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## Chapter 6

# Capital Markets and Corporate Sector

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Capital market is an organized market where both individuals and business entities can trade various financial instruments such as bonds, stocks, government securities etc. Capital market is a key source of funds for an entity whose securities are permitted by a corporate regulatory authority to be traded, since it can readily sell its debt obligations and equity to investors. Capital market offers a variety of financial instruments that enable economic agents to pool, price and exchange risk. Through assets with attractive yields, liquidity and risk characteristics, it encourages savings in the financial form.

A well-developed capital market creates a sustainable low-cost distribution mechanism for multiple financial products and services which enhance efficient financial intermediation. It increases mobilization of savings and, therefore, improves efficiency, volume of investments and economic development. Capital market can create greater financial inclusion by introducing new products and services tailored to suit investors' preferences for risk and return as well as borrowers' project needs and risk appetite.

Considering its role in the economy, the capital market has an important place, through its specific mechanisms, succeeding to give its contribution to the economic development of the country. In consequence, the government must notice the importance of the capital market in the national economy and to make efforts for ensuring the necessary framework for the normal functioning of its specific mechanisms.

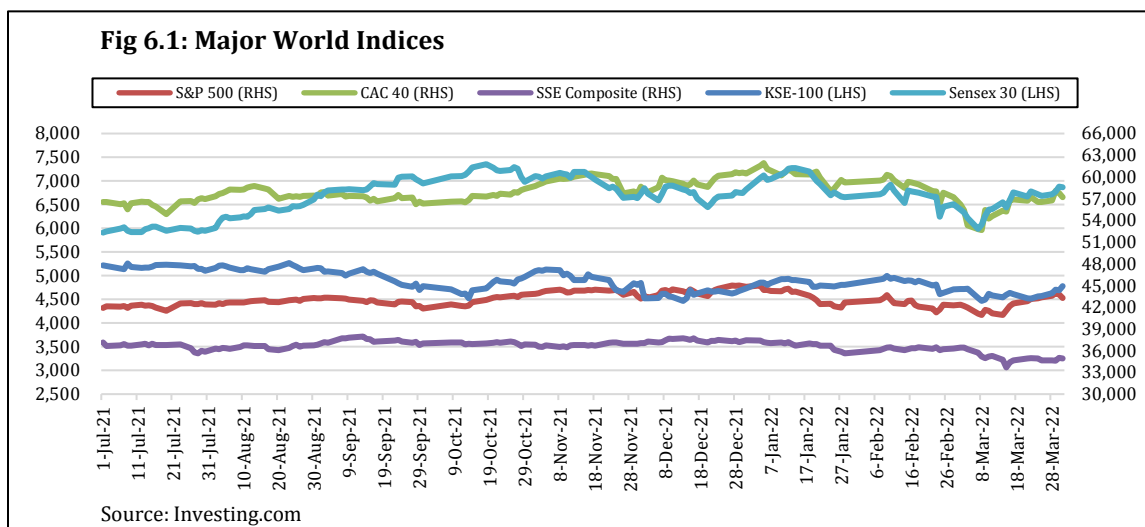
The chapter will cover the performance of the equity market, debt market, commodity futures market, non-banking financial companies, corporate sector, Islamic finance and insurance sector for FY2022. The chapter will also be covering the capital markets reforms and development activities introduced by the Securities and Exchange Commission of Pakistan (SECP), the apex regulator of the capital markets in Pakistan.

### **I – Equity Market**

An equity market, also known as a stock market, is a market in which shares of listed companies are issued and traded. The shares that are traded in an equity market are either over the counter or at stock exchanges. Equity market mobilizes financial resources and connecting savers and investors. It also plays a key role in linking real and monetary sectors of the economy.

## Global Equity Markets<sup>1</sup>

The performance of major world equity indices during the first nine months of current fiscal year is depicted in Figure 6.1. As shown in the Figure, all indices started with the positive growth but faced short-run fluctuations during the current fiscal year. The dip has been observed in February and March 2022 due to the geo-political tension, especially war between Russia and Ukraine which plummeted the global indices.



Major Asian stock market indices presented a mix picture during the first nine month of FY2022 (Fig-6.2 & Table 6.1). Jakarta Composite Index has seen the highest growth of 18.1 percent, while Hong Kong's Hang Seng Index declined by 23.7 percent, revealing the highest decline during the period July 2021 to March 2022.

**Table 6.1: Major Asian Stock Market Indices (July-March FY2022)**

Country	Index	Index On 30.06.2021	Index On 31.03.2022	% Change
Pakistan	KSE 100 Index	47,356.02	44,928.83	-5.13
MSCI-EM	MSCI Emerging Market Index	1,374.64	1,141.79	-16.94
China	Shanghai Composite	3,591.20	3,252.66	-9.43
Vietnam	VN30 Index	1,529.00	1,508.53	-1.34
India	BSE Sensex 30	52,482.71	58,568.51	11.60
Indonesia	Jakarta Composite Index	5,985.49	7,071.44	18.14
Hong Kong	Hang Seng	28,827.95	21,996.85	-23.70
Singapore	Straits Times Singapore	3,130.46	3,408.52	8.88
Malaysia	Kuala Lumpur Composite Index	1,532.63	1,587.36	3.57
Philippines	PSEi Composite	6,901.91	7,203.47	4.37
Thailand	SET Index	1,587.79	1,695.24	6.77

Source: Investing.com

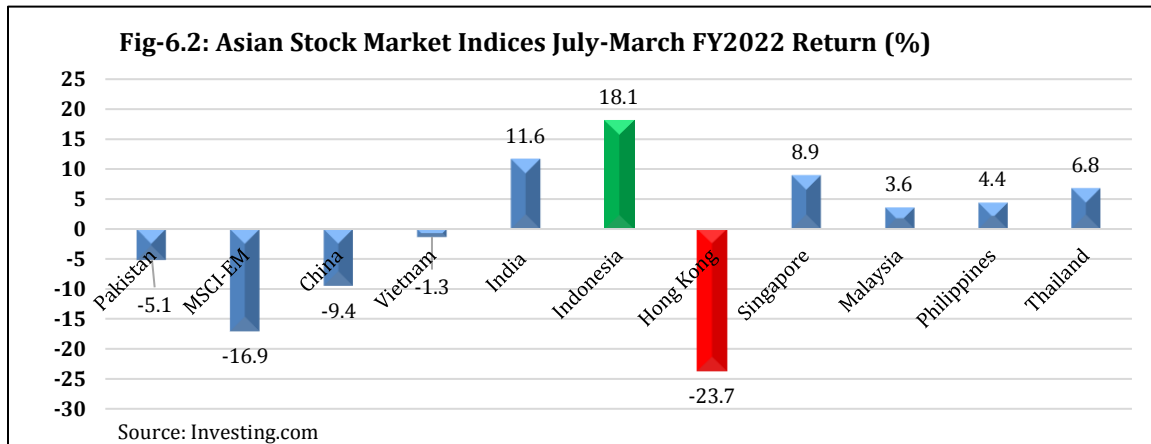
<sup>1</sup> S&P 500 is a stock market index tracking the performance of 500 large companies listed on stock exchange in the US

SSE composite index is a stock market index of all stocks that are traded at the Shanghai Stock Exchange.

Sensex 30 is a free-float market-weighted stock market index of 30 well established companies on the Bombay Stock Exchange

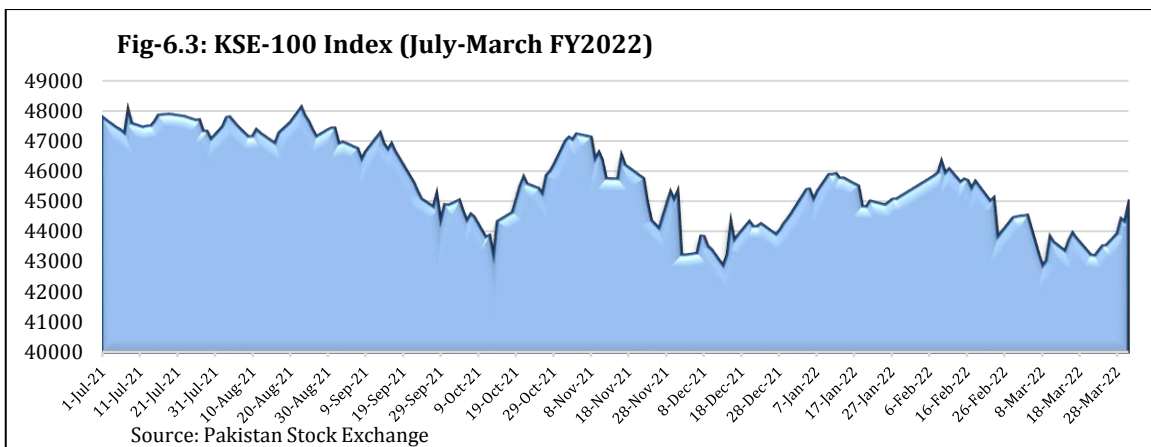
The CAC 40 is a benchmark French stock market index, represents a capitalization-weighted measure of the 40 most significant stocks among the 100 largest market caps on the Euronext Paris

The KSE-100 index is a stock index acting as a benchmark to compare prices on the Pakistan Stock Exchange over a period.



### Pakistan’s Equity Market (Developments during FY2022)

Pakistan’s stock market’s performance has posted a boom-and-bust situation during FY2022 due to geo-political tension especially Russian Ukraine conflict and domestic political uncertainty. During July 2021 to March 2022, the benchmark KSE-100 index declined from 47,356 points to 44,929 points (Fig-6.3). During this period, the index closed at its highest point of 48,112 points on August 23, 2021. As of March 31, 2022, number of listed companies stood at 532, with total market capitalization of Rs 7,583 billion (Table 6.3).



The turnover in shares reached its peak in September 2021, indicating that investors were actively investing in the market. However, the market activity slowed down in February and March 2022 due to the geo-political and domestic political uncertainty.

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

Months	2020 - 2021			Months	2021 - 2022		
	KSE 100 index	Market Capitalization (Rs billion)	Turnover in shares (billions)		KSE 100 index	Market Capitalization (Rs billion)	Turnover in shares (billions)
Jul-20	39,258.44	7,294.27	3.68	Jul-21	47,055.29	8,242.71	8.75
Aug-20	39,868.55	7,418.38	3.94	Aug-21	47,419.74	8,290.43	7.29
Sep-20	40,571.48	7,643.09	4.73	Sep-21	44,899.60	7,804.49	9.12
Oct-20	39,888.00	7,399.62	5.41	Oct-21	46,184.71	7,953.39	5.51
Nov-20	40,807.09	7,519.25	3.97	Nov-21	45,072.38	7,553.51	6.95

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

Months	2020 - 2021			Months	2021 - 2022		
	KSE 100 index	Market Capitalization (Rs billion)	Turnover in shares (billions)		KSE 100 index	Market Capitalization (Rs billion)	Turnover in shares (billions)
<b>Dec-20</b>	43,755.38	8,035.36	5.78	<b>Dec-21</b>	44,596.07	7,684.64	5.43
<b>Jan-21</b>	46,385.54	8,398.45	8.40	<b>Jan-22</b>	45,374.68	7,755.93	5.56
<b>Feb-21</b>	45,865.02	8,207.14	4.79	<b>Feb-22</b>	44,461.01	7,612.65	4.54
<b>Mar-21</b>	44,587.85	7,892.19	4.43	<b>Mar-22</b>	44,928.83	7,582.98	4.54
<b>Apr-21</b>	44,262.35	7,718.74	7.79				
<b>May-21</b>	47,896.34	8,267.65	11.61				
<b>Jun-21</b>	47,356.02	8,297.31	20.09				

Source: Pakistan Stock Exchange

The major development of this year in the equity market is the issuance of Initial Public Offerings (IPOs). During July-March FY2022, five companies issued shares through IPOs on the main board of Pakistan Stock Exchange (PSX), while two companies were listed on the newly introduced Growth Enterprise Market (GEM) Board. Their detail is given in Box-I.

**Box-I: Initial Public Offerings in FY2022****Main Board**

In FY2022, the first IPO was the Citi Pharma limited, manufacturer of pharmaceuticals, medical chemicals and botanical products. The company was listed on 09<sup>th</sup> July, 2021 and raised funds of Rs 2,326.1 million.

The second IPO was the Pakistan Aluminium Beverages Cans Limited. The principal activity of the Company is manufacturing and sale of aluminium cans. The company was listed on 16<sup>th</sup> July, 2021 and raised funds of Rs 4,600.5 million.

The third IPO was Airlink Communications Limited. The company imports, exports IT related products and services. The company listed on 22<sup>nd</sup> September, 2021, raised fund of Rs 6,435 million.

The fourth IPO was Octopus Digital Limited, listed on 05<sup>th</sup> October, 2021 and raised funds of Rs 1,110 million.

The fifth IPO during FY2022 was the Adamjee Life Assurance Company Limited, listed on 4<sup>th</sup> March 2022 and successfully raised Rs 700 million.

**GEM Board**

The first IPO on GEM board was Pak Agro Packaging Limited engaging in the manufacturing of agricultural textile products. The company listed on 26<sup>th</sup> November, 2021 and raised Rs 198 million.

The second IPO on GEM board was Universal Network Systems Limited with the principal activity of domestic and international courier and allied services. The company listed on 06<sup>th</sup> December, 2021 and raised Rs 445.7 million.

Source: SECP

The total number of companies listed in PSX till March 2022 stood at 532. Total listed capital with PSX increased from Rs 1,442.64 billion in FY2021 to Rs 1,502.13 billion during the first nine months of current fiscal year. Five new companies were listed with the PSX during July-March 2022 as compared to five companies in the fiscal year 2020-21. The profile of PSX from 2018 to March 2022 is reported in table 6.3.

**Table 6.3 Profile of Pakistan Stock Exchange**

	2018	2019	2020	2021	2022 (Till 31 <sup>st</sup> March 2022)
Total No. of Listed Companies	546	534	531	532	532
Total Listed Capital - Rs in billion	1,322.74	1,386.59	1,421.09	1,442.64	1,502.13
Total Market Capitalization - Rs in billion	7,692.78	7,811.81	8,035.36	8,297.31	7,582.98
New Companies Listed during the year	3	1	3	5	5
Average Daily Shares Volume - (Shares in Mn) (YTD)	194.03	163.98	323.51	527.50	305.19
Total Volume Traded - (Rs in Mn) (YTD)	62,324	57,645	108,426	131,354	57,682

Source: Pakistan Stock Exchange

**Sector-wise Market Capitalization at Pakistan Stock Exchange as of 31<sup>st</sup> March 2022**

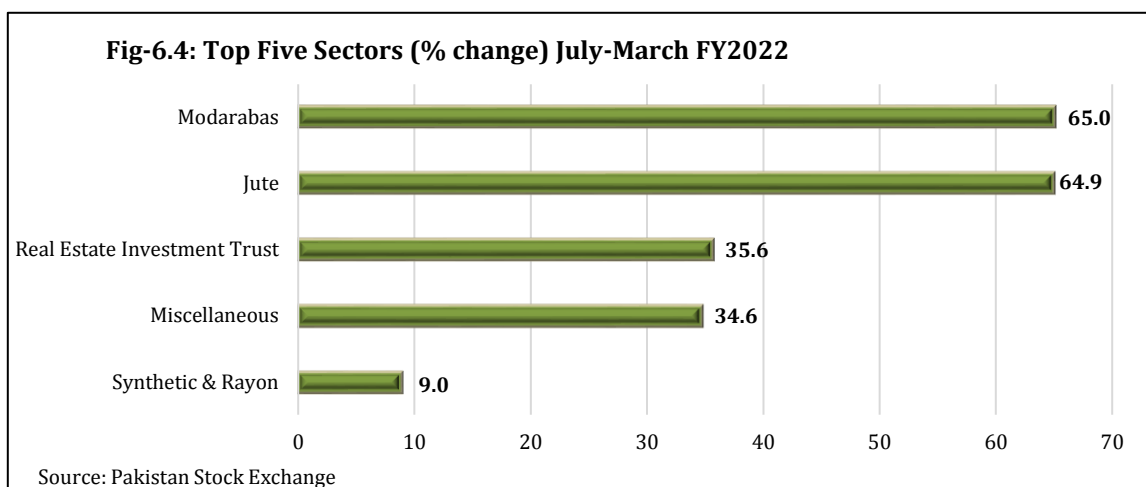
During July-March FY2022, a total of Rs 714.3 billion was wiped out from the market capitalization of the PSX. The detail of each sector is given in table 6.4.

**Table 6.4: Sector-Wise Market Capitalization**

Sectors	Market Cap On 30/06/2021 (Rs million)	Market Cap On 31/03/2022 (Rs million)	% Change
Automobile Assembler	361,448.43	314,465.25	-13.0
Automobile Parts & Accessories	80,036.05	56,611.33	-29.3
Cable & Electrical Goods	38,221.11	25,466.05	-33.4
Cement	702,506.46	535,882.96	-23.7
Chemical	404,117.21	406,477.57	0.6
Close - End Mutual Fund	3,281.22	2,556.07	-22.1
Commercial Banks	1,308,754.05	1,362,896.96	4.1
Engineering	171,409.78	124,043.87	-27.6
Fertilizer	509,383.64	552,742.34	8.5
Food & Personal Care Products	744,128.43	753,305.13	1.2
Glass & Ceramics	80,095.90	68,244.09	-14.8
Insurance	170,003.13	145,318.52	-14.5
Inv. Banks / Inv. Cos. / Securities Cos.	143,914.70	119,352.21	-17.1
Jute	129.97	214.38	64.9
Leasing Companies	5,403.17	478.90	-91.1
Leather & Tanneries	52,866.06	51,914.72	-1.8
Miscellaneous	82,228.73	110,707.30	34.6
Modarabas	14,489.79	23,912.47	65.0
Oil & Gas Exploration Companies	960,135.45	897,468.13	-6.5
Oil & Gas Marketing Companies	234,967.91	172,767.90	-26.5
Paper & Board	94,242.51	72,099.83	-23.5
Pharmaceuticals	314,189.81	271,728.36	-13.5
Power Generation & Distribution	316,235.56	262,830.67	-16.9
Refinery	146,563.70	66,048.85	-54.9
Sugar & Allied Industries	76,431.61	68,293.14	-10.6
Synthetic & Rayon	76,659.25	83,531.74	9.0
Technology & Communication	280,200.75	259,809.11	-7.3
Textile Composite	310,874.28	296,506.57	-4.6
Textile Spinning	71,964.98	68,025.90	-5.5
Textile Weaving	4,935.26	3,857.21	-21.8
Tobacco	432,246.12	311,316.81	-28.0
Transport	78,127.48	59,120.29	-24.3
Vanaspati & Allied Industries	2,122.21	1,433.31	-32.5
Woolen	476.07	323.21	-32.1
Real Estate Investment Trust	24,505.17	33,222.08	35.6
Exchange Traded Funds	9.27	7.08	-23.7
<b>Total</b>	<b>8,297,305.22</b>	<b>7,582,980.29</b>	<b>-8.6</b>

Source: Pakistan Stock Exchange

In terms of market capitalization, five top sectors are shown in Fig 6.4.



### Total Market Capitalization of Top 15 Companies Listed at Pakistan Stock Exchange as on March 31, 2022

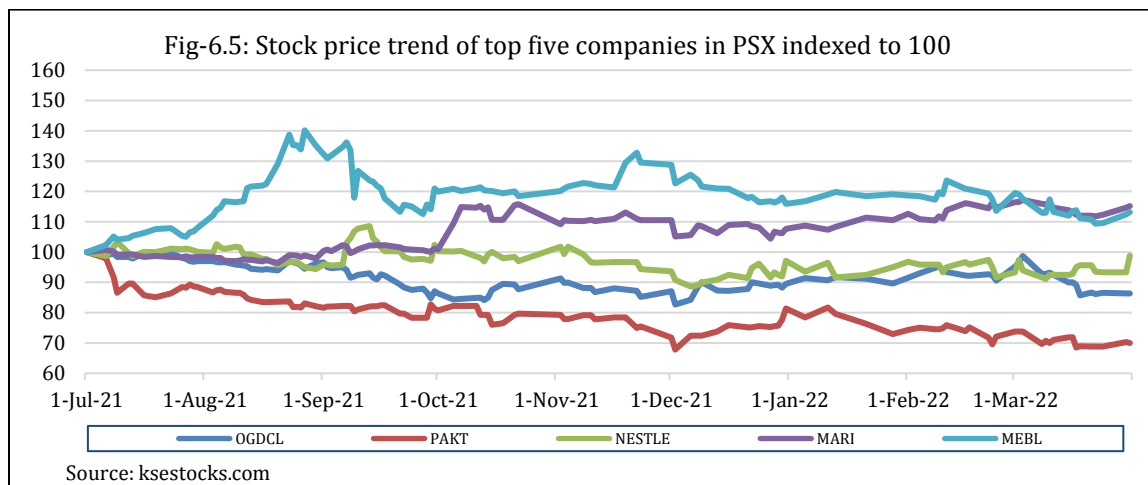
The list of selected blue-chip companies based on market capitalization are depicted in table 6.5.

**Table 6.5: Market Capitalization of Selected Blue Chips**

Scrip	Company	Shares (million)	Price (Rs)	Amount (Rs in million)
OGDC	Oil & Gas Development	4,300.93	83.13	357,536
PAKT	Pakistan Tobacco Ltd.	255.49	1053	269,035
NESTLE	Nestle Pakistan Ltd.	45.35	5821.73	264,013
MARI	Mari Petroleum Co.	133.40	1769.52	236,058
MEBL	Meezan Bank Ltd.	1,626.93	130.96	213,063
LUCK	Lucky Cement	323.38	636.35	205,780
PPL	Pakistan Petroleum	2,720.97	72.8	198,086
MCB	MCB Bank Ltd.	1,185.06	145.66	172,616
COLG	Colgate Palmolive	72.80	2300	167,430
UBL	United Bank Limited	1,224.18	136.39	166,966
HBL	Habib Bank Ltd.	1,466.85	112.91	165,622
ENGRO	Engro Corporation	576.16	267.6	154,181
UPFL	Unilever Pak. Food	6.37	24000	152,878
FFC	Fauji Fertilizer Company	1,272.24	113.72	144,679
SCBPL	Standard Char. Bank	3,871.59	34.73	134,460

Source: Pakistan Stock Exchange

It is evident from table 6.5 that out of five major companies in the PSX, Meezan Bank Limited and Mari Petroleum Company Limited share price has a positive growth. Fall in the share price of Pak Tobacco is partly explained by the negative growth of 28 percent in the Tobacco industry. Share price of Nestle has dropped as Food & Personal Care Products companies posted a modest growth of 1.2 percent. The stock price trend of top five companies registered at the PSX is also presented in Fig 6.5.



## II- Debt markets

Debt market is the market where investors trade debt instruments, mostly in the form of bonds. A well-developed corporate bond market is essential for the growth of the economy, as it provides an additional avenue to government and the corporate sector to raise funds for meeting their financial needs. During July-March FY2022, 32 debt securities were reported, and the break-up is given in table 6.6.

**Table 6.6: Debt Securities**

Sr. No.	Type of Security	No. of Issues	Amount (Rs in billion)
i.	Privately Placed Term Finance Certificates	6	17.2
ii.	Privately Placed Sukuk	12	48.5
iii.	Privately Placed Commercial Papers	14	55.8
	<b>Total</b>	<b>32</b>	<b>121.5</b>

Source: Securities and Exchange Commission of Pakistan

**Corporate Debt Securities Outstanding:** As of March 31, 2022, 102 corporate debt securities remain outstanding, amounting to Rs 749.8 billion. Category-wise break-up is shown in table 6.7.

**Table 6.7: Corporate Debt Securities (Outstanding)**

Sr. No.	Name of security	No. of issues	Amount outstanding (Rs in billion)
i.	Term Finance Certificates (TFCs)	56	164.45
ii.	Sukuk	40	576.07
iii.	Commercial Papers (CPs)	6	9.30
	<b>Total</b>	<b>102</b>	<b>749.82</b>

Source: Securities and Exchange Commission of Pakistan

## National Saving Schemes

The Central Directorate of National Savings (CDNS) is playing a vital role in mobilizing saving and promoting financial inclusion by extending social security net to all the deserving sections of the society. The purpose of National Savings is to sell government

securities/debt instruments in shape of National Savings Scheme (NSS) to support the government to finance the fiscal deficit through non-bank borrowing.

The product basket of the NSS ranges from three months Short-Term Savings Certificates (STSC) to ten years long term Defence Savings Certificates. The detail is given in table 6.8.

**Table 6.8: Product basket of the National Savings Scheme**

S. No	Rate of profit on National Savings Schemes w.e.f. 25-03-2022			
	Name of Scheme	Rate of Return (per annum)	Maturity Period	Tax Status
1	Defence Savings Certificates	10.92%	10 Years	Taxable
2	Special Savings Certificates/Accounts	11.13% (Average)	3 Years	Taxable
3	Regular Income Certificates	11.04%	5 Years	Taxable
4	Savings Account	8.25%	Running Account	Taxable
5	Pensioners' Benefit Account	12.72%	10 Years	Tax exempt
6	Bahhood Savings Certificates	12.72%	10 Years	Tax exempt
7	Shuhada Family Welfare Account	12.72%	10 Years	Tax exempt
8	National Prize Bonds (Bearer)	10.00%	Perpetual	Taxable
9	Premium Prize Bonds (Registered) *	8.79%	Perpetual	Taxable
10	Short Term Savings Certificates (STSC)			
	STSC 3 Months	10.40%	3 Months	Taxable
	STSC 6 Months	10.60%	6 Months	Taxable
	STSC 12 Months	10.70%	12 Months	Taxable

\*Effective from 10.09.2021

Source: Central Directorate of National Savings

Due to discontinuation of highest domination prize bonds i.e., Rs 40,000, Rs 15,000 and Rs 7,500, the net proceeds of NSS have been counted at Rs -86.4 billion as of March 31, 2022. Scheme-wise net investment is presented in table 6.9.

**Table 6.9: National Savings Schemes (Net Investment)**

(Rs in million)

S #	Name of Scheme	2017-18	2018-19	2019-20	2020-21	(Jul-21 to Mar-22)
1	Defence Savings Certificates	10,743.61	57,171.04	92,783.09	(9,132.62)	(6,771.61)
2	National Deposit Scheme	0.05	(0.03)	-	(0.00)	(0.35)
3	Khaas Deposit Scheme	(0.19)	(0.04)	(0.05)	(0.24)	(0.02)
4	Special Savings Certificates (Regd)	(51,180.06)	31,842.49	13,945.72	(6,327.88)	(22,611.79)
5	Special Savings Certificates (Bearer)	(0.55)	-	(0.01)	(0.50)	-
6	Regular Income Certificates	8,726.28	142,088.06	83,232.25	26,711.24	19,812.64
7	Bahhood Savings Certificates	45,395.28	119,573.11	83,379.96	2,549.42	8,816.55
8	Pensioners' Benefit Account	21,504.37	43,367.37	33,875.95	16,347.15	15,710.21
9	Savings Accounts	3,412.99	(166.22)	4,536.97	1,083.53	6,442.79
10	Special Savings Accounts	59,939.19	(132,393.53)	200,770.58	(39,659.08)	(37,415.75)
11	Mahana Amdani Accounts	(46.70)	(73.84)	(60.42)	(47.52)	(48.84)
12	Prize Bonds	101,575.66	40,432.08	(171,109.88)	(315,531.72)	(82,941.39)
13	National Savings Bonds	-	-	(137.00)	-	-
14	Short Term Savings Certificates	560.55	761.00	19,254.58	(20,362.16)	(89.71)



S #	Name of Scheme	2017-18	2018-19	2019-20	2020-21	(Jul-21 to Mar-22)
15	Premium Prize Bonds (Registered)	2,323.20	2,819.96	11,322.72	25,147.19	12,675.27
16	Postal Life Insurance	875.45	1,248.42	627.96	(1,311.91)	-
17	Shuhda Welfare Accounts	-	42.14	27.02	24.19	13.90
Grand Total		203,829.13	306,712.00	372,449.41	(320,510.91)	(86,408.11)

Note: Figures in parenthesis indicates negative value.

Source: Central Directorate of National Savings

### III- Commodity Futures Market

Pakistan Mercantile Exchange Limited (PMEX) is the only company which is providing a centralized and regulated place for commodity futures trading. PMEX offers diverse range of futures contracts based on different commodities, including gold, silver, crude oil, currency pairs, as well as local agricultural products including cotton, wheat, rice and spices.

During July-March FY2022, 2.31 million lots of various commodities futures contracts including gold, crude oil and US equity indices worth Rs 2.65 trillion were traded on PMEX.

### IV. Non-Banking Finance Companies

Non-Bank Finance Companies (NBFCs) are the entities that provide services similar to banking and financial services, but do not hold a banking license.

**Mutual Funds:** As of December 31, 2021, assets under management of mutual funds stood at Rs 1,191.6 billion. Money market funds dominated the industry with the largest share i.e., 49 percent of the mutual fund industry, followed by income funds comprising of 21 percent and equity funds having industry share of 20 percent, respectively.

**Investment Advisory:** At present, 25 NBFCs have licenses to conduct investment advisory business, which includes 19 asset management companies and 6 NBFCs having exclusive license for conducting investment advisory services. As of December 31, 2021, the total assets of discretionary/non-discretionary portfolios held by all of the investment advisors amounted to Rs 374.3 billion. Major highlights of the mutual fund industry are stated in table 6.10.

Description	Total number of Entities	Total Assets (Rs in billion)
Asset management / Investment advisory Companies	26	45.7
Mutual Funds / Plans	285	1,191.6
Discretionary / non-discretionary portfolio	-	374.3
<b>Total size of the industry</b>	<b>311</b>	<b>1,611.6</b>

Source: Securities and Exchange Commission of Pakistan

**Box-II: NBFC Reforms and Developmental Activities**

To facilitate the growth of the mutual fund industry and to protect the investor's interest, the SECP has taken the following initiatives during the outgoing fiscal year:

- ▶ Prescribed new eligibility requirements to register as trustee of open end or closed end schemes
- ▶ Prescribed regulatory framework for Fixed Rate Mutual Fund which will contribute towards expanding investor base and leads to availability of a low-cost investment product
- ▶ Prescribed regulatory framework for account opening by Asset Management Companies (AMCs) to promote digitization and micro-savings and allowed Roshan Digital Account (RDA) eligible banks to distribute units of CIS/VPS of multiple AMCs without obtaining license
- ▶ SECP has proposed reforms to the NBFC Rules 2003, to eliminate regulatory bottlenecks by introducing the concept of perpetual licensing, reducing documentation requirements, removing multiple regulatory approvals and allowing the group companies to undertake different business activities under one license
- ▶ NBFC regulations 2008 have been amended to introduce improved governance structure, liquidity & risk management requirements for non-banking microfinance companies and credit underwriting standards for housing finance and allowed premature redemption of Certificate of Deposits (CODs) by deposit taking NBFCs
- ▶ Amendments to the Corporate Restructuring Companies (CRC) Act, 2016 have been approved, which will allow CRC to facilitate business of acquisition of non-performing assets of financial institutions and help in revival of businesses through restructuring schemes
- ▶ Facilitated inclusion of NBMFCs as executing agency for Kamyab Pakistan Program and housing finance companies in Government mark-up subsidy scheme, for housing finance
- ▶ The government has approved Non-Banking Finance Companies Bill, 2021, which provides a modernized, dedicated and consolidated parent regulatory framework for the NBFC sector. It will enhance growth, provide facilitation, innovation and overall strengthening of the NBFC sector coupled with stronger governance and investor protection mechanisms.

Source: Securities & Exchange Commission of Pakistan

**Private Equity and Venture Capital Funds Management Services**

As on March 31, 2022, the number of NBFCs licensed by the SECP to undertake the business of private equity and venture capital fund management services stand at eight. These NBFCs, have so far successfully launched five private equity and venture capital funds, with four funds focused on private equity investment and one fund targeting venture capital investments. The combined size of these funds stands at Rs 9,873 million.

**Voluntary Pension Schemes:** The assets under management of the voluntary pension industry currently stand at Rs 39.6 billion as of December 31, 2021. Highlights of the pension fund industry are provided in table 6.11.

**Table 6.11: Voluntary Pension Schemes**

Description	Status as of December 31, 2021
Total assets of pension industry (Rs billion)	39.6
Total number of pension funds	21
Total number of pension fund managers	13

Source: Securities and Exchange Commission of Pakistan

## Lending NBFCs

Lending NBFCs include leasing companies, investment finance companies, housing finance companies, discount houses and non-bank microfinance companies. Highlights of each category as of December 31, 2021 is stated in table 6.12.

**Table 6.12: List of Lending NBFCs**

S.No	Lending NBFC	No. of companies	Asset Base (Rs billion)
1	Leasing Companies	4	5.36
2	Investment Banks	16	78.22
3	Non-Bank Microfinance Companies	30	146.11
4	Housing Finance Companies	3	0.216

Source: Securities and Exchange Commission of Pakistan

## Real Estate Investment Trusts (REITs)

REITs are investment schemes that own, actively manage income-producing real estate. Through such schemes, investors may own, operate, or finance income-generating property across various real estate categories. The REIT invests in physical real estate and distributes profits from rental income and/or capital gains to its unit holders.

Currently, three REIT schemes have offered units to the investors and acquired property(ies) i.e., Dolmen City REIT, Silk Islamic Developmental REIT and Silk World Islamic REIT. As of December 31, 2021, the aggregate fund size of these REIT Schemes was Rs 67.15 billion. Stakeholders continue to express interest in REIT as a viable option for investing in real estate projects, as evidenced from the number of companies licensed to undertake REIT management services increasing to eleven and receipt of twelve fresh applications for formation of REIT management company/grant of REIT management services licenses.

## V- Corporate Sector

**Company incorporation trend:** Facilitation extended during the pandemic coupled with availability of uninterrupted online services has helped in registration of companies. During July-March FY2022, a total of 19,929 new companies were registered, out of which around 99 percent companies were incorporated through online process.

**Digital Portal for Banks:** In pursuit of its agenda to promote ease of doing business and digitalization, SECP in coordination with SBP, had launched an exclusive digital portal in March, 2021, enabling banks to open corporate accounts without seeking physically certified copies of statutory documents. Presently, 47 financial institutions have joined the portal, during the period of July-March FY2022.

**Biannual Online Reporting System for Employees Contribution Fund:** SECP has successfully launched "Online Reporting System for Filing Biannual Returns" through e-Services platform, the module is related to Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018 (the "Regulations") which were previously filed

by the companies/trusts in physical form. Automation of the sector will help in digitization, bring transparency and protection of employees' investment.

**Integration with SMEDA:** SECP has successfully integrated with SME Registration Portal (SMERP) of Small and Medium Enterprises Development Authority (SMEDA), which is a web-based interactive platform for SMEs registration and requested SECP to extend its integration services to SEMDA and enabling it to verify company registration status for companies applying to register as SME at SMERP.

**Launch of online process for Companies Easy Exit Regulations (CEER):** SECP has launched online process for processing easy-exit applications under Companies Easy-Exit Regulations, 2016 to provide automated platform for easy-exit of companies. It will facilitate exit of companies without manually applying by simply signing up to e-Services portal which will improve end-users experience and optimize the exit process.

**Box-III: ADB's \$ 300 million Loan to Further Develop Pakistan's Capital Markets**

The Asian Development Bank (ADB) approved a \$ 300 million loan on 22<sup>nd</sup> March 2022 to further develop the Pakistan's capital markets, promote private investment in the country and help to mobilize domestic resources to finance sustainable growth. The program aims to catalyze institutional investor demand and increase the range of alternative financial instruments such as derivatives and commodity futures that are available to investors. It will also help to mobilize more domestic resources which support the government's efforts to finance sustainable growth and respond effectively to crises, by making the country's capital markets more robust and strengthening government debt management.

ADB's program supports policy actions that will strengthen market stability and attract investor capital to Pakistan. It supports measures that will strengthen the government debt market and enhance market surveillance systems to facilitate information exchange. The program also promotes an enabling environment to expedite access to financing for growth companies and state-owned enterprises.

These reforms will help to mobilize financial resources for productive investment, especially by the private sector, and help facilitate economic growth by developing the bond and equity capital markets. This will also help to reduce cost of financial intermediation and help stabilize systemic vulnerabilities in the bank-dominated finance system.

Source: Securities and Exchange Commission of Pakistan

## VI- Islamic Finance Sector

**Shariah Governance Regulations, 2018:** During July-March FY2022, SECP has issued one certificate of Shariah compliant company and twenty certificates of Shariah compliant securities in terms of the Shariah Governance Regulations, 2018, for the development of the Islamic capital market. During the said period, SECP has issued certificates of Shariah compliance for the Shariah compliant securities/sukuk worth Rs 92.5 billion.

**Modarabas:** Modarabas are the pioneer Islamic financial institutions in Pakistan, governed under the Modaraba Companies and Modaraba Ordinance, 1980. Till March 31, 2022, the registered Modaraba companies are thirty-one, while twenty-eight Modarabas companies are currently operating and are listed at PSX.

As of December 31, 2021, the aggregate paid-up capital, equity and total assets of Modaraba sector stood at Rs 20.7 billion, Rs 24.1 billion and Rs 57.3 billion respectively.

Out of total twenty-five profit making Modarabas, nineteen Modarabas declared cash dividend and/or bonus for the year 2021.

## **VII- Insurance Sector**

The insurance sector in Pakistan comprises of 10 life insurers, 40 non-life insurers and 1 state-owned national reinsurer. Major achievements in insurance sector during July-March FY2022 are as follows:

**Distribution of Insurance Products through Digital Platforms:** To enhance access and usage of financial services, SECP has facilitated the signing of an MoU between the insurance industry association and the digital portal for the distribution of insurance products. The objective of expanding the scope of this digital portal is to increase financial inclusion.

**Draft Insurance Ordinance (Amendment) Bill, 2020:** The Draft Insurance Ordinance (Amendment) Bill, 2020 has been formulated with the objective to introduce significant reforms in primary insurance law.

**Amendment to Insurance Companies (Sound & Prudent Management) Regulations, 2012:** The amendments have the objective of facilitating the industry by removal of redundancies and reducing documentary submission requirements as well as to ease out the regulatory burden associated with the processing of approvals.

**Master Circular of Insurance Division:** The circular is consolidated set of all regulatory instructions relating to insurance sector issued from 2005 to 2021 and will significantly contribute to ease of doing business.

## **Capital Market Reforms and Developmental Activities**

- 1) Operationalization of Professional Clearing Member (PCM):** In order to promote transparent corporate structures, enhance confidence of investors and ensure organized development of the stock market, the PCM framework has been launched as a major milestone for the implementation of the new broker regime. Previously, all brokerage houses were allowed to retain custody of investor assets and subject to the same compliance requirements regardless of their size or financial capacity. However, under the new PCM regime, the brokers who are unable to meet financial resource requirements, shall only focus on the core competency of trading and investment advice, while the clearing and settlement services shall be provided by the PCM.
- 2) Capital Adequacy Measures:** To ensure maintenance of specified capital requirements for the securities brokers, the new liquid capital regime has been implemented in line with the new brokerage regime from October 01, 2021. The liquid capital provides a more detailed and sophisticated approach towards determining capital adequacy of brokers in line with international best practices.
- 3) Introduction of Long Maturity Deliverable Future Contracts (DFC):** DFC contracts with longer maturity of 60 days and 90 days were successfully launched as continuation of efforts to develop derivative segment in line with international

best practices. The new contracts provided investors with more flexibility with respect to their trading strategies and eliminated the rollover week.

- 4) **Shared KYC Information System:** Benefitting from the successful implementation of online opening system in capital markets, a new mechanism has been introduced for facilitating resident Pakistanis in opening trading accounts with securities broker by allowing sharing of KYC information already submitted to the banks with the brokers.
- 5) **Reforms in Dividend Payment:** In order to facilitate shareholders of listed companies and to make dividend distribution process more efficient; amendments in Companies (Distribution of Dividend) Regulations, 2017 were approved by the Commission to reduce turnaround time for payment of cash dividend from 15 working days to 10 working days from the date of its declaration.
- 6) **Risk Management Regime for Custodian Clearing Members:** Risk management regime for Custodian Clearing Members (CCMs) has been implemented. The new mechanism allows collection of acceptable collateral from CCMs against margin requirements in respect of trades of foreign investors. This will improve efficiency of risk management system while improving the capacity of local brokers.
- 7) **Revision in Fee, Charges and Deposits Schedule of CDC and NCCPL:** In order to provide benefit to unit holders of mutual fund industry; the SECP has approved to rationalized NCCPL's tariff structures of security deposit requirement for Collective Investment Schemes (CIS) and Capital Gain Tax (CGT) fee in a progressive manner. Further, the security deposit shall not be applicable on Asset Management Companies admitted for only using single UIN facility for all CISs under its management.
- 8) **CDC's Tariff Structure** has also been rationalized on account of multiple fee heads, i.e., waiver for online transactions, reduction in annual fee for multiple accounts, significant reduction in fee for fresh issue of shares and redeemable securities especially for short term redeemable securities. Such reduction would be beneficial for corporate sector to issue bonds with substantially reduced induction fee and investors shall be able to have lesser cost to maintain CDC investor and sub-account.
- 9) **Promotion of ETFs:** In order to encourage launch of more ETFs at PSX, the SECP has approved reduction in minimum brokerage rates for trading in fixed income ETFs. Further, to promote and develop ETF market, incentives provided previously by PSX, CDC and NCCPL in respect of ETFs, have been further extended for one year.
- 10) **Account Facilitation and Customer Help Centre:** In a bid to enhance investor base of capital market, regulatory framework for opening and operations of account facilitation/ customer help centres by securities brokers has been implemented. These centres shall enhance physical presence of securities brokers and facilitate in account opening for new investors in the capital market through utilization of branch networks of Commercial Banks, Asset Management Companies and Insurance Companies, in addition to allowing specially trained sales staff of brokers to carry out permissible marketing activities in public places.

**Development of Primary Capital Market:** Following measures have been taken for development of primary capital market:

- i. **Deployment of online system “PRIDE”** for submission of prospectus and listing applications. This system would make the submission of listing application and supporting documents digital and will be beneficial for PSX and SECP. Further, it would also reduce the turnover time for the processing of listing applications and make it robust and efficient.
- ii. **Introduction of Special Purpose Acquisition Companies (SPACs):** SECP has introduced concept of SPAC, allowing capital market professionals to issue securities and raise capital by forming a special purpose company for entering into merger or acquisition transaction.
- iii. **Publication of Guidelines for SPAC:** Subsequent to amendments in Public Offering Regulations, 2017 regarding SPACs, SECP published guidelines for SPAC to help issuers as well as investors to understand the process of registering and investing in SPACs.
- iv. **Amendments in the Companies (Asset Backed Securitization) Rules, 1999:** Securitization is one of the important segments of debt market, which enable corporates to raise funds through capital market by monetizing their illiquid assets. To enable issuers to issue mortgage-backed securities and covered bonds, certain amendments in the Companies (Asset Backed Securitization) Rules, 1999 have been proposed.

### **Conclusion**

The performance of stock markets remained volatile during the first three quarters of the current fiscal year. The KSE-100 index showed an encouraging trend from the start of July 2021, which is also evident from the listing of significant number of IPOs. However, the index witnessed a declining trend from 24<sup>th</sup> February 2022 till end March 2022 due to the geo-political tensions, i.e., war between Russia and Ukraine and domestic political uncertainty.

The reforms and development activities introduced by the SECP will not only help the capital markets to regain its momentum but also neutralize the associated risks. However, the performance of Pakistan’s capital market will depend on the domestic as well as international economic conditions in the future.