed notes 1 to 30 form an integral part of these financial statements.



CHAIRMAN





COMMISSIONER

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

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, southern regional office located in Karachi, eight companies registration offices and two facilitation offices across Pakistan.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. Accounting and reporting standards comprise of International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) as are notified by the Commission to companies in Pakistan. However, to follow the best practices the Commission has adopted IFRS as a framework for preparation of the financial statements.

3. NEW AND REVISED STANDARDS AND INTERPRETATIONS

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Commission:

		Effective date (annual reporting periods beginning on or after)
IAS 1	Presentation of financial statements (Amendments)	January 1, 2020
IAS 8	Accounting policies, changes in accounting estimates and errors (Amendments)	January 1, 2020
IFRS 3	Business combinations (Amendments)	January 1, 2020

The management anticipates that the adoption of the above standards, amendments and interpretations in future periods, will have no material impact on the financial statements other than the impact on presentation / disclosures. The Commission is in the process of assessing the impact of changes laid down by IFRS 16 and its effect on its financial statements.

Further, the following new standards and interpretations have been issued by the International Accounting Standards Board (IASB), which are yet to be notified by the Commission, for the purpose of their applicability to companies in Pakistan:

- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IFRS 14 Regulatory Deferral Accounts
- IFRS 17 Insurance Contracts

The following interpretations issued by the IASB have been waived of by the Commission:

- IFRIC 4 Determining whether an arrangement contains lease
- IFRIC 12 Service concession arrangements



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

4. CHANGES IN ACCOUNTING POLICIES

LEASES

IFRS 16 "Leases" replaced IAS 17 "Leases", the former lease accounting standard and became effective on annual reporting periods beginning on or after January 1, 2019. Under the new lease standard, assets leased by the Commission are being recognized on the statement of financial position with a corresponding liability. As a rule, lease expenses are no longer recorded in the statement of profit or loss from July 1, 2019. Instead, depreciation and interest expenses are recorded stemming from the newly recognized lease assets and lease liabilities. In addition, leasing expenses are no longer presented as operating cash outflows in the statement of cash flows, but instead are included as part of the financing cash outflow. Interest expenses from the newly recognized lease liability are presented in the cash flow from operating activities. The Commission has adopted IFRS 16 using the modified retrospective approach w.e.f July 1, 2019. The impact of adoption of IFRS 16 is as follows:

	June 30, 2019	Impact of IFRS 16	July 1, 2019
	Rs. '000'	Rs. '000'	Rs. '000'
ASSETS			
NON CURRENT ASSETS			
Right to use of assets	-	260,149	260,149
NON CURRENT LIABILITIES			
Lease liabilities	-	176,978	176,978
CURRENT LIABILITIES			
Current portion of lease liabilities	-	102,263	102,263
Accrued Rent	19,092	(19,092)	-

The Commission, as a lessee, recognizes a right of use asset and a lease liability on the lease commencement date for the buildings acquired on lease previously charged to profit and loss as per IAS-17.

Upon initial recognition, the right of use asset is measured as the amount equal to initially measured lease liability adjusted for lease prepayments, initial direct cost, lease incentives and the discounted estimated asset retirement obligation. Subsequently, the right of use asset is measured at cost net of any accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the shorter of estimated useful lives of the right of use assets or the lease term.

The lease liability was measured upon initial recognition at the present value of the future lease payments over the lease term, discounted with the specific incremental borrowing rate. Subsequently lease liabilities are measured at amortized cost using the effective interest rate method.

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

TRANSITION

The Commission adopted IFRS 16 on the date the standard became effective, July 1, 2019 using the modified retrospective approach, under which the Commission has recognized lease liabilities at the date of initial recognition for leases previously classified as operating lease under IAS 17 at the present value of the remaining lease payments using the Commission's incremental borrowing rate and recognizing right of use assets at the date of initial application for leases. The Commission has chosen to measure the right of use assets at an amount equal to the lease liabilities. Accordingly, the comparative figures presented for 2019 have not been restated.

The weighted-average incremental rate applied to lease liabilities recognized on July 1, 2019 was 10% per annum

SIGNIFICANT JUDGEMENTS UPON ADOPTION OF IFRS 16

IFRS 16 requires the Commission to assess the lease term as the non-cancelable lease term in line with the lease contract together with the period for which the Commission has extension options which the Commission is reasonably certain to exercise and the periods for which the Commission has termination options for which the Commission is reasonably certain not to exercise those termination options.

A portion of the lease contracts included within Commission's lease portfolio includes lease contracts which are extendable through mutual agreement between the Commission and the lessor or cancelable by both parties immediately or on short notice. In assessing the lease term for the adoption of IFRS 16, the Commission concluded that such contracts are short-term in nature and payments made in respect of these leases are accordingly expensed in the statement of profit or loss.

Lease liabilities and Right of use assets recognized are as follows:

	Rs. '000'
LEASE LIABILITIES	
Operating lease commitments disclosed as at June 30, 2019	
Discounting effect using incremental borrowing rate	10%
Lease liabilities recognized on statement of financial position as at July 1, 2019	<u>279,241</u>
Lease liabilities presented as:	
Non-current financial liabilities	176,978
Current portion of non-current liabilities	<u>102,263</u>
	<u>279,241</u>
RIGHT OF USE OF ASSETS	
Present value of lease liability	279,241
Accrued Rent	(19,092)
Right of use assets recognized on statement of financial position as at July 1, 2019	<u>260,149</u>
Right of use assets presented as:	
Property, plant and equipment (buildings)	<u>260,149</u>

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Basis of measurement

These financial statements have been prepared on the historical cost convention except for certain financial instruments which are carried at fair value and employee retirement benefit funds including staff compensated absences which are carried at their present values as determined under the provisions of IAS-19, "Employee Benefits".

5.2 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.

5.3 Significant accounting estimates

The preparation of financial statements in conformity with IFRS, 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 IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in subsequent years are discussed in the ensuing paragraphs:

(a) Income taxes

The Commission takes into account the current income tax law and decisions taken by the appellate authorities. Instances where the Commission's view differs from the view taken by the income tax department at the assessment stage and where the Commission considers that its view on items is of material nature is in accordance with law, the amounts are shown as contingent liabilities.

(b) Staff retirement benefits

The present value of the obligation for gratuity, pension and compensated absences depends on a number of factors that are determined on actuarial basis using number of assumptions. The assumptions used in determining the charge for the year include the discount rate, expected increase in eligible salary and mortality rate. Any changes in these assumptions will impact the carrying amount of obligations for gratuity, pension and compensated absences.

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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(c) Property and equipment and Intangible Assets

The Commission reviews the useful life and residual values of property and equipment and intangible assets 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 and equipment or intangible assets with a corresponding affect on the depreciation/ amortization charge and impairment.

(d) Provision against loans, advances and receivables

The Commission applies the general approach for calculating a lifetime expected credit losses for its loans, advances, deposits and other receivables recognized. The life time expected credit loss is determined at least annually. However, an assessment is made at each reporting date to determine whether there is an indication that a financial asset or a group of financial assets may be impaired. If such an indication exists, the estimated recoverable amount of that asset is determined and impairment loss is recognized for the difference between the recoverable amount and the carrying value.

(e) Impairment

The carrying amounts of the Commission's assets are reviewed at each statement of financial position 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

The fair value of Fair value through other comprehensive income (FVTOCI) and Fair value through profit or loss (FVTPL) investments are determined by reference to market interest rate at the reporting date. Any change in the estimate might effect carrying amount of investments with corresponding effect in statement of income and expenditure and other comprehensive income.

5.4 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any, except for 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 6 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 other income.



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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5.5 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 8 to the financial statements.

5.6 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 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.

5.7 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 at the rate of 10% of basic salary is charged to the statement of income and expenditure and other comprehensive income for the year.

Defined benefit plans

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

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(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 16 of financial statements.

Charge for the year is recognised in statement of income and expenditure and other comprehensive income. Actuarial gain or losses 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 June 30, 2020.

5.8 Deferred grant

Grants that compensates the Commission for expenses incurred are recognised in statement of income and expenditure and other comprehensive income 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 assets.

5.9 Revenue recognition

The Commission generates revenue by receiving fees and sums in accordance with the forms of various legal statutes/ regulations. The Commission recognizes revenue when it transfers services to its customers, being when the Commission has received consideration and the required information and there is no other information to be submitted to the Commission by the customer. Revenue is recognized as per the rates specified vide respective statutory forms to which the fee relates to.

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 bank deposits and short term investments are recognised using the effective yield method.

5.10 Impairment

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



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

5.11 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 income and expenditure 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 statement of income and expenditure and other comprehensive income.

The Commission determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Commission calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the same in the statement of other comprehensive income.

5.12 Long term loans to employees

Long term loans are initially recognized at fair value. After initial recognition, these are subsequently measured at amortized cost using the Effective Interest Rate (EIR) method. Gains and losses recognised in profit and loss account when the assets are derecognised, as well through the EIR amortization process over the term of the loan. The EIR amortization is provision for discount on loans to employees in the statement of income and expenditure and other comprehensive income.

5.13 Contract liabilities

Under IFRS 15 "Revenue from Contracts with Customers", obligation to transfer goods or services to a customer for which the Commission has received consideration or an amount of consideration is due from the customer is presented as contract liability. The contract liabilities of the Commission comprises of advance payments received from customers in accordance with the forms of various statutes/regulationss as described in note 16.2 to the financial statements.

5.14 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.

5.15 Financial instruments

All financial assets and financial liabilities are recognized at the time when the Commission becomes a party to the contractual provisions of the instrument. All the financial assets are derecognized at the time when the Commission losses control of the contractual rights that comprise the financial assets. All financial liabilities are derecognized at the time when they are extinguished that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gains or losses on de-recognition of the financial assets and financial liabilities are taken to the statement of income and expenditure and other comprehensive income.

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020**

(i) Financial assets

Classification

Effective July 1, 2018, the Commission classifies its financial assets in the following measurement categories:

- a) Amortized cost where the effective interest rate method will apply;
- b) fair value through profit or loss;
- c) fair value through other comprehensive income.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in statement of expenditure and income and other comprehensive income. For investments in equity instruments that are not held for trading, this depends on whether the Commission has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVTOCI). The Commission reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Commission commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Commission has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Commission measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in statement of expenditure and income and other comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Commission's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Commission classifies its debt instruments:

(a) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in statement of expenditure and income and other comprehensive income and presented in other other income/ (charges). Impairment losses are presented as separate line item in the statement of income and expenditure and other comprehensive income.



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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(b) Fair value through other comprehensive income (FVTOCI)

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest income which are recognised in statement of expenditure and income and other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to statement of expenditure and income and other comprehensive income and recognised in other income/ (charges). Interest income from these financial assets is included in other income using the effective interest rate method. Impairment expenses are presented as separate line item in the statement of income and expenditure and other comprehensive income.

c) Fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in the statement of expenditure and income and other comprehensive income and presented net within other other income/ (charges) in the period in which it arises.

De-recognition of financial assets

A financial asset (or, where applicable part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
The Commission has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Commission has transferred substantially all the risks and rewards of the asset, or (b) the Commission has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Commission has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Commission's continuing involvement in the asset.

In that case, the Commission also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Commission has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Commission could be required to repay.

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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Impairment of financial assets

Effective July 1, 2018, the Commission assesses on a forward looking basis the Expected Credit Losses (ECL) associated with its debt instruments carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Following are financial instruments that are subject to the ECL model:

- Advances, deposits and other receivables
- Short term investments
- Cash and bank balances
- Loans and advances

Simplified approach for advances, deposits and other receivables

The Commission recognises life time ECL on advances, deposits and other receivables, using the simplified approach. The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Advances, deposits and other receivables are separately assessed for ECL measurement. The lifetime expected credit losses are estimated using the Commission's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Recognition of loss allowance

The Commission recognizes an impairment gain or loss in the statement of expenditure and income and other comprehensive income for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

As explained in note 4 to these financial statements, previously, impairment (loss allowance) was measured under incurred loss model of IAS 39.

(ii) Financial liabilities

Classification, initial recognition and subsequent measurement

The Commission classifies its financial liabilities in the following categories:

- at fair value through profit or loss;
- other financial liabilities

The Commission determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, also include directly attributable transaction costs. The subsequent measurement of financial liabilities depends on their classification, as follows:

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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a) Fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as being at fair value through profit or loss. The Commission has not designated any financial liability upon recognition as being at fair value through profit or loss.

b) Amortised cost

After initial recognition, other financial liabilities which are interest bearing are subsequently measured at amortized cost, using the effective interest rate method. Gain and losses are recognized in the statement of income and expenditure and other comprehensive income, when the liabilities are derecognized as well as through effective interest rate amortization process.

De-recognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income and expenditure and other comprehensive income.

(iii) Off-setting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position, if the Commission has a legally enforceable right to set off the recognized amounts, and the Commission either intends to settle on a net basis, or realize the asset and settle the liability simultaneously. Legally enforceable right must not be contingent on future events and must be enforceable in normal course of business and in the event of default, insolvency or bankruptcy of the Commission or the counter party.

5.16 Receivable

Receivable are stated initially at the fair value, subsequent to initial recognition these are stated at their fair value as reduced by appropriate loss allowance account. The Commission recognizes an impairment gain or loss in the statement of income and expenditure for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account. Known impaired receivables are written off.

5.17 Cash and cash equivalents

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

5.18 Payables

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

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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5.19 Reserves

The amount appropriated to reserves for loan to employees and asset acquisition reserve is made as per approval of the Policy Board.

5.20 LEASES

Right of use of Assets

The Commission recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method at rate define in note 7 from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability

Lease Liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Commission's incremental borrowing rate. Generally, the Commission uses its incremental borrowing rate as the discount rate.

Lease payments in the measurement of the lease liability comprise the following:

- a. fixed payments, including in-substance fixed payments;
- b. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- c. amounts expected to be payable under a residual value guarantee; and
- d. the exercise price under a purchase option that the Commission is reasonably certain to exercise, lease payments in an optional renewal period if the Commission is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Commission is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Commission's estimate of the amount expected to be payable under a residual value guarantee, or if the Commission changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero



6 PROPERTY AND EQUIPMENTS		Leasehold Land	Buildings	Leasehold Improvements	Equipments	Office Equipments	Other Equipments	Computers	Furniture & Fixture	Vehicles	Subtotal	CWIP	Total
		(Rupees in thousand)											
Cost as at July 1, 2018		211,790	39,428	125,561	96,934	18,152	403,929	54,243	336,592	1,286,629	-	1,286,629	
Accumulated Depreciation		(2,778)	(31,857)	(106,346)	(84,518)	(16,730)	(367,980)	(33,295)	(144,586)	(788,090)	-	(788,090)	
Net Book Value		209,012	7,571	19,215	12,416	1,422	35,949	20,948	192,006	498,539		498,539	
Year ended June 30, 2019													
Opening Net Book Value		209,012	7,571	19,215	12,416	1,422	35,949	20,948	192,006	498,539	-	498,539	
Additions		-	149	3,856	7,585	-	1,116	2,609	62,456	77,771	-	77,771	
Transfers/Reclassification													
Cost													
Accumulated Dep													
Disposal													
Cost													
Accumulated Dep													
Depreciation for the period													
Closing NBV													
		206,873	5,748	14,692	11,728	802	16,978	18,583	180,089	455,493		455,493	
Cost as at June 30, 2019													
Accumulated Depreciation		211,790	39,577	129,173	103,179	18,152	338,794	56,601	362,900	1,260,166	-	1,260,166	
Net Book Value		(4,917)	(33,829)	(114,481)	(91,451)	(17,350)	(331,816)	(38,018)	(182,811)	(804,673)		(804,673)	
		206,873	5,748	14,692	11,728	802	16,978	18,583	180,089	455,493		455,493	
Year ended June 30, 2020													
Opening Net Book Value		206,873	5,748	14,692	11,728	802	16,978	18,583	180,089	455,493	-	455,493	
Additions		-	3,169	9,596	-	73,175	2,421	-	27,100	115,461	-	116,794	
Transfers/Reclassification													
Cost													
Accumulated Dep													
Disposal													
Cost													
Accumulated Dep													
Depreciation for the period													
Closing NBV													
		204,734	3,769	9,777	13,179	182	62,648	15,190	130,455	439,883	1,333	441,216	
Cost as at June 30, 2020													
Accumulated Depreciation		211,790	39,577	133,669	113,487	18,152	394,411	57,659	356,251	1,324,996	1,333	1,326,329	
Net Book Value		(7,056)	(35,808)	(123,942)	(100,308)	(17,970)	(331,763)	(42,470)	(225,796)	(865,113)	-	(865,114)	
Rates of depreciation / Useful life		99 years	5%	20%	30%	20%	20%	20%	20%	10%	20%		
30 June 2020													

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7 RIGHT OF USE OF ASSETS	Buildings
	Rupees in thousand
Present value of lease liability	279,241
Accrued Rent as at July 1, 2019	<u>(19,092)</u>
Right of use assets recognized on statement of financial position as at July 1, 2019	<u><u>260,149</u></u>

Right of use assets presented as:

Property equipment (buildings)	<u><u>260,149</u></u>
Balance as on July 01, 2019	
Right of use of asset	260,149
Accumulated depreciation	-
Net book value	<u>260,149</u>
Additions for the year	66,405
Cessation during the period	-
Depreciation for the period	<u>(170,797)</u>
Balance as on June 30, 2020	<u><u>155,758</u></u>
Rate of depreciation	Over the life of Lease agreements

8 INTANGIBLES ASSETS	Computer Softwares
	Rupees in thousand
Cost as at July 1, 2018	122,286
Accumulated amortization	<u>(117,493)</u>
Net book value	<u>4,793</u>
Year ended June 30, 2019	
Opening net book value	4,793
Additions	431
Write off	
Cost	<u>(32,561)</u>
Accumulated amortization	<u>32,561</u>
Amortization for the period	<u>(2,575)</u>
Closing net book value	<u><u>2,649</u></u>
Cost as at June 30, 2019	122,717
Accumulated amortization	<u>(120,068)</u>
Net book value	<u><u>2,649</u></u>
Year ended June 30, 2020	
Opening net book value	2,649
Additions	193,450
Amortization for the period	<u>(8,181)</u>
Closing net book value	<u><u>187,918</u></u>
Cost as at June 30, 2020	316,167
Accumulated Amortization	<u>(128,249)</u>
Software under development	<u>187,918</u>
Net book value	<u><u>10,257</u></u>
Amortization rate (%) per annum	25%



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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9 LONG TERM INVESTMENTS	Note	2020	2019
		(Rupees in thousand)	
Long term investment	9.1	1,055,398	-
Investment in associate - Unquoted			
Institute of Financial Markets of Pakistan	9.2	28,000	28,000
Less: Impairment loss on investment		(28,000)	(28,000)
		1,055,398	-

- 9.1 This represents the investment in Pakistan Investment Bonds (PIB's). The rate of mark up is 9% per annum with maturity in 2022. The investment has been accounted at amortised cost.
- 9.2 **Investment in Institute of Financial Markets of Pakistan (a section 42 Company under the Companies Act, 2017)**

This represents 73.68% (2019: 73.68%) investment in issued, subscribed and paid-up capital of Institute of Financial Markets of Pakistan (the Institute) representing 5,600 (2019: 5,600) ordinary shares of Rs 5,000 (2019: 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. Further, the commission has undertaken to contribute an amount not exceeding Rs. 50,000 (2019: 50,000) to the assets of the institute in the event of its being wound up.

- 9.2.1 The following table summarises the financial information of the Institute as included in its financial statements for the year ended June 30, 2020, 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.

Percentage of shareholding	73.68%	73.68%
	Un Audited	Audited
Non current assets	31,048	30,445
Current assets (including cash and cash equivalents)	13,046	12,814
Total assets	44,094	43,259
Non-current liabilities	-	-
Current liabilities	6,046	1,344
Total liabilities	6,046	1,344
Net assets at fair value (100%)	38,048	41,915
Commissions share of net assets (73.68%)	28,034	28,767
Impairment loss on investment	(28,000)	(28,000)
Share in profits and assets not recognized	(34)	(767)
Carrying amount of interest in associate	9.2.2	-
Revenue	20,541	26,745
Profit from continuing operations (100%)	(3,868)	6,781
Other comprehensive income (100%)	-	-
Total comprehensive income (100%)	(3,868)	6,781
Commissions share of total comprehensive income	9.2.2	(2,850)
		4,996

The information presented above for current year is based on unaudited financial statements of the Institute for the year ended June 30, 2020.

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9.2.2 The carrying amount of interest in associate in the Commission's financial statements is Nil (2019: 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.

10 LOANS AND ADVANCES	Note	2020		2019
		(Rupees in thousand)		
Loans and advances - considered good				
Interest Bearing		43,716		46,609
Non-Interest Bearing	10.1	541,017		470,268
		584,733		516,877
Less: Current portion of loans and advances				
Interest Bearing		(50,136)		(8,771)
Non-Interest Bearing		(67,910)		(88,499)
		(118,046)		(97,270)
		466,687		419,607
Less: Provision for imputed interest on loans and advances		(121,985)		(156,734)
		344,703		262,873

10.1 These represent loans to employees for various purposes as per SECP Human Resource manual, secured against employees' retirement benefits and collaterals. Loans are recoverable in monthly installments, to a maximum period by January 2032 . These loans have been designated as interest free for employees except for employees availing house and vehicle loans who have not opted out of interest on their respective provident fund balances.

11 DEFERRED TAXATION	Note	2020		2019
		(Rupees in thousand)		
The net balance of deferred taxation is in respect of the following temporary differences:				
- Accelerated depreciation and amortization		(13,846)		30,818
- Profit on short term investments accrued but not due		(32,708)		(14,704)
- Discount on long term loan		35,376		45,453
- Operating lease liabilities under IFRS 16		64,754		-
- Impairment loss on investment in associate		8,120		8,120
		61,696		69,687

12 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLE	Note	2020		2019
		(Rupees in thousand)		
Current portion of loans and advances - considered good		118,046		97,270
Short term loans to employees - secured, considered good	12.1	4,463		4,073
Advances		129,867		7,624
Deposits		3,562		3,540
Prepayments		10,381		12,955
Advance tax - net	12.2	7,002		12,457
Fee receivable - considered good		57,970		22,069
Advances receivable	12.3	27,223		27,223
Other receivables - considered good		17,796		17,124
		376,310		204,335

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12.1 These represent the house rent advance loans given to employees and are recoverable/adjustable on monthly basis. The amount is secured against the employees' share of post employment benefits.

	2020	2019
	(Rupees in thousand)	
12.2 Advance income tax / income tax payable - net		
Opening balance	12,457	40,080
Tax charge for the year:		
Income and expenditure account	(123,330)	(116,963)
Other comprehensive income	21,468	3,258
	(101,862)	(113,705)
Tax paid during the year	96,407	86,082
Closing balance	<u>7,002</u>	<u>12,457</u>

12.3 This includes an amount of Rs. 19,425 thousand (2019: 19,425 thousand) representing 5% bid money paid to Pakistan Railway in 2012 for purchase of land on 99 year lease and Rs 7,798 thousand paid to Sindh Board of Revenue for stamp duty. The Honorable Supreme Court of Pakistan in Suo moto notice restrained the Government of Sindh to transfer the state land. Later the Honorable Supreme Court of Pakistan vide order dated August 07,2019 decided that Sindh Board of Revenue in the first place is the Competent Authority to consider applications for grant of allotment and if such allotment is sought to be bona fide and in accordance with the Law. Private sale of Government land apparently is not permissible in law.

In another case, the Hon'ble Supreme Court of Pakistan vide order dated January 04, 2019 has held that Pakistan Railways cannot lease land owned by center and province for more than five years where land is not required for railways operations . After the decisions of the Honorable Supreme Court of Pakistan, the Commission has requested the Pakistan Railways and Sindh Board of Revenue for refund of bid amount and stamp duty.

	2020	2019
	(Rupees in thousand)	
13 SHORT TERM INVESTMENTS		
Government Treasury Bills (T-Bills)	13.1	2,178,658
Term Deposit Receipts (TDR)	-	873,059
	<u>2,178,658</u>	<u>3,072,857</u>

13.1 This includes T-bills having maturity of one year and carry rate of mark-up ranging from 12.74% to 13.83% (2019: 10.94% to 12.74%) per annum.

	2020	2019
	(Rupees in thousand)	
14 CASH AND BANK BALANCES		
Cash in hand	574	408
Cash at bank - interest bearing accounts	14.1	54,096
	<u>54,669</u>	<u>40,626</u>

14.1 These carry mark-up rate of 6.5% to 10.25% (2019: 10.25% to 10.50%) per annum.

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15 LEASE LIABILITIES

	June 30, 2020	July 01, 2019		
	Un-Discouned Lease Commitments	Discounted Lease Commitments	Un-Discouned Lease Commitments	Discounted Lease Commitments
Lease liabilities presented as on: ----- Rupees in thousands -----				
With in one year	210,318	198,825	127,740	102,263
With in 2-5 years	25,821	24,463	184,818	176,978
	<u>236,139</u>	<u>223,288</u>	<u>312,558</u>	<u>279,241</u>
Less: Charged to Income expenditure				
With in one year	11,493	25,477		
With in 2-5 years	1,358	7,840		
	<u>12,851</u>	<u>33,317</u>		
	<u>223,288</u>	<u>223,288</u>	<u>279,241</u>	<u>279,241</u>

15.1 The Commission has adopted IFRS 16 on the date the standard became effective, July 1, 2019. The Commission adopted the standard using the modified retrospective approach. This means that the cumulative impact of the adoption was recognized in equity as of July 1, 2019 and that comparatives were not restated.

The weighted-average incremental rate applied to lease liabilities recognized on July 1, 2019 was 10% per annum

	2020	2019
16 ACCRUED AND OTHER LIABILITIES		(Rupees in thousand)
Accrued expenses	76,118	61,968
Performance based incentives payables	322,253	367,558
Accounts payable	117,321	11,123
Withholding tax payable	1,707	588
Payable to staff retirement funds	16.1	207,039
Unearned income	16.2	148,025
Levies payable to Competition Commission of Pakistan	436,803	348,389
Other liabilities	<u>16,009</u>	<u>15,511</u>
	<u>1,325,276</u>	<u>1,078,431</u>

16.1 Payable to staff retirement funds

Pension fund	119,776	131,886
Gratuity fund	87,263	26,245
	<u>207,039</u>	<u>158,131</u>

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16.1.1 <i>The amount recognized in the statement of financial position is as follows:</i>	Pension fund		Gratuity fund	
	2020	2019	2020	2019
Present value of defined benefit obligation - note	16.1.2 1,670,562 <u>(1,550,786)</u> 119,776	1,468,553 <u>(1,336,667)</u> 131,886	1,041,968 <u>(954,705)</u> 87,263	904,643 <u>(878,398)</u> 26,245
Fair value of plan assets - note	16.1.6			

16.1.2 Changes in net liability

Opening liability	131,886	445,413	26,245	61,914
Amount charged to profit or loss	46,918	58,125	93,718	93,374
Premeasurements charged in other comprehensive income	72,858	73,761	1,168	(62,528)
Contribution	<u>(131,886)</u>	<u>(445,413)</u>	<u>(33,868)</u>	<u>(66,515)</u>
Closing liability	119,776	131,886	87,263	26,245

16.1.3 The amount charged to Statement of Income and Expenditure and Other Comprehensive Income

Past service cost	-	-	-	-
Current service Cost	34,603	35,938	92,367	90,795
Interest cost on defined benefit obligation	209,554	127,801	126,166	74,213
Interest income on plan assets	<u>(197,239)</u>	<u>(105,614)</u>	<u>(124,815)</u>	<u>(71,634)</u>
	46,918	58,125	93,718	93,374

16.1.4 The amount charged to Other Comprehensive Income

Premasurement (loss) / gain - Experience adjustment (Loss) / gain on plan assets, excluding interest income	(42,534) <u>(30,324)</u> (72,858)	(1,819) <u>9,937</u> 8,118	12,136 <u>(13,304)</u> (1,168)	63,556 <u>(1,028)</u> 62,528
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	Pension fund		Gratuity fund	
	2020	2019	2020	2019
..... Rupees in thousand				
16.1.5 Changes in present value of defined benefit obligation				
Opening balance	1,468,553	1,316,044	904,643	845,988
Current service cost	34,603	35,938	92,367	90,795
Interest cost	209,554	127,801	126,166	74,213
Benefits paid	(84,682)	(76,067)	(69,072)	(42,797)
Amount received from Government of Pakistan	-	1,671	-	-
Actuarial loss / (gain)	42,534	63,166	(12,136)	(63,556)
Closing balance	<u>1,670,562</u>	<u>1,468,553</u>	<u>1,041,968</u>	<u>904,643</u>
16.1.6 Changes in fair value of plan assets				
Opening balance	1,336,667	870,631	878,398	784,074
Interest income on plan assets	197,239	105,614	124,815	71,634
Contributions	131,886	44,5413	33,868	66,515
Benefits paid	(84,682)	(76,067)	(69,072)	(42,797)
Amount received from Government of Pakistan	-	1,671	-	-
Return on plan assets, excluding interest income	(30,324)	(10,595)	(13,304)	(1,028)
Closing balance	<u>1,550,786</u>	<u>1,336,667</u>	<u>954,705</u>	<u>878,398</u>

The expected charge for next year on account of defined benefit pension and gratuity amounts to Rs. 45,471 thousand (2019: 37,703) thousand) and Rs. 95,087 thousand (2019: Rs. 85,798 thousand) respectively.

Actual return on plan assets

162,645 95,019 108,580 70,606



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16.1.7 Break-up of category of assets	Pension fund		Gratuity fund	
	2020	2019	2020	2019
Special Notice Deposit Receipts (SNDR) - National Bank of Pakistan	40,938	-	-	-
Special Savings Certificates	1,498,817	1,304,996	914,905	847,250
Term Deposit Certificates	-	26,741	-	27,821
Bank accounts	6,761	4,930	36,869	3,327
Fair value of plan assets	1,546,516	1,336,667	951,774	878,398

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 commission. The plan exposes the Commission to various actuarial risks; investment risk, salary risk and longevity risk from the pension and gratuity plan.

16.1.8 Principal actuarial assumptions

Actuarial valuation is carried out annually. Latest actuarial valuation was carried out as at 30 June 2020 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:

	2020	2019	2020	2019
Valuation discount rate - per annum	9.25%	10.00%	9.25%	10%
Salary increase rate - per annum	7.25%	9.25%	7.25%	9.25%
Withdrawal rates	Low	Low	Low	Low



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	Pension fund		Gratuity fund	
	2020	Rupees in thousand	2020	Rupees in thousand

Reasonably possible change at reporting date to one of the relevant actuarial assumptions, holding other assumption constant, would have affected the defined benefit obligation by amounts shown below:

	Defined benefit obligation			
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	1,897,384	1,517,598	1,150,871	947,717
Future salary growth (1% movement)	1,761,971	1,622,982	1,157,312	940,827

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.

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

2020 2019 2018 2017 2016

----- Rupees in thousand -----

Present value of the defined benefit obligations	2,712,530	2,373,196	2,162,032	1,673,140	1,415,100
Fair value of plan assets	(2,505,491)	(2,215,065)	(1,654,705)	(1,447,991)	(1,268,673)
Deficit in the plans	207,039	158,131	507,327	225,149	146,427
Experience adjustments on plan liabilities	30,398	(390)	300,630	(17,387)	(15,987)
Return on plan assets, excluding interest income	(43,628)	(11,623)	(80,018)	19,861	(12,775)

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	2020	2019
16.1.11 Projected benefit payments from funds are as follows:		
	Pension	Gratuity
	Rupees in thousand	
Year 1	123,626	83,229
Year 2	134,053	33,611
Year 3	119,364	40,853
Year 4	160,078	99,702
Year 5	114,297	73,104
Year 6 to Year 10	808,817	466,375
Year 11 and above	1,332,276	2,398,674

16.2 Unearned income

This represents advance payments received from customers in accordance with the forms of various statutes/ regulations including under the Companies Act, 2017, Insurance Ordinance, 2002 and NBFC and Notified Entities Regulations, 2008. Unearned income is recognised as revenue when the performance obligation in accordance with the policy as described in note 5.9 is satisfied.

	2020	2019
	(Rupees in thousand)	
17 PAYABLE TO FEDERAL CONSOLIDATED FUND		
Balance at the beginning of the year	1,478	626
Penalties collected during the year	17.1	28,823
Penalties refunded during the year		(1,500)
Penalties deposited to the Fund during the year		(28,616)
Balance at the end of the year	<u><u>185</u></u>	<u><u>1,478</u></u>
17.1 Penalties collected during the year		
Company Law Division	12,150	12,408
Insurance Division	3,125	2,760
Securities Market Division	9,683	1,426
Specialized Companies Division	3,865	210
	<u><u>28,823</u></u>	<u><u>16,804</u></u>

17.2 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 (amendment through SECP Amendment Act, 2016) "any surplus of receipts over the actual expenditure including budgeted expenditures 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 audited results is detailed below:

Accumulated surplus transferred to the Fund	276,943	148,503
Less: Transfer to reserve for loan to employees	-	(100,000)
Less: Amount retained against actual and budgeted capital expenditures	(276,943)	(48,503)
Payable to the Fund	<u><u>-</u></u>	<u><u>-</u></u>

The Commission has transferred Rs. 276 million from the accumulated surplus to asset acquisition reserve.

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	2020	2019
18 PROVISION FOR COMPENSATED ABSENCES	(Rupees in thousand)	

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

Obligation at beginning of the year	170,648	162,025
Expense for the year	23,252	15,198
Encashed during the year	(10,973)	(6,575)
Obligation at end of the year	<u>182,927</u>	<u>170,648</u>

Principal actuarial assumptions

Latest actuarial valuation was carried out as at 30 June 2020 using Projected Unit Credit Method.

Significant actuarial assumptions used are as follows:

Valuation discount rate - per annum	9.25%	10.00%
Salary increase rate - per annum	7.25%	10.00%

19 CONTINGENCIES AND COMMITMENTS

19.1 Contingencies

- (i) Certain companies / individuals filed suits against the Commission in respect of claims aggregating to Rs. 1,868 million (2019: 2,068 million) for damages. Based on legal advise, the Commission is confident of a favorable 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.

19.2 Commitments

Aggregate commitments for contracted capital expenditure at end of the year amounted to Rs. 73 million. (2019: Rs. 463 million).

	2020	2019
20 FEES AND OTHER RECOVERIES	(Rupees in thousand)	
Fees and other recoveries	20.1	2,947,146
less: Competition Commission of Pakistan levy		(88,414)
	<u>2,858,731</u>	<u>2,726,127</u>
20.1 Company Law Division	1,677,591	1,513,097
Insurance Division	388,881	381,253
Securities Market Division	226,191	223,624
Specialized Companies Division	654,483	692,466
	<u>2,947,146</u>	<u>2,810,440</u>

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	2020	2019
	(Rupees in thousand)	
21 INVESTMENT AND OTHER INCOME		
Income from financial assets		
Income on bank deposits	33,186	14,474
Income on investments	385,181	247,421
	418,367	261,895
Income from non financial assets		
Gain on sale of property and equipment	4,871	4,111
Other incomes		
Miscellaneous income	5,764	9,971
	429,003	275,977
22 SALARIES, ALLOWANCES AND OTHER BENEFITS	2020	2019
	(Rupees in thousand)	
Salaries	722,267	683,608
House rent allowance	424,572	406,183
Medical allowance	113,733	100,669
Conveyance allowance	21,208	20,380
Utilities	70,745	67,680
Other allowance	512,463	523,472
Provision for pension	46,918	58,125
Provident fund contribution	63,102	59,940
Provision for gratuity	93,718	93,374
Provision for compensated absences	23,252	15,198
Provision on discount on loans to employees	(34,749)	87,794
	2,057,229	2,116,423
23 OPERATING EXPENSES	2020	2019
	(Rupees in thousand)	
Repair and maintenance	86,765	67,350
Support Staff cost	104,408	91,261
Travelling and conveyance	85,459	68,698
Telephone, postage and courier	27,776	29,959
Utilities	25,082	22,135
Rent and rates	5,875	163,056
Discounting on operating lease liabilities	30,562	-
Printing and stationery	18,038	17,106
Legal and professional charges	15,465	16,808
Fees and subscription	10,621	11,234
Human resource development	6,362	6,648
Insurance	13,524	11,502
Advertisement	4,379	3,938
Entertainment	231	365
Audit fee	23.1	455
Others	32,768	37,884
	467,815	548,399

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23.1 Audit fee

Statutory audit fee	400	345
Out of pocket expenses	100	90
	<u>500</u>	<u>435</u>

24 TAXATION	2020	2019
	(Rupees in thousand)	
Current tax		
- current year	122,453	115,490
- prior years	877	1,473
	<u>123,330</u>	<u>116,963</u>
Deferred tax		
	7,991	(52,049)
	<u>131,321</u>	<u>64,914</u>

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

Surplus of income over expenditure	460,823	221,392
Applicable tax rate	29%	29%
Tax at applicable tax rate	133,639	64,204
Effect of prior years charge	877	1,473
Others including permanent differences	(3,195)	(763)
Tax expense for the year	<u>131,321</u>	<u>64,914</u>

25 TAX STATUS

- (i) The Securities and Exchange Commission of Pakistan [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 AdCIT 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.

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- (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 deciding 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 authority has amended the assessment of the Commission for the Tax Year 2008, thereby, disallowing the excessive tax depreciation of Rs. 24.47 million allegedly claimed by the Commission. 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 2019, 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 reference 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.
- (vi) Through the order framed by the tax authority under section 161 read with section 205 of the ordinance for the tax year 2017, tax demand of Rs. 360,230/- was raised and the SECP has requested the tax authority to adjust the same against tax refundable for prior years.

The management expects favorable outcome of the appeals and therefore no provision against these cases has been recognized on these matters in these financial statements.



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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26 FINANCIAL INSTRUMENTS

	Amortized Cost	Fair value through profit or loss	Fair value through other comprehensive income	Total 2020	Total 2019				
26.1 Financial Instruments by category		Rupees in thousands							
Financial Assets									
Maturity upto one year									
Advances, deposits and prepayments	358,927	-	-	358,927	151,700				
Short term investments	2,178,658	-	-	2,178,658	3,072,857				
Cash and bank balances	54,669	-	-	54,669	40,626				
Maturity after one year									
Long term investments	1,055,398	-	-	1,055,398	-				
Loans and advances	344,703	-	-	344,703	262,873				
	3,992,355	-	-	3,992,355	3,528,056				
Financial Liabilities									
Maturity upto one year									
Accrued and other liabilities	968,504	-	-	968,504	804,549				
Maturity after one year									
Accrued and other liabilities	-	-	-	-	-				
	968,504	-	-	968,504	804,549				

26.1.1 Credit quality of financial assets

The credit quality of financial assets have been assessed below by reference to external credit rating of counterparties determined by the Pakistan Credit Rating Agency Limited (PACRA) and JCR - VIS Credit Rating Company Limited (JCR - VIS). The counterparties for which external credit ratings were not available have been assessed by reference to internal credit ratings determined based on their historical information for any default in meeting obligations.

		2020	2019		
		Rupees in thousands			
Advances, deposits and prepayments					
Counterparties without external credit ratings					
	A-1+	358,927	151,700		
Short term investments					
Counterparties without external credit ratings		A-1+	2,178,658		
Counterparties without external credit ratings		A-1+	873,059		
Cash and bank balances					
Counterparties without external credit ratings		A-1+	54,096		
			40,218		
Loans and advances					
Counterparties without external credit ratings					

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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26.2 Financial Risk Management

The Commission has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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, 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.

26.3 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.

	2020	2019
(i) Exposure to credit risk	(Rupees in thousand)	
Loans and advances	344,703	262,873
Advances, deposits and other receivables	358,927	151,700
Short term investments	2,178,658	3,072,857
Cash at banks	54,096	40,218
	<u>2,936,384</u>	<u>3,527,648</u>

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 Pakistan Investment bonds with banks of aggregate amount of Rs. 3,009,199 thousands (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.

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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26.4 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
2020 (Rupees in thousand)			
Accrued and other liabilities	968,504	968,504	968,504
2019 (Rupees in thousand)			
Accrued and other liabilities	804,549	804,549	804,549

26.5 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.

(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	
	2020	2019
(Rupees in thousand)		
(i) Fixed rate instruments		
Cash at bank	54,096	40,218
Short term investment	2,178,658	3,072,857
	<u>2,232,754</u>	<u>3,113,075</u>

(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 or loss. Therefore, a change in interest rates at the reporting date would not effect profit or loss.

(b) Currency risk management

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.

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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26.6 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.

	June 30, 2020		June 30, 2020	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	Rupees in thousand			
Financial assets not measured at fair value				
Loans and advances	344,703	344,703	262,873	262,873
Advances, deposits and other receivables	358,927	358,927	151,700	151,700
Short-term investments	2,178,658	2,178,658	3,072,857	3,072,857
Cash and bank balances	54,669	54,669	40,626	40,626
	2,936,957	2,936,957	3,528,056	3,528,056
Financial liabilities not measured at fair value				
Accrued and other liabilities	968,504	968,504	804,549	804,549

26.6.1 Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread. For instruments carried at amortized cost, since the majority of the interest bearing investments are variable rate based instruments, there is no difference in carrying amount and the fair value. Further, for fixed rate instruments, since there is no significant difference in market rate and the rate of instrument and therefore most of the fixed rate instruments are short term in nature, fair value significantly approximates to carrying value

26.6.2 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

Transfer between levels of the fair value hierarchy are recognized at the end of the reporting period

June 30, 2020	Level 1	Level 2	Level 3
	Rupees in thousand		
Financial assets measured at fair value			
Short-term investments	-	-	-
June 30, 2019	Level 1	Level 2	Level 3
Financial assets measured at fair value			
Short-term investments	-	-	-

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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26.6.3 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair values, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

Investment in securities- fair value through other comprehensive income

The fair value of fair value through other comprehensive income investments are determined either by reference to their quoted closing repurchase price at the reporting dates or as the present value of future cash flows discounted at market rates of interest for a similar instrument at the reporting dates

24.6.4 Off-setting of financial assets and liabilities

The Commission does not have any legally enforceable right to set off the recognized amounts of financial assets and financial liabilities, therefore the Commission does not off-set any financial assets and financial liabilities

27 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.

28 RELATED PARTY TRANSACTIONS

The Commission deals with several state-controlled entities, directly or indirectly controlled by the Government of Pakistan through its Government authorities, agencies, affiliates and other 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:

Transactions and balances with key management personnel's

(i) Loans

During the year, secured loans advanced to Commissioners were Rs. 12,441 thousand (2019: Nil). No interest is payable on these loans and these loans are repayable in upto 24 months after issue date. At 30 June 2020, outstanding balance against loans advanced to the Commissioners was Rs. 6,824 thousand (2019: Rs. 585 thousand) included in loan and advances.



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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	2020	2019
(ii) Key management personnel compensation	(Rupees in thousand)	

Key management personnel compensation comprised of the following:

Short term employee benefits	128,588	89,101
Post-employment benefit	12,565	8,160

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

	2020	2019
Other related party transactions	(Rupees in thousand)	
Contributions made to employees funds'	165,754	511,928
Contribution to Pakistan Institute of Corporate Governance	100	100
Payment to Federal Board of Revenue against taxes	96,407	86,082

	2020	2019
Balances outstanding at the year end	(Rupees in thousand)	
Due to employees benefit plans	207,039	158,131
Investments in the Pakistan Institute of Capital Markets - at cost	28,000	28,000
Payable to Federal Consolidated Fund	185	1,478
Payable to Competition Commission of Pakistan	436,803	348,389
Short term investments in treasury bills and banks	2,178,658	3,072,857
Long term investment	1,055,398	-

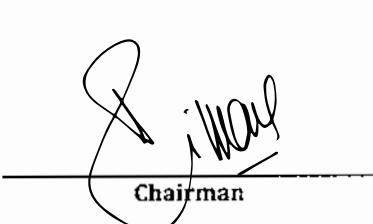
29 RECLASSIFICATION / CORRESPONDING FIGURES

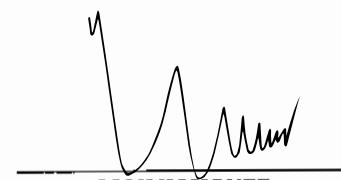
The corresponding figures have been reclassified, wherever considered necessary, for the fair presentation of the financial statements. Following major reclassification have been made during the year.

Description	Reclassified from	Reclassified to	Note	2020	2019
Receivable against the Railway Plot	Advances for capital expenditure	Advances receivable	12.3	27,223	27,223

30 AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue by the Commission on 11 September, 2020.





Abbreviations

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ARNS	Adjudication Recommendation Notes
AAP	Annual Audit Plan
AML	Anti-Money Laundering
AI	Artificial Intelligence
APG	Asia Pacific Group
APRC	Asia Pacific Regional Committee
ADB	Asian Development Bank
AC	Assessment Committee
AMC	Asset Management Companies
ASOs	Authorized Surveying Officers
BMC	Base Minimum Capital
BO	Beneficial Owners
BOI	Board of Investment
BCP	Business continuity plans
BPR	Business Process Re-Engineering
CGT	Capital Gain Tax
CMB	Capital Markets Board
CEIFs	Centers of excellence for Islamic finance
CAREC	Central Asia Regional Economic Cooperation
CDC	Central Depository Company of Pakistan limited
CDS	Central Depository System
CIR	Centralized Insurance Repository
CKO	Centralized KYC Organization
CMC	Collateral Management Companies
CIS	Collective Investment Scheme
CRO	Company Registration Office
CRA	Corporate Rehabilitation Act
CRC	Corporate Restructuring Company
CRAs	Credit Rating Agencies
CRCs	Credit Rating Companies
CRF	Customer Relationship Form
DFM	Deliverable Futures Market
DFID	Department for International Development
DNFBPs	Designated Non-Financial Business and Professions
DR	Disaster Recovery
ESCA	Emirates Securities & Commodities Authority
EOBI	Employees Old Age Benefits Institution
EMMOU	Enhanced Multilateral Memorandum of Understanding
ETFs	Exchange Traded Funds
XBRL	Extensible Business Reporting Language
FATF	Financial Action Task Force
FIP	Financial Inclusion Programme
STA	Financial Institutions (Secured Transactions) Act, 2016

FMU	Financial Management Unit
FMDP	Financial Market Development Program
FMU	Financial Monitoring Unit
NBMFCs	Formal Non-Bank Microfinance Companies
GWP	Gross Written Premium
GEM	Growth and Emerging Markets
GEM	Growth Enterprise Market
HSD	High-Speed Diesel
HFCs	Housing Finance Companies
ISMS	Information Security Management System
IPO	Initial Public Offering
IFMP	Institute of Financial Markets of Pakistan
IACD	Internal Audit and Compliance Department
IAIS	International Association of Insurance Supervisors
ISO	International Organization for Standardization
IOSCO	International Organization of Securities Commissions
IFCs	Investment Finance Companies
IFA	IPO Facilitation Account
IFD	Islamic Finance Department
IFSB	Islamic Financial Services Board
IIRA	Islamic International Rating Agency
LEAP	Leading Efficiency through Automation Prowess'
MES	Margin Eligible Securities
MF	Margin Financing
MTS	Margin Trading System
MDPRD	Market Development, Policy and Regulation Department
MU	Memorandum of Understanding
MI	Microfinance Institutions
MFI	Microfinance Institutions
MMOU	Multilateral Memorandum of Understanding
MSF	Murabaha Share Financing
MER	Mutual Evaluation Report
NAB	National Accountability Bureau
System	National Clearing and Settlement System
NCCPL	National Clearing Company of Pakistan Limited
NCTA	National Counter Terrorism Authority
NFIS	National Financial Inclusion Strategy
NFSC	National Financial Stability Council
NIC	National Incubation Center
NRA	National Risk Assessment
NDM	Negotiated Deals Market
NAV	Net Asset Value
NBFCs	Non-Banking Financial Companies
NPAs	Non-Performing Assets
NE	Notified Entities

PIB	Pakistan Investment Bonds
PMIC	Pakistan Microfinance Investment Company
PMN	Pakistan Microfinance Network
PMD	Pakistan Mobile Database
PMRC	Pakistan Mortgage Refinance Company
PHL	Power Holding Limited
PPDS	Privately placed debt securities
PCM	Professional Clearing Member
REITs	Real Estate Investment Trusts
RMCs	REIT Management Companies
ROSC	Reports on the Observance of Standards and Codes
RT	Review Team
STR	Secured Transactions Registry
SLB	Securities Lending & Borrowing
SDMS	Service Desk Management System
SGF	Settlement Guarantee Fund
SAB	Shariah Advisory Board
SAC	Shariah Advisory Committee
SMEs	Small & Medium Enterprises
SSRC	Small Disputes Resolution Committees
SAFA	South Asian Federation of Accountants
SCRS	Specialized Companies Returns System
SBP	State Bank of Pakistan
SC	Statement of Compliance
TCI	Technical Committee on Insurance
TAT	Turn-around time
UIN	Unique Identification Number
UBL	United Bank Limited
UNCAC	United Nations Convention against Corruption

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 2020.

Aamir Khan, Chairman			
S. No	Name of Fund	Nature of Interest	Number of units As on 30 th June, 2020
1	UBL Fund	URSF - EQUITY SUB FUND(URSF-ESF)	6,814
2	UBL Fund	UBL STOCK ADVANTAGE FUND(USF)	57,704
3	AI-Meezan	MTPF DEBIT SUB FUND	6,807
4	AI-Meezan	MTPF EQUITY SUB FUND	14,900
5	NBP-NAFA	NAFA Stock Fund	106,877

Shaukat Hussain, Commissioner			
Sr. No	Name of Fund	Nature of Interest	Number of Units as on 30 th June, 2020
1	UBL Pension Saving Fund	MMSCF	139627
2	UBL Pension Saving Fund	DSF	11467
3	UBL Al- Ameen	E,ESF	200906
4	Pak Qatar Family Takaful	KHAZANA AF	53
5	Pak Qatar Family Takaful	KHAZANA BF	53

Shauzab Ali, Commissioner			
Sr. No	Name of Fund	Nature of Interest	Number of Units as on 30 th June, 2020
1	UBL Retirement Saving Fund (URSF)	(URSF) - Debt Sub Fund (URSF-DSF)	2,301.1235
2	UBL Retirement Saving Fund (URSF)	UBL – Commodity Sub Fund (URSF-CSF)	1,962.5175
3	UBL Retirement Saving Fund (URSF)	URSF – Equity Sub Fund (URSF-ESF)	3,551.6884
4	UBL Fund	UBL Stock Advantage Fund (USF)	59,691.2530
5	NBP-NAFA	NBP Stock Fund	31,248.8974
6	NBP-NAFA	NBP Islamic Stock Fund	108,097.5905
7	NBP-NAFA	NBP- Pension Fund	8,437.1819

Farrukh Hamid Sabzwari, Commissioner			
S. #	Name of Fund	Nature of Interest	Number of units as of June 30, 2020
1	MCF - AI Meezan Investment Management Ltd.	Growth - C	151,539.6179
2	MIF - AI Meezan Investment Management Ltd.	Growth - B	132,503.6358
3	BMA Chundrigar Road Savings Fund	Investment Account	105,650.0462
4	UBL-AI-Ameen Islamic Fund	Investment Account	76,181,7717

CDC's Individual Investor Account		
5	AGP LIMITED	10,000
6	ADAMJEE INSURANCE COMPANY LIMITED	45,586
7	BANK AL HABIB LIMITED	41,496
8	B.R.R. GUARDIAN MODARABA	610
9	CENTURY PAPER & BOARD MILLS LIMITED	27,600
10	CRESCENT STEEL & ALLIED PRODUCTS LIMITED	2,000
11	DOLMEN CITY REIT	66,500
12	D.G. KHAN CEMENT COMPANY LIMITED	5,000
13	DEWAN SALMAN FIBRE LIMITED - FREEZE	20
14	ENGRO FERTILIZERS LIMITED	57,000
15	ENGRO CORPORATION LIMITED	1,650
16	ENGRO POLYMER & CHEMICALS LIMITED	50,000
17	ENGRO POWERGEN QADIRPUR LIMITED	16,500
18	FAUJI FERTILIZER BIN QASIM LIMITED	50,000
19	FAUJI FERTILIZER COMPANY LIMITED	40,625
20	GATRON (INDUSTRIES) LIMITED	500
21	HABIB BANK LIMITED	10,000
22	HABIB METROPOLITAN BANK LIMITED	52,200
23	THE HUB POWER COMPANY LIMITED	63,500
24	HUM NETWORK LIMITED	50,000
25	ICI PAKISTAN LIMITED	1,000
26	KOT ADDU POWER COMPANY LIMITED	1,500
27	K-ELECTRIC LIMITED	450,000
28	LOTTE CHEMICAL PAKISTAN LIMITED	100,000
29	LALPIR POWER LIMITED	25,000
30	MCB BANK LIMITED	12,025
31	MEEZAN BANK LIMITED	12,100
32	NATIONAL BANK OF PAKISTAN	26,090
33	NISHAT (CHUNIAN) LIMITED	60,000
34	NISHAT CHUNIAN POWER LIMITED	25,000
35	NISHAT MILLS LIMITED	17,000
36	NISHAT POWER LIMITED	25,000
37	OIL & GAS DEVELOPMENT COMPANY LIMITED	25,000
38	ORIX MODARABA	197
39	PAK ELEKTRON LIMITED	29,920

40	FIRST PRUDENTIAL MODARABA	8,729
41	PAKISTAN PETROLEUM LIMITED	39,704
42	PAKISTAN TELECOMMUNICATION COMPANY LTD.	300
43	SONERI BANK LTD.	10,738
44	SUI NORTHERN GAS PIPELINES LIMITED	720
45	SUI SOUTHERN GAS COMPANY LIMITED	5,906
46	UNITED BANK LIMITED	7,500

Sadia Khan, Commissioner		
Sr. No	Name of Fund	Number of Units as on 30 th June, 2020
1	Pakistan Cables*	10,002
2	Siemens Pakistan*	500
3	Habib Bank Ltd*	100
4	Delta Shipping (Pvt) Limited**	1,691
5	Delta Transport (Pvt) Limited**	10,000

* These shares were bought as Qualification shares at the time of being inducted as an Independent director in these companies and will be disposed of over time.

** Family business concerns. Shares were allotted at the time of service with the business concerns

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>

or

Write to us at queries@secp.gov.pk

Complaints: complaints@secp.gov.pk

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Tel: 021-99213271-2 Fax: 021-99213278

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Tel: 041-9230264 Fax: 041-9230263

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Tel: 071-5630517 Fax: 071-5633757

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Tel: 081-2844136 Fax: 081-2899134

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Securities and Exchange
Commission of Pakistan

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