

CAPITAL MARKETS AND CORPORATE SECTOR

Capital markets mobilize domestic savings and channel them efficiently to the most productive investments. They play an important role in economic development as they facilitate growth in the real sector by giving producers of goods and services, and the entities tasked with infrastructure development, access to long-term financing. Developed capital markets are, therefore, essential for economic growth and prosperity.

The increasing integration of global capital markets has made it easier for companies to access global capital. Access to world capital markets expands investors' opportunities for portfolio diversification. For recipient country, access to world capital markets allows countries to borrow to smooth consumption in the face of adverse shocks. However, it has been recognized that the risk of abrupt reversals in capital flows in the context of highly open capital account may represent a significant cost.

Pakistan holds its position in the MSCI¹ Emerging Market (EM). At least three companies must have a market capitalization of \$1.5 billion and \$766 million float market capitalization in order to be classified in an EMs. Pakistan currently has three constituents in MSCI Emerging market: Habib Bank, Oil and Gas Development Company and MCB Bank Ltd. A single deletion from among the three would result into downgrading Pakistan to the Frontier Market Index.

In the first quarter of FY2020, Pakistan and the IMF agreed on a \$6 billion 39-Month Extended Fund Facility (EFF) arrangement for Pakistan to reduce economic vulnerabilities and generate balanced growth. The government took austerity measures and the State Bank of Pakistan (SBP) adopted a double-digit policy rate. The stabilization programme slowed down the growth and investment. The high interest rate attracted foreign investors and capital began flowing in to the Pakistan's debt market. However, COVID-19 pandemic and declining oil prices jolted the capital markets. In the face of uncertainty, foreign investors sought shelter in the safe assets, selling their stocks and cashing in their bonds from emerging markets, including from Pakistan. The government, SBP, and Securities and Exchange Commission of Pakistan (SECP) took a number of measures that restored investor's confidence. These measures will be discussed later in this chapter.

The chapter will be covering performance of the equity market, debt market, commodity futures market, Non-banking Financial companies, corporate sector, Islamic finance and insurance sector in the FY2020. The chapter will also cover the reforms and regulations introduced by the SECP, the apex regulator of the capital markets, to facilitate the capital markets.

¹ Morgan Stanley Capital International

I – Equity Market

Equity Market, usually known as a stock market, is the marketplace where public can invest, buy and sell shares of the companies listed. Equity market gives companies access to capital and investors a slice of ownership in a company with the potential to realize gains based on its future performance. Equity market determines the health of an economy to some extent.

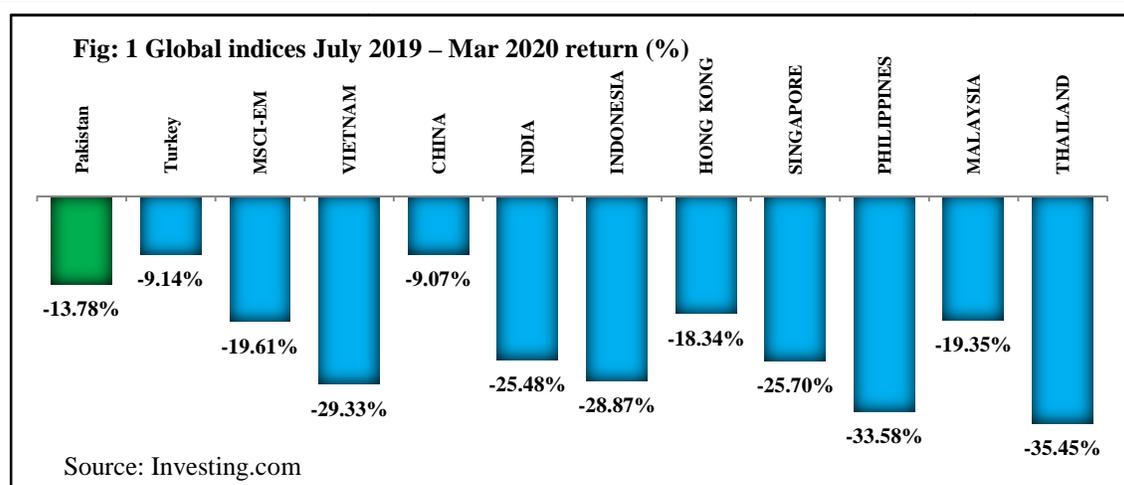
Global equity markets:

During FY2020, on global front, protests in Hong Kong, trade war between United States and China, departure of United Kingdom from European Union, tensions between the United States and Iran, falling oil prices because of a standoff between Saudi Arabia and Russia, and COVID-19 pandemic drove the investors' emotions. Facing uncertainties on multiple fronts, almost all major global indices registered a negative growth in the first nine months of FY2020.

Table 6.1: World Indices (Jul 2019 – Mar 2020)

Country	Index	Index opening on 01.07.19 (points)	Index closing on 31.03.20 (points)	Percent change
Pakistan	KSE 100 Index	33,901.58	29,231.63	-13.78%
Turkey	BIST 100 Index	98,662.85	89,643.71	-9.14%
MSCI-EM	MSCI Emerging Market Index	1,055.71	848.71	-19.61%
Vietnam	VN30 Index	864.24	610.76	-29.33%
China	Shanghai Composite	3,024.62	2,750.30	-9.07%
India	Sensex	39,543.73	29,468.49	-25.48%
Indonesia	JCI Index	6,381.18	4,538.93	-28.87%
Hong Kong	Hang Seng	28,904.04	23,603.48	-18.34%
Singapore	STI Index	3,339.58	2,481.23	-25.70%
Philippines	PSEi Index	8,011.47	5,321.23	-33.58%
Malaysia	KLCI Index	1,674.91	1,350.89	-19.35%
Thailand	SET Index	1,744.13	1,125.86	-35.45%

Source: Investing.com



Pakistan's equity market (Developments during FY2020):

The fiscal year 2019-20 started with the stabilization programme of the IMF. The austerity measures and the SBP's double digit policy rate hurt the investors' confidence in the first

quarter of FY2020. After the initial dip, the KSE-100 index exhibited an upward trend as exchange rate stabilized and the economy was on a path to recovery. The index opened at 33,901.58 points on July 1st, reaching the year's peak of 43,218.67 points on January 13th, 2020. However, as the COVID-19 was engulfing the world, capital began flowing out of the Pakistan's stock market.

Box item-I: Measures taken in the wake of COVID-19

In order to facilitate capital market operations in the wake of COVID-19 pandemic, the SECP introduced a number of measures to address challenges being faced by the capital markets participants. These are as follows:

- (i) To curtail blank selling in the stock market, which aggravated market decline, Blank Sale transactions in Deliverable Futures Market (DFM) were allowed only on Uptick or Zero-Plus Tick for DFM April 2020 contract in 36 securities.
- (ii) The duration of index-based market halts was increased from 45 minutes to 60 minutes to provide cooling-off period to the investors and to give sufficient time to intermediaries to deposit mark to market (MtM) margins, considering prevailing lockdowns across the country.
- (iii) Statutory regulatory orders (SROs) ensured the effectiveness of their Business Continuity Plans (BCPs) to deal with any crisis situation with particular emphasis on remote uninterrupted access to the capital market. The securities brokers were allowed to activate and operate the Disaster Recovery (DR) terminals for trading purposes during normal operations of the PSX.
- (iv) To facilitate securities brokers in meeting any shortfall in deposit requirements against Base Minimum Capital, the SECP provided relaxation to the extent of marking to market of Margin Eligible Securities for a period of 60 days.
- (v) The requirement of performing biometric verification at the time of opening of a new investor account was relaxed due to limited physical mobility and social distancing requirements. The same was allowed to be performed within 90 days of the opening of account.
- (vi) To ease operational difficulties for securities brokers, alternate mode for call order recording was specified to enable compliance while ensuring work from home arrangements.
- (vii) Extension was granted in the timeline for completion of system audit of securities brokers in view of lockdowns across the country limiting physical mobility of auditors and staff of securities brokers

Between February 26th (the date when first COVID-19 case was reported in Pakistan) and March 31st, Pakistan's KSE-100 index benchmark dived 23.75 percent and Rs 1,582.06 billion were wiped out of the market capitalization. Rupee depreciated by 8 percent against a strengthened dollar between Feb 26 and Mar 31, which severely constrained the spending power. However, in late March, government announced a fiscal stimulus package of Rs 1.24 trillion and the State Bank of Pakistan cut the policy rate by 425 basis points to 9 percent to make up for the projected loss. On April 30th, 2020, KSE-100 closed at 34111.64, (up by 16.7 percent since March 31st) and market capitalization closed at Rs 6376.71 billion, gaining Rs 755.77 billion since March 31st. The KSE-100 index exhibited a modest growth of 0.61 percent in the first ten months of the CFY, whereas market capitalization lost Rs 510.58 billion during the Jul-April FY2020 period.

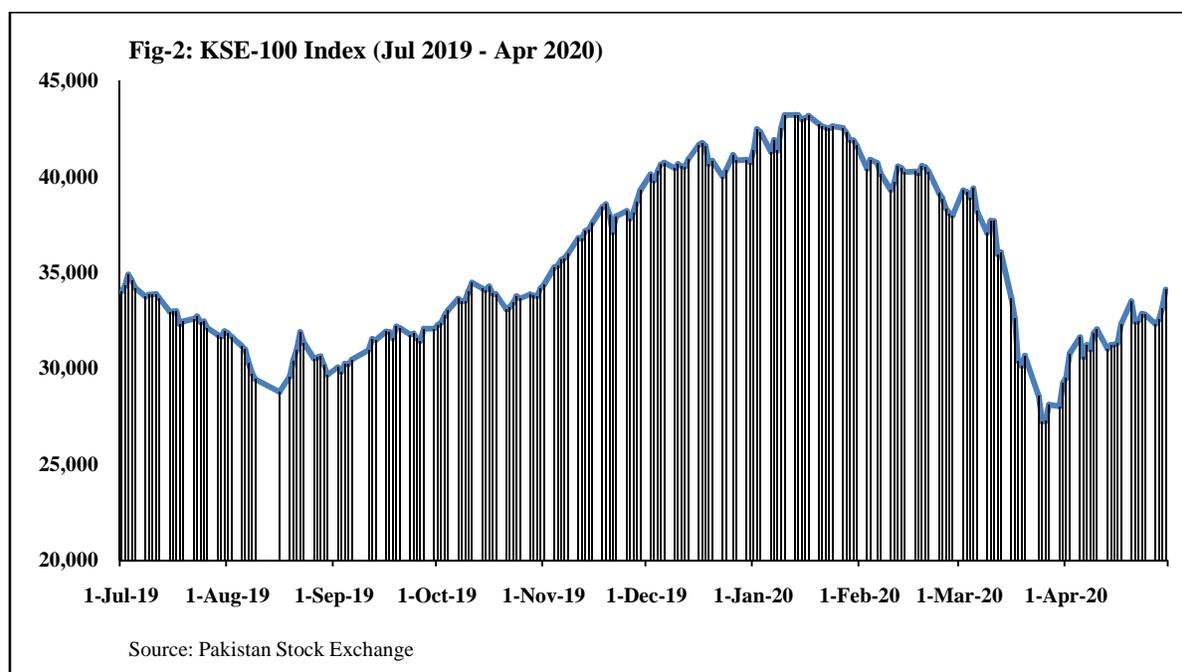
The low turnover in the first quarter of FY2020 and in February indicates Investors were unwilling to put their money at risk by acquiring the shares of a company with low share turnover.

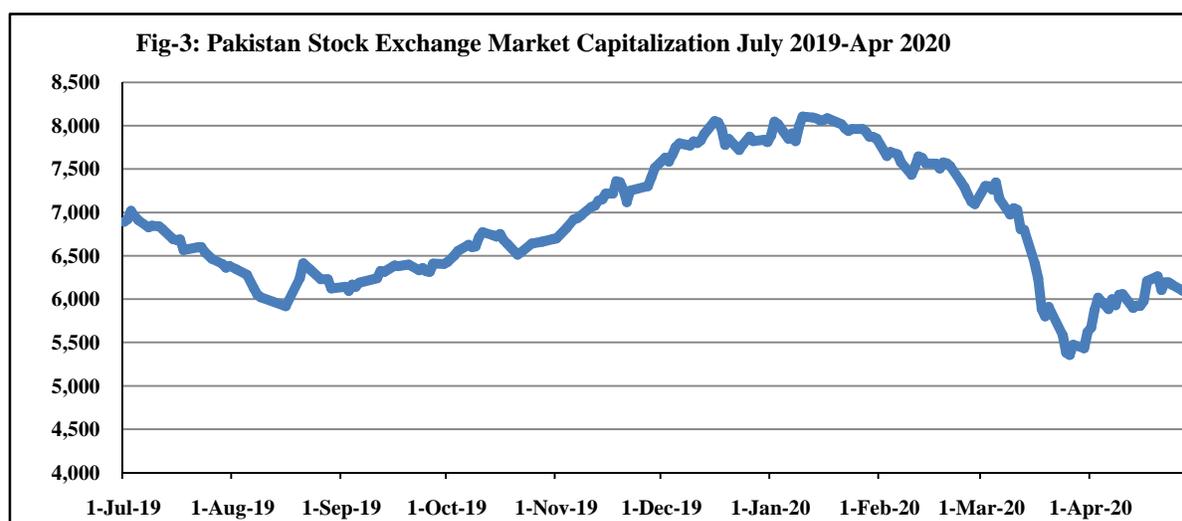
Table 6.2: Month-wise performance of KSE-100 Index

Months	2018 – 2019			Months	2019 – 2020		
	KSE 100 index	Market Capitalization (Rs Billion)	Turnover in shares (Billions)		KSE 100 index	Market Capitalization (Rs Billion)	Turnover in shares (Billions)
Jul-18	42,712.43	8,749.52	3.75	Jul-19	31,938.48	6,384.30	1.76
Aug-18	41,742.24	8,677.98	3.6	Aug-19	29,672.12	6,082.04	2.03
Sep-18	40,998.59	8,402.82	2.49	Sep-19	32,078.85	6,406.55	2.18
Oct-18	41,649.36	8,321.42	5.03	Oct-19	34,203.68	6,690.04	4.37
Nov-18	40,496.03	8,067.33	4.16	Nov-19	39,287.65	7,511.97	6.40
Dec-18	37,066.67	7,692.79	2.71	Dec-19	40,735.08	7,811.81	6.45
Jan-19	40,799.52	8,124.08	3.24	Jan-20	41,630.93	7,851.16	5.68
Feb-19	39,054.60	7,817.67	2.92	Feb-20	37,983.62	7,094.67	2.91
Mar-19	38,649.34	7,868.61	2.53	Mar-20	29,231.63	5,620.94	4.71
Apr-19	36,784.44	7,505.31	3.29	Apr-20	34,111.64	6,376.72	4.60
May-19	35,974.79	7,240.44	2.77	May-20			
Jun-19	33,901.58	6,887.30	2.57	Jun-20			

Source: Pakistan stock exchange (PSX)

Despite the double digit policy rate, the upward trajectory depicted in the Figures 1 & 2 (from mid-October to January) can be attributed to timely release of PSDP funds, stable exchange rate; and improvement in macro indicators (trade balance, foreign direct investment, remittances). The freefall because of COVID-19 outbreak and subsequent recovery is clearly visible in the figures below:





The total funds mobilized between July 2019 and March 2020 in the national stock exchange amounted to Rs 250,020 million, as compared to Rs 22,350 million in the corresponding period last year. The significant difference is due debt amount issued, which is Rs 230,624 million during Jul-Mar FY2020 period as compared to Rs 14,000 million in the same period in FY2019.

Around \$ 130 million worth of securities were offloaded by foreign investors which were absorbed by domestic investors.

Table 6.3: Local investors' portfolio investment (LIPI) during Jul-Mar FY 2020

	GROSS BUY (Million)	GROSS SELL (Million)	NET BUY / (SELL) (Rs Million)	NET BUY / (SELL) (\$ Million)
Individuals	1,172,641.18	-1,149,832.84	22,808.34	144.36
Companies	92,210.62	-91,369.40	841.22	5.87
Banks / DFI	84,189.08	-91,563.65	-7,374.56	-48.03
NBFC	3,560.03	-3,166.66	393.36	2.58
Mutual Funds	116,849.46	-130,417.01	-13,567.55	-85.10
Other Organization	24,150.24	-20,202.79	3,947.45	25.09
Broker Proprietary Trading	364,698.28	-366,001.61	-1,303.32	-8.57
Insurance Companies	61,944.72	-47,340.79	14,603.92	94.0
Lipi Net	1,920,243.65	-1,899,894.78	20,348.87	130.22

Source: Pakistan Stock Exchange

The average daily trading value (T+2)² from July 2019 – March 2020 was Rs 7.13 billion and the average daily turnover was 194.08 million shares. The average daily trading value in futures was Rs 3.4 billion and the trading volume was 87.01 million shares. No new company was listed with the PSX during July-Mar 2019-20, as compared to two companies in the FY2019. It implies that companies didn't want to take a risk by issuing an IPO³ during uncertain economic times.

² T+2 is a shorthand for *trade date plus two days* indicating when securities transactions must be settled.

³ Initial public offering

Pakistan Economic Survey 2019-20

Table 6.4: Profile of Pakistan Stock Exchange

	2015-16	2016-17	2017-18	2018-19	2019-20 (till 31.03.20)
Total No. of Listed Companies	559	560	558	544	530
Total Listed Capital - Rs in Million	1,289,081	1,317,220	1,297,375	1,340,270	1,387,439
Total Market Capitalization - Rs in Million	7,588,472.20	9,522,358	8,665,045	6,887,301	5,620,941
New Companies Listed during the year	4	5	6	2	0
Average Daily Shares Volume – (Shares in Million) (YTD)	221	363	187	164	194
Total Volume traded - (Million) (YTD)	55,430.30	88,599	46,532	39,943	52,843

Source: Pakistan stock exchange

Market Capitalization of each sector at Pakistan Stock Exchange as of 31st March, 2020:

During July-March FY2020, a total of Rs 1,266.36 billion was wiped out from the market capitalization of the PSX. Below is the detail of each sector:

Table 6.5: Market capitalization of each sector:

Sectors	Number of listed companies	Market cap on 01/07/2019 (Rs Million)	Market cap on 03/31/2020 (Rs Million)	Percent Change
Automobile assembler	13	247,717.08	186,203.69	-24.8%
Automobile parts & accessories	09	47,103.45	38,707.71	-17.8%
Cable & electrical goods	07	25,203.75	20,757.59	-17.6%
Cement	22	306,192.39	317,594.18	3.7%
Chemical	27	273,461.23	264,209.75	-3.4%
Close - end mutual fund	06	5,158.51	3,253.83	-36.9%
Commercial banks	20	1,284,983.50	1,013,621.54	-21.1%
Engineering	19	56,935.49	57,344.73	0.7%
Fertilizer	06	440,313.20	417,033.98	-5.3%
Food & personal care products	24	537,140.29	550,206.71	2.4%
Glass & ceramics	11	35,787.19	31,710.45	-11.4%
Insurance	29	136,743.45	127,078.49	-7.1%
Inv. banks / inv. cos. / securities cos.	30	90,597.53	85,656.43	-5.5%
Jute	02	123.30	123.30	0.0%
Leasing companies	30	4,927.25	4,283.22	-13.1%
Leather & tanneries	05	18,281.82	23,614.76	29.2%
Miscellaneous	09	62,375.12	59,833.89	-4.1%
Modarabas	30	12,432.58	11,435.56	-8.0%
Oil & gas exploration companies	04	1,130,640.63	719,825.77	-36.3%
Oil & gas marketing companies	09	194,363.60	141,425.31	-27.2%
Paper & board	10	45,307.66	41,388.57	-8.6%
Pharmaceuticals	12	174,445.35	202,829.98	16.3%
Power generation & distribution	17	304,047.13	230,391.06	-24.2%
Refinery	04	56,227.64	45,001.38	-20.0%
Sugar & allied industries	29	57,022.22	64,451.37	13.0%
Synthetic & rayon	11	35,754.10	42,842.45	19.8%
Technology & communication	12	73,508.90	62,772.74	-14.6%
Textile composite	58	242,099.65	191,154.87	-21.0%
Textile spinning	69	41,875.0	40,515.72	-3.2%
Textile weaving	11	2,466.84	2,648.63	7.4%

Capital Markets and Corporate Sector

Table 6.5: Market capitalization of each sector:

Sectors	Number of listed companies	Market cap on 01/07/2019 (Rs Million)	Market cap on 03/31/2020 (Rs Million)	Percent Change
Tobacco	03	860,224.66	534,128.93	-37.9%
Transport	05	52,916.36	58,203.81	10.0%
Vanaspati & allied industries	06	6,854.94	6,445.37	-6.0%
Woollen	02	1,453.76	1,518.40	4.4%
Real estate investment trust	01	22,615.02	22,726.21	0.5%
Exchange traded funds	02	N/A	0.39	N/A
Total		6,887,300.78	5,620,940.91	-18.4%

Source: Pakistan stock exchange

Performance of selected Blue Chips:

Profit after tax, Earnings per Share (EPS), and Price earning ration (P/E) with necessary details of some of the selected companies are given in the following table:

Table 6.6: Performance of Selected Blue Chips

Symbol	Name	Shares Outstanding (Million)	Price	Market Cap Rs Million	Profit After Tax (Rs Million)	EPS	P/E
PAKT	Pak Tobacco	255.49	1,654.98	422,837.11	12,889.22	50.45	32.81
OGDC	Oil & Gas Dev.	4,300.92	76.99	331,128.47	118,385.78	27.53	2.80
NESTLE	Nestle Pakistan	45.34	6,700.00	303,841.99	7,354.46	162.17	41.31
PPL	Pak Petroleum	2,720.96	71.81	195,392.67	61,632.36	22.65	3.17
MCB	MCB Bank Ltd	1,185.06	149.28	176,905.75	23,976.83	20.23	7.38
ENGRO	Engro Corp	576.16	266.90	153,777.96	14,303.31	24.83	10.75
HBL	Habib Bank	1,466.85	103.23	151,423.18	15,064.18	10.27	10.05
UBL	United Bank	1,224.17	100.81	123,409.55	19,133.77	15.63	6.45
LUCK	Lucky Cement	323.37	370.70	119,875.11	10,490.22	32.44	11.43
MARI	Mari Petroleum	133.40	891.10	118,874.96	24,327.08	182.36	4.89
FFC	Fauji Fert.	1,272.23	93.01	118,330.87	17,110.49	13.45	6.92
COLG	Colgate Palm	57.54	2,049.00	117,911.59	3,510.80	61.01	33.59
PMPK	Philip Morris Pak.	61.58	1,795.11	110,543.48	-1,979.99	-32.15	-55.83
HUBC	Hub Power Co.	1,297.15	68.27	88,556.73	8,036.98	6.20	11.02
MEBL	Meezan Bank	1,286.11	65.09	83,713.0	15,232.07	11.84	5.50
ABL	Allied Bank Ltd	1,145.07	71.12	81,437.65	14,112.91	12.32	5.77
KEL	K-Electric Ltd.	27,615.19	2.83	78,150.99	17,273.61	0.63	4.52
EFERT	Engro Fert.	1,335.29	57.66	76,993.36	14,303.31	10.71	5.38
POL	Pak Oilfields	283.85	262.21	74,429.64	16,871.70	59.44	4.41
SCBPL	St.Chart.Bank	3,871.58	18.84	72,940.66	16,017.44	4.14	4.55

Source: Pakistan stock exchange

Debt markets:

Debt market is the market where debt instruments are traded. It provides an additional avenue to the corporate sector to raise funds. Due to high interest rates and appreciation in

Pakistan Economic Survey 2019-20

Pakistani rupee in terms of US dollar, international investors found Pakistan's debt market an attractive investment. However, after COVID-19 pandemic, money started flowing out of the Pakistan's debt market. The investors took out over \$ 1.7 billion from T-bill investments in the month of March 2020.

During July-March FY2020, no debt instrument was publicly placed while fifteen debt securities were privately placed. Their break-up is given below:

Table 6.7: Debt securities

Sr. No.	Type of Security	No. of Issues	Amount (Rs in billions)
i.	Privately Placed Commercial Papers*	7	37.6
ii.	Privately Placed Term Finance Certificates**	3	19.37
iii.	Privately Placed Sukuk **	5	19.20
	Total	15	76.17

* : by (i) K-Electric Limited (Rs 8.00 billion), (ii) K-Electric Limited (Rs 9.5 billion), (iii) The Hub Power Company Limited (Rs 5.0 billion), (iv) TPL Corporation Limited (Rs 1.1 billion), (v) K-Electric Limited (Rs 4.3 billion), (vi) K-Electric Limited (Rs 4.3 billion) and (vii) K-Electric Limited (Rs 5.4 billion)

** : by (i) Habib Bank Limited (Rs 12.37 billion), (ii) Askari Bank Limited (Rs 6 billion) and (iii) Pakistan Mortgage Refinance Company Limited (Rs 1 billion):

*** : by (i) The Hub Power Company Limited (Rs 4.5 billion), (ii) The Hub Power Company Limited (Rs 7.0 billion); (iii) Pak Elektron Limited (Rs 1.2 billion), (iv) Masood Textile Mills Limited (Rs 2.5 billion) and (v) Meezan Bank Limited (Rs 4 billion);

Source: Securities and Exchange Commission of Pakistan

Outstanding debt issues:

As of March 31, 2020, 106 corporate debt securities were outstanding with an amount of Rs 651.68 billion, comprising following categories:

Table 6.8: Corporate debt securities (outstanding)

Sr. No.	Name of security	No. of issues	Amount outstanding (Rs in billion)
i.	Sukuk	46	484.76
ii.	Privately Placed Term Finance Certificates (PP-TFCs) and listed on OTC	43	116.99
iii.	Listed Term Finance Certificates (L-TFCs)	13	34.71
iv.	Privately Placed Commercial Papers	4	15.22
	Total	106	651.68

Source: Securities and Exchange Commission of Pakistan

National Saving Schemes:

The achievements made by the Central Directorate for National Savings (CDNS) in the first nine months and initiatives in the pipeline are as under:

Achievements of Annual Targets:-

The CDNS, being the foremost institution providing the avenue to general public to park their savings, has been able to not only achieve the targets assigned but also surpassed the targets by a big margin. As of 31.03.2020, the CDNS has achieved 124 percent of the gross and 61 percent of proportionate targets.

The product basket of the National Savings Schemes (NSS) ranges from three months Short-Term Savings Certificates (STSC) to ten years' long term Defense Savings Certificates.

Table 6.9: Product basket of the National Savings Scheme

S.No	Name of Scheme	Rate of Return (per annum)	Maturity Period	Tax Status
1	Defence Savings Certificates	8.54%	10 Years	Taxable
2	Special Savings Certificates/Accounts	8.10% (Average)	3 Years	Taxable
3	Regular Income Certificates	8.28%	5 Years	Taxable
4	Savings Account	7.00%	Running Account	Taxable
5	Pensioners' Benefit Account	10.32%	10 Years	Tax exempt
6	Bahbood Savings Certificates	10.32%	10 Years	Tax exempt
7	Shuhada Family Welfare Account	10.32%	10 Years	Tax exempt
8	National Prize Bonds (Bearer)	10.00%	Perpetual	Taxable
9	Premium Prize Bonds (Registered) *	7.80%	Perpetual	Taxable
10	Short Term Savings Certificates (STSC)			
	STSC 3 Months	7.80%	3 Months	Taxable
	STSC 6 Months	7.50%	6 Months	Taxable
	STSC 12 Months	6.95%	12 Months	Taxable

*Effective from 10.03.2020)

Source: Central Directorate of National Savings

Scheme wise net investment is as under:

Table 6.10: National Savings Schemes (net investment)						(Rs Million)
	Name of Scheme	2015-16	2016-17	2017-18	2018-19	2019-20
1	Defence Savings Certificates	8,053.00	16,620.00	10,743.61	57,171.04	92,892.98
2	National Deposit Scheme	(0.26)	(0.69)	0.05	(0.03)	(0.01)
3	Khaas Deposit Scheme	(2.00)	(51.43)	(0.19)	(0.04)	(0.05)
4	Special Savings Certificates (Registered)	(1,932.80)	(39,344.59)	(51,180.06)	31,842.49	1,125.51
5	Special Savings Certificates (Bearer)	-	(0.75)	(0.55)	-	(0.01)
6	Regular Income Certificates	(16,223.03)	(20,950.65)	8,726.28	142,088.06	71,637.74
7	Bahbood Savings Certificates	63,761.07	57,432.10	45,395.28	119,573.11	77,553.90
8	Pensioners' Benefit Account	20,645.05	18,716.71	21,504.37	43,367.37	31,186.23
9	Savings Accounts	3,807.69	4,684.42	3,412.99	(166.22)	1,327.42
10	Special Savings Accounts	30,924.10	65,246.58	59,939.19	(132,393.53)	36,478.24
11	Mahana Amdani Accounts	(63.01)	(55.20)	(46.70)	(73.84)	(72.67)
12	Prize Bonds	123,901.93	97,791.58	101,575.66	40,432.08	(168,505.04)
13	National Savings Bonds	-	-	-	-	(137.00)
14	Short Term Savings Certificates	157.88	2,077.37	560.55	761.00	5,879.62

Table 6.10: National Savings Schemes (net investment) (Rs Million)

	Name of Scheme	2015-16	2016-17	2017-18	2018-19	2019-20
15	Premium Prize Bonds (Registered)	-	2,921.72	2,323.20	2,819.96	11,542.76
16	Postal Life Insurance	-	2,529.79	875.45	1,248.42	(541.08)
17	Shuhda Welfare Accounts				42.14	26.85
	Grand Total	233,029.61	207,616.95	203,829.13	306,712.00	160,395.40

Source: Central Directorate of National Savings

Initiatives in the Pipeline:

- 1) Sharia product of National Savings
- 2) Overseas Pakistanis Savings Certificates (“OPSCs”)
- 3) Launch of Rs 100,000 Premium Prize Bond (Registered)
- 4) Scripless issuance and introduction of registered prize bonds amongst all denominations of Bearer Bonds
- 5) Debit Card Launch & Membership of 1-Link System
- 6) Automation/Computerization of remaining NSCs

III- Commodity futures market:

Pakistan Mercantile Exchange Limited (PMEX) is the first technology driven, web-based, demutualized multi-commodity futures exchange in Pakistan. The exchange offers a diverse range of international commodities and financial futures, including gold, silver, crude oil, currency pairs, as well as local agricultural products including cotton, wheat, rice and spices.

Performance of PMEX: During the period 1st July 2019 to 31st March 2020, 2.091 million various commodity futures contracts including gold, crude oil, US equity indices and FX pairs worth Rs 1.75 trillion were traded on the PMEX.

IV- Non Banking Finance Companies

Mutual Funds: As of 29th February 2020, assets under management (AUM) of the mutual funds stood at Rs 724.39 billion. Money Market Funds dominated the industry with the largest share i.e. 35.63 percent of the mutual fund industry, followed by equity funds comprising 28.09 percent and income funds having an industry share of 24.38 percent.

Investment Advisory: Twenty-one Non-Bank Finance Companies (NBFCs) have licenses to conduct investment advisory business in addition to asset management services, while out of twenty-one, four NBFCs have an exclusive license for conducting investment advisory services. As of 29th February 2020, the total discretionary/non-discretionary portfolios held by all of the NBFCs were of Rs 230.39 billion Major highlights of the mutual fund industry are stated below:

Table 6.11: Mutual fund industry

Description	Total number of Entities	Total Assets (Rs in billion)
Asset management / Investment advisory companies	23	39.07
Mutual Funds / Plans	305	724.39
Discretionary / non-discretionary portfolio	-	230.40
Total size of the industry	-	993.85

Source: Securities and Exchange Commission of Pakistan

Box item-II : The NBFC Reforms and Developmental Activities

The SECP has taken following initiatives to facilitate growth of the mutual fund industry and to safeguard the investor’s interest:

- Approval granted for the launch of Pakistan’s first two Exchange-Traded Funds (ETFs).
- Detailed guidelines issued for assessing suitability and standard risk categorization of collective investment schemes (CIS) to curb mis-selling of mutual fund products to the investors.
- Equity oriented schemes allowed to lend up to a certain percentage of net assets through Securities Lending and Borrowing (SLB).
- Investments allowed in units of Exchange-Traded Funds by equity-oriented mutual funds.
- Equity-oriented mutual funds allowed to invest in exchange-traded equity future contracts.
- Investment limit for single equity CIS increased to thirty percent from ten percent through amendments to Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018.
- Reduction in regulatory fees (formation, licensing and registration of CIS, Private Funds and REIT Schemes) applicable on NBFCs issued on 31st March 2020.
- Amendments in the NBFC & NE Regulations 2008 and removal of regulatory pricing caps for AMCs.
- Approval of a new category of Credit Guarantee Company as an NBFC that will issue guarantees for infrastructure projects.
- Approval for incorporation of the first NBFC that will solely focus on financing for SMEs.
- Approval granted for formation of the NBFC that will provide invoice discounting facilities to SMEs.
- Exposure limits for micro-financing enhanced: for housing and micro enterprise loan amount increased from Rs 500,000 to Rs 1.5 million, whereas for individual loan amount increased from Rs 200,000 to Rs 500,000.
- In the wake of COVID-19 pandemic, the maximum period of borrowing by mutual funds for redemption purposes has been extended from existing 90 days to 365 days.

Private Equity and Venture Capital Funds Management Services:

As on 29th February 2020 the number of NBFCs licensed by the Commission to undertake the business of private equity and venture capital fund management services stood at four. These NBFCs successfully launched five private equity and venture capital funds, and the combined size of these five private funds stands at Rs 6,779 million.

Voluntary Pension Schemes: The assets under management (AUM) of the voluntary pension industry currently stand at Rs 30.15 billion as of 29th February 2020.

Table 6.12: Voluntary pension schemes

Description	Status as of 29 th February, 2020
Total assets of pension industry (Rs in billion)	30.15
Total number of pension funds	19
Total number of pension fund managers	10

Source: Securities and Exchange Commission of Pakistan

Lending NBFCs: Lending NBFCs includes leasing companies, investment finance companies, housing finance companies, discount houses and non-bank microfinance companies. Highlights of each category are as under:

Table 6.13: List of lending NBFCs

S.No	Lending NBFC	No. of companies	Growth in sector size in the first nine months of FY2020 (%)	Asset size as of 29 th Feb, 2020 (Rs Billion)
1	Leasing Companies	7	3.96	10.55
2	Investment Banks	12	3.52	65.41
3	Non-Bank Microfinance Companies	25	5.68	123.35
4	Real Estate Investment Trusts (REITs):	1 (Dolmen city REIT)	-	49.23
5	Modarabas	38	-	52.5

Source: Securities and Exchange Commission of Pakistan

V- Corporate Sector

Measures for e-Governance

Unified Online Company Registration System: In the first half of FY2019, the SECP completed integration of its 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. Consequently, the SECP's eServices have become a One Stop Shop (OSS) for registration of a company with the SECP, FBR, EOBI, Punjab Employees Social Security Institution (PESSI), Sindh Employees Social Security Institute (SESSI), Excise & Taxation Department and Labor Department of Punjab and Excise, Taxation & Narcotics Control Department and Labor Department of Sindh.

Box item-III

This landmark achievement has been recognized in the World Bank Doing Business Report 2020, improving Pakistan's ranking in "Starting a Business" indicator by 58 points from 130 last year to 72 this year. Moving forward, the SECP plans to extend OSS facility to Khyber Pakhtunkhwa and Baluchistan on the same pattern.

Integration with FMU: The SECP took the initiative by conducting "Pilot" project of linking the SECP's database (CRCS) with the Anti Money Laundering software (goAML). The SECP is the first institution to establish such data connectivity with the FMU.

Company incorporation trend: During first nine months of FY2020, 13,875 new companies were incorporated with the SECP. As compared to the corresponding period of the last financial year, it represents a growth of 27 percent. Around 97 percent companies were incorporated through the online process.

Establishment of Secured Transactions Registry for unincorporated entities: An electronic Secured Transactions Registry (STR) is required to be established under the Financial Institutions (Secured Transactions) Act, 2016 (STA) for registration of security interest over movable assets by unincorporated entities. Federal Government has delegated the functions of the STR to the SECP. The creation of a secured transaction registry will facilitate small borrowers from SME and agriculture sector to secure credit from financial institutions against their movable assets including receivables, intellectual property, inventory, agricultural produce, petroleum or minerals, motor vehicles, etc.

Box item-IV: Regulatory Relief to Corporate Sector to dilute impact of COVID-19 Pandemic:

To facilitate companies and businesses in dealing with the current crisis, the SECP has relaxed the regulatory deadlines under Companies Act. These measures include:

- i. A general extension of 30 days has been granted to companies, having FY ended on December 31, 2019, for holding their Annual General Meeting and laying of financial statements before members for approval.
- ii. Companies have been directed to modify their usual planning for General Meetings and consider provision of video link facilities, webinar or other electronic means.
- iii. Companies can circulate notices of general meetings and annual reports to members, by post or electronically.
- iv. Extension of 30 days has been granted to all companies in filing of statutory returns due on or after March 24, 2020 without any additional fee or penal action.
- v. Extension of 30 days has been granted to all companies in filing of first quarterly accounts for the quarter ended on March 31, 2020.
- vi. In order to hold meetings of the BODs, companies have been advised to prioritize public safety, while ensuring corporate compliance, and all underlying circumstances shall be given due consideration by the SECP while enforcing regulatory compliance.
- vii. Companies are encouraged to make a necessary arrangement for the use of technology and related applications in order to enable them to work from home to meet the regulatory compliance.
- viii. Companies have been advised to direct their CSR activities towards prevention, detection and cure of COVID-19 and ensure effective contingency planning and business continuity, while mitigating health risk to employees, customers and communities.
- ix. All companies have been allowed relief from the requirements contained in IFRS 9 (IAS 39, IFRS for SMEs and AFRS for SSEs) which require recording of fair value adjustments of equity instruments held as FVPL (Fair Value through Profit or Loss) in the Statement of Profit or Loss, from March 31, 2020 till June 30, 2020.

Box item-V: Rules and Regulations:

(1) Corporate Rehabilitation Regulations, 2019

The SECP notified the Corporate Rehabilitation Regulations, 2019 in terms of section 41 of the Corporate Rehabilitation Act, 2018 (CRA). The CRA provides a framework for rehabilitation and re-organization of distressed corporate entities and their businesses.

(2) Corporate Restructuring Companies Rules, 2019

Corporate Restructuring Companies Rules, 2019 is notified to provide licensing procedure for corporate restructuring companies in terms of section 15 of the Corporate Restructuring Companies Act, 2016.

(3) Draft Financial Institutions (Secured Transactions) Rules, 2019

To give effect to the Secured Transaction Registry required to be established under the Financial Institutions (Secured Transactions) Act, 2016, draft Financial Institutions (Secured Transactions Registry) Rules, 2019 have been submitted for approval of the Federal Government.

(4) Panel of Provisional Managers and Official Liquidators Regulations, 2019

The regulations came into force vide SRO 1352(I)/2019 dated November 11, 2019, and provide eligibility criteria for inclusion in the panel of provisional managers and official liquidators.

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

The SECP amended the listed Companies (Buy Back of Shares) Regulations, 2019. Pursuant to the amendments, listed companies can buy-back their own shares after expiry of the six months from the last issue

of further share.

(6) Amendments to the Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018

The SECP amended the Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018 and the transition period has been increased from one year to 3 years, so that investments by the provident funds or other contributory funds, which are beyond the investment limits specified in these regulations are reduced gradually and brought in conformity with parameters of these regulations.

(7) Listed Companies (Code of Corporate Governance) Regulations, 2019

To facilitate businesses, the SECP revamped the corporate governance regulatory regime with a shift from, “Mandatory” to “Comply or Explain” approach.

(8) Companies (Further Issue of Shares) Regulations, 2020

The SECP has revamped the Companies (Further issue of Shares) Regulations, 2018 and the Companies (Further Issue of Shares) Regulations, 2020 have been notified. The revised framework is more focused and certain conditions that were creating an extra burden on the issuers have been removed, such as

- (i) Restricting more than one right issues in six months;
- (ii) Statement by the Board regarding compliance of all requirements;
- (iii) Requirement of declaration by the board of directors;
- (iv) Requirement for preparation of the financial projections; and
- (v) Conditions for issuance of ESOS have been simplified

(9) Amendments to fourth and fifth schedules of the Companies Act, 2017

The SECP on July 29, 2019 notified certain amendments in fourth and fifth schedules of the Companies Act, 2017. The amendments were aimed to reduce the excessive disclosure burden and to remove impediments in compliance with laws by the corporate sector.)

VI- Islamic Finance Industry

From July 2019 to March 2020, one company obtained the certificate of Shariah compliance under Shariah Governance Regulations, 2018 and also a Shariah compliance certificate for issuance of listed sukuk has been issued to the company. Moreover, a total of Nine Shariah Advisors have been registered with the SECP, including two private limited companies for providing Shariah advisory services.

Shariah Advisory Committee: The SECP constituted Shariah Advisory Committee (SAC), under section 11A of the Securities and Exchange Commission of Pakistan Act, 1997. The committee has taken over the mandate of Shariah Advisory Board constituted in 2015.

Shariah compliant ETF: The Shariah Advisory Committee of the SECP has approved the Shariah Compliant Exchange Traded Fund (ETF) product subject to certain conditions.

PMEX commodity Murabaha: The Shariah Advisory Committee has reviewed and approved the PMEX commodity Murabaha transactions at the PMEX platform with an underlying high speed diesel (HSD) commodity subject to the compliance of Shariah principles and observance of law of the land and fulfillment of certain conditions.

VII- Insurance Sector

The insurance sector in Pakistan comprises of nine life insurers (including two family

takaful operators), forty non-life insurers (including three general takaful operators), and one state- owned national reinsurer. Major achievements in the insurance sector from July 2019 to March 2020 are as follows:

Regulatory Sandbox Guidelines, 2019: To promote innovation in financial sector and encourage startups, the SECP has issued the Regulatory Sandbox Guidelines, 2019. This is Pakistan's first regulatory sandbox in the financial services industry. The guidelines are aimed at reducing regulatory obligations.

Centralized Insurance Repository for Life Insurers: In order to ensure collaboration between life insurance industry and Central Depository Company (CDC), the Centralized Insurance Repository has been launched, enabling holding of details of life insurance/ family takaful policies issued by the insurers in dematerialized form.

Guidelines on Cyber-security Framework for Insurance Sector, 2020: The SECP has issued Guidelines on Cyber-security Framework for Insurance Sector, 2020 which stipulates various risk management measures to ensure safe and robust information technology systems of insurance companies, data protection and confidentiality of private data to maintain the confidence of policyholders in the insurance sector.

General Takaful Accounting Regulations, 2019: The SECP notified the General Takaful Accounting Regulations, 2019 through S.R.O. 1416(I)/2019 dated 20th November, 2019. The regulations provide the principles based on which accounting and reporting of general takaful business of general takaful operators and window general takaful operators shall be made.

Financial Reporting Requirement for Family Window Takaful Operations: The SECP has introduced financial reporting requirements for life insurance companies carrying on window takaful operations under the Takaful Rules, 2012 through Circular no. 15 of 2019 dated 18th November, 2019. The requirements are aimed at increasing transparency and clarity regarding the takaful operation of the family takaful operators.

Ease of doing business (EODB) – Policy Advocacy with Revenue Authorities for Exemption of Sales Tax from Health and Life Insurance: The SECP has taken up the issue of imposition of sales tax on life and health insurance with the provincial revenue authorities with the aim to create conducive and business friendly environment for the insurance industry in Pakistan.

Reduction in Cost of Doing Business: With an aim to improve ease of doing business and to facilitate the insurance industry, the SECP reduced the fees applicable on insurance companies and insurance brokers vide S.R.O 1226(I)/ 2019 dated 15th October, 2019.

Implementation of Motor Third Party Liability Insurance Scheme to Compensate the Victims of Road Accidents: Motor Third Party Liability insurance offers insurance protection against death and bodily injury to the victims of the road traffic accidents or their legal heirs. The law provides compensatory remedy for all such accident victims as provisions contained in the saved Chapter VIII of the Motor Vehicles Act, 1939 make it compulsory for all the motor vehicles owners to have the motor third party liability insurance cover. The Insurance Division had put forward a proposal to amend the Motor

Vehicles Act, 1939 for smooth implementation of the Motor Third Party Liability Insurance Scheme to compensate the road accident victims. The proposed amendments are under process and will be effective soon.

EODB – Simplification of Life Insurance Product Submission Regime Applicable on Life Insurance Companies. With the aim of bringing efficiencies in the processing of life insurance product submission, the SECP has notified simplified submission requirements for standardized products of the life insurers vide S.R.O 234(I)/2020.

VII - Capital Market Reforms and Developmental Activities

1. Introduction of Circuit Breaker and Market Halts

The SECP has implemented phased expansion of applicable circuit breakers on individual scrips from existing 5 percent to 7.5 percent for improving price discovery and enabling easy exit from the market for the investors. Further, the SECP has introduced market halts in the stock market whereby movement of 5 percent in KSE-30 index either way would trigger temporary suspension of trading at stock exchange to prevent irrational price fluctuations and to give the market a cooling-off period and provide facility to brokers to deposit their margins.

2. Introduction of Standardized Scale of Brokerage Commission

A minimum brokerage commission of 3 paisa/share or 0.15 percent of traded value, whichever is higher, has been made effective along with a maximum allowable commission rate of 2.5 percent of traded value. Implementation of commission scale by the SECP is aimed at ensuring quality of brokerage services provided by securities brokers.

3. Launch of Exchange-Traded Funds (ETFs)

The ETF regulations aim to provide maximum facilitation to fund managers and market makers through streamlined regulatory requirements based on international benchmarks. After the introduction of requisite governing structure, the PSX successfully launched 2 ETFs on 24th March 2020, thus providing a new, low cost and well-diversified investment avenue for the investors.

4. Launch of Murabaha Share Financing

In order to promote Shariah compliant financing and encourage liquidity in the capital market, the SECP approved regulatory framework for Murabaha Share Financing (MSF) which will pave the way towards realizing the untapped potential of Shariah compliant segment. The MFS regulatory framework will enable National Clearing Company of Pakistan Limited (NCCPL) to launch platform which will cater to the needs of investors willing to avail Shariah compliant modes to finance their transactions.

5. Introduction of New Brokerage Regime

In order to enhance security of investor assets with the securities brokers, regulatory framework for a new broker regime has been introduced involving categorization of securities brokers according to their financial resources and governance standards. Under the revised regime, only securities brokers having requisite net worth, corporate governance & compliance standards and rating requirements shall retain custody of investor assets. Moreover, small sized brokerage houses shall retain limited custody of assets and

accordingly would be subjected to reduced regulatory requirements.

6. Revamping Margin Financing (MF) Product

The SECP approved amendments in the NCCPL Regulations to remove practical difficulties and introduce reforms in margin financing system. The brokers were allowed, where they may extend financing to their customers by executing bilateral financing agreements with banks, to pledge 75 percent margin financed securities by broker extending financing from their own resources in favor of the NCCPL to meet margin requirement against exposure in ready market subject to fulfillment of additional conditions of net worth, credit rating and statutory auditors. The additional conditions include net worth of more than Rs 250 million, minimum credit rating i.e. long term (A-) or short term (A2) rating and having statutory auditor of Category 'A' from the SBP Panel of Auditors.

7. Rationalization of Fee Structure of Frontline Regulators

The SECP has reduced market costs and rationalized fee structures of the Pakistan Stock Exchange (PSX), Central Depository Company (CDC) and the NCCPL for maximum facilitation of the market participants.

8. Safeguarding Investors' Interests

The SECP made necessary regulatory amendments in the PSX regulations to streamline claim verification process in case of defaulted brokers, by including mandatory requirement to engage independent expert and completion of process within prescribed time. Further, regulations governing customer compensation fund have been amended to rationalize disbursement limits for enhancing investor protection. The SECP has also withdrawn discretionary trading option of Pakistan Mercantile Exchange Limited (PMEX) brokers in order to safeguard investors' interests.

9. Wider Investor Outreach and Investor Facilitation

In order to enhance investor outreach, the SECP has implemented a framework to enable online account opening. Further, to increase the retail base, a simplified account opening process has been introduced for low risk investors whereby maximum limit of Sahulat Account has been enhanced from Rs 500,000 to Rs 800,000. Practical issues of market participants in meeting Know Your Customer (KYC) requirements relating to the launch of Centralized Know Your Customer Organization (CKO) have also been addressed through requisite amendments in the regulations.

Further, a simplified non-trading Investor Account has been introduced for sales/income tax refund bonds, IPO facilitation account and mandatory induction of private/public unlisted company shares in the CDS.

10. Measures to improve liquidity

In order to enhance trading capacity of market participants and improve liquidity, the SECP has approved amendments in the NCCPL Regulations for discontinuing 10 percent additional margins being collected from brokers and 10 percent additional haircuts being applied by the NCCPL on margin eligible securities. Furthermore, slabs of liquidity margins have been revised which would now be applicable only on large exposures of brokers. In addition, the security deposit requirements have been reduced and the pool of eligible collateral against margin requirements has also been increased.

11. Deliverable Futures Market (DFM) segment

Various measures were taken to enhance activity in the DFM segment such as permitting release of 50 percent MtM profit in Deliverable Futures Contract (DFC) market on T+1 basis and inclusion of closeout mechanism for managing risk. Further, the PSX Regulations were approved for Blank Selling in DFM to address practical difficulties being faced by the market participants.

12. Ease of doing business

Following measures have been taken to enhance ease of doing business: -

- Reporting mechanism in the Deliverable Futures segment has been improved to resolve practical issues of market participants.
- Simplification in the listing requirements and reduced documentation
- Inclusion of more financial institutions as clearing members in the NCCPL
- Increase in the pool of eligible collateral for risk management by the NCCPL
- Improved disclosure requirements specially for related party transactions
- Removal of requirement to place quarterly financial statements on website by brokers
- Requirement to submit specific pledge authority to the bank in the case of each pledge transaction has been relaxed upon request of market participants and replaced with one-time pledge authorization and submission of declaration by the broker to the respective pledge on a fortnightly basis.
- Requirements for opening of branches by securities brokers have been rationalized.

13. Development of primary capital market

Following measures have been taken for development of primary capital market

- Introduction of Growth Enterprise Market at the PSX for facilitating companies that do not meet the prescribed criteria for regular listing at the PSX but are aspiring to raise funds through capital markets.
- Amendment in the Public Offering Regulations, 2017 to simplify the process and promote capital formation.
- Implementation of the second phase of Centralized e-IPO system whereby the TREC holders/ Brokers would be allowed to submit application on the behalf of their clients in an IPO.
- Notification of Rating and Investment Information Inc., Japan, as an internationally recognized foreign credit rating institution, under regulation 4(g) of 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.
- For bringing ease in doing business, following steps have been taken:
 - Processing timelines have been improved and the 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.

- Abolishing the requirement of Information Memorandum in case of listing of privately placed debt security with instrument rating of A and above and for debt backed by debt servicing guarantee from GOP;
- Additionally, no credit rating shall be required for debt listing backed by debt servicing guarantee from GOP.
- Relaxing the requirement of audited accounts to be included in the prospectus from older than 6-months to 8-months.

Conclusion:

During FY2020, the capital markets witnessed wide fluctuations. In the stock market, the KSE-100 index reached the year's highest point in January, plunged in February and March, but surged again in April. The debt market witnessed an outflow after the COVID-19 pandemic hit the world. Globally, the demand is slowing down and the world economy is entering recession. Pakistan's stock market has so far shown resilience to global shocks.

Stability on the macroeconomic front is crucial for capital markets. An environment of low and stable inflation, moderate external borrowing needs, and sustainable fiscal management all contribute to lowering the cost of capital market finance. These factors also facilitate steady growth and reduce uncertainty, which encourages investment and demand for external finance.

The government is gradually easing the lockdown to invigorate the economy. However, much will depend on the epidemiological data. If the cases of COVID-19 rise exponentially, capital markets may face a challenging time.
