

# Capital Markets & Corporate Sector

The capital market is an essential agent of economic growth and the positive relationship between the two is borne out by all the economic theories and models of economic development. The accumulation and mobilization of capital for development is largely dependent on domestic savings and inflows of foreign capital. Therefore, resource mobilization through the stock exchange is an effective means for development all over the world. In realization of this consideration, Pakistan Stock Market and capital market has emerged as a shining North Star of Pakistan's economy on the national economic landscape.

## Structure of Pakistan Capital Markets

The Securities and Exchange Commission of Pakistan (SECP) is the apex regulator of the Pakistani capital markets overseeing and regulating the development of the capital market, the Self-Regulatory Organizations (SROs) and the intermediaries operating in the capital market, in order to protect the interests of the investors. The SROs include the Pakistan Stock Exchange (PSX), the National Clearing Company of Pakistan Limited (NCCPL); the Central Depository Company of Pakistan Limited (CDC), and the Pakistan Mercantile Exchange Limited (PMEX). The various intermediaries and agents operating in the capital market include securities advisers, brokers and managers, debt securities trustees, ballotters and share registrars, credit rating companies and underwriters.

## Capital Market Development Plan

The SECP, being the apex regulator, continues to push with the reform agenda to address

challenges of a fast growing capital market. The reforms agenda, chalked out with support from the stakeholders, include the successful integration of the stock exchanges at Karachi, Lahore and Islamabad into a joint trading platform, introduction of a central counterparty for clearing and settlement, transfer of risk management to the clearing company, and promulgation and implementation of modern and comprehensive laws such as the Securities Act and the Futures Market Act.

Instituting a fool-proof procedure of investor protection and building investors' confidence remains the prime goal of SECP's reform agenda. In this regard, Securities Exchange Commission of Pakistan has developed a Capital Market Development Plan (CMDP) (2016-18) detailing the way forward for the Pakistan capital market. It is a roadmap for initiatives envisaged by the SECP for development of the capital market in the near future and has been formulated after extensive stakeholder consultation including suggestions and feedback from leading market professionals, and includes key reforms based on international best practices and benchmarks.

Taking into account the regional and local dynamics of the Pakistan capital market and the challenges enumerated earlier, the CMDP lists down the following key objectives for the three years 2016-2018:

- i) Legal and Regulatory Reforms
- ii) Structural reforms and developmental initiatives at the SROs - PSX, CDC, NCCPL, PMEX

- iii) Reforms for Capital Market Intermediaries
- iv) Product and Market Development
- v) Reforms for Issuers in the Capital Market
- vi) Reforms for Investors' Access, Awareness, Protection and Facilitation
- vii) Improving Marketability, Image-Building and Compliance with International Standards

### **Pakistan Stock Exchange**

Three Stock Exchanges at Karachi, Lahore and Islamabad were merged into Pakistan Stock Exchange (PSX) on January 11, 2016 providing a single platform to investors, particularly the foreign investors.

Based on the improved macroeconomic indicators of the country, government's investment friendly policies, and reforms introduced by the SECP over the years, Pakistan was upgraded by the Morgan Stanley Capital International (MSCI) from the status of Frontier Markets to Emerging Markets. To rise to the demands of its new status, the SECP and PSX are continuously interacting with MSCI representatives and foreign institutional investors to highlight recent capital market achievements and the reforms in the pipeline.

### **Performance of Stock Exchange**

Pakistan Stock Exchange (PSX 100 Index) was ranked best market in Asia and fifth best performing stock market in the world in the year 2016 by Bloomberg and was calculated to have provided total return of 46 percent for the year. The PSX return of 46 percent also stood out as the best in MSCI Frontier Markets and compared favourably with the PSX average gains of 20 percent over the past 10 years and average return of 24 percent over the last 20 years.

The PSX gained a lot of momentum in the calendar year 2016. The start of the year was sluggish as the index showed downward trend during first quarter due to low oil prices and heavy weightage of the oil sector in the PSX index. However, the market saw a turnaround in the second quarter and despite tensions on

political front and international border with neighbours the investors remained firm and bullish. Major sectors which contributed to the index gain included Banking, E&P, Refinery, Cement, Pharmaceutical, etc.

As per requirement of the demutualization law, deal for strategic sale of forty percent of PSX shares was completed in December, 2016 and PSX sold its aforementioned shares to a Chinese Led Consortium against a consideration of US\$ 85.6 million. The Consortium comprises of China Financial Futures Exchange, Shanghai Stock Exchange and Shenzhen Stock Exchange, along-with two Pakistani financial institutions (Habib Bank Limited and Pak China Investment Company Limited). The foreign investors in the consortium are expected to benefit PSX through their diverse product offering, indigenously developed technology, managerial experience and opportunities for outreach and cross-listings. The local financial institutions in the Consortium will benefit PSX through their large branch networks, excellence in corporate governance and knowledge of local market and its laws.

Also, post divestment, governance at PSX has been strengthened through reconstitution of its Board of Directors through appointment of one-half of the board as independent directors and induction of representatives of the aforesaid Consortium.

### **PSX Performance during 2016-17**

The period, July 1, 2016 to May 08, 2017, witnessed an overall positive and bullish trend for the stock market in Pakistan. The KSE – 100 Index demonstrated exceptional performance of equity market during the period mainly due to improved macroeconomic indicators, wide-ranging reform measures undertaken by SECP, better security situation and Pakistan's reclassification in MSCI EM Index. MSCI announcement on June 14, 2016 to reclassify Pakistan from Frontier Markets (FM) to Emerging Markets (EM) coincided with the May, 2017 Semi-Annual Index Review. The exact proportion of Pakistan

## Capital Markets

Market MSCI-EM and the stocks to be included were slated to be announced on May 15, 2017 and would become effective from June 1, 2017. During the FY 2017 (upto 8<sup>th</sup> May, 2017), the Index touched its highest point at 50,935.91 on

May 08, 2017, whereas its lowest point was at 37,966.76 on July 4, 2016. Moreover, the average daily volume of 379.1 million shares during the period (Jul-Mar) witnessed three-fold increase compared to preceding period.

**Table 6.1: Profile of Pakistan Stock Exchange**

Description	2012-13	2013-14	2014-15	2015-16	2016-17 (end March, 2017)
Total Listed Companies	569	557	560	560	560
New Companies Listed	4	5	9	6	4
Funds Mobilized (Rs.in billion)	29.5	47.6	79.6	111.2	21.9
Total Listed Capital (Rs. in million)	1,116,005.0	1,100,340.9	1,189,518.9	1,289,081.0	1,297,159.0
Total Market Capitalization (Rs. in million)	5,154,738.0	6,655,294.8	7,421,031.6	7,588,472.2	9,594,805.0
Total Shares Volume (million)	54,319.0	56,580.6	64,617.2	55,430.3	70,518.6
Average Daily Shares Volume (million)	221.0	229.1	261.0	220.8	379.1

Source: Pakistan Stock Exchange

The PSX 100 index which was at 37,783.54 level as on 30<sup>th</sup> June 2016 gained 13,152 points and remained at the level of 50,935.91 as on 8<sup>th</sup> May, 2017 showing a growth of 34.8 percent.

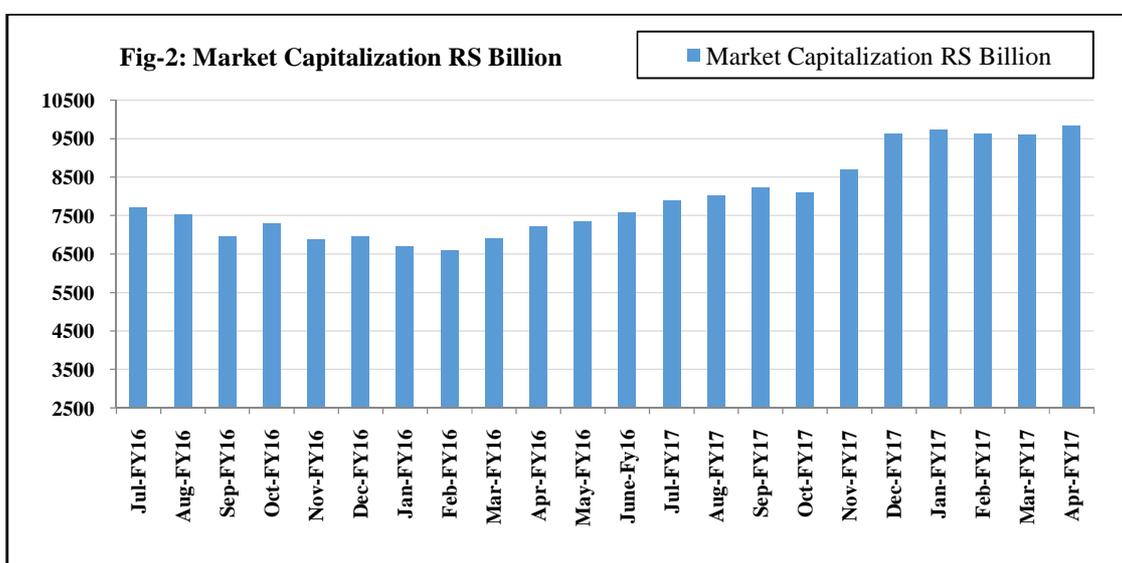
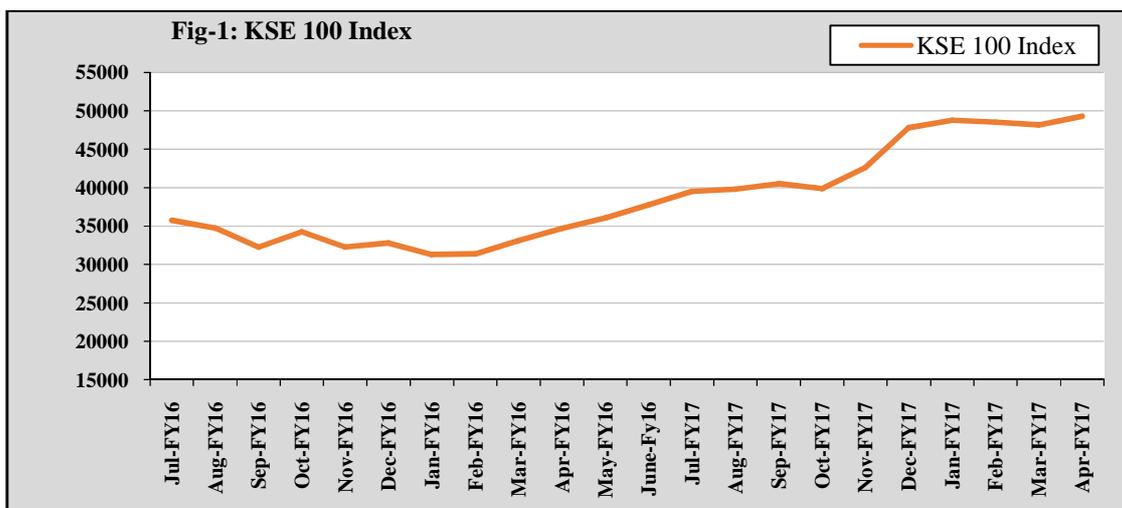
In terms of market capitalization it increased from Rs.7, 588.47 billion as on 30<sup>th</sup> June 2016 to Rs. 10,044.07 billion on 8<sup>th</sup> May, 2017 depicting a growth of 32.4 percent.

**Table 6.2: Leading Stock Market Indicators on PSX (KSE-100 Index: November (1991=1000))**

Months	2015-16			2016-17		
	KSE Index (End Month)	Market Capitalization (Rs. billion)	Turnover of shares (In billion)	KSE Index (End Month)	Market Capitalization (Rs billion)	Turnover of shares (In billion)
July	35,741.52	7,701.71	9.9	39,528.82	7,887.25	4.0
August	34,726.51	7,535.84	7.1	39,809.58	8,011.36	7.1
September	32,287.41	6,952.85	4.5	40,541.81	8,223.53	12.1
October	34,261.60	7,284.24	4.5	39,893.84	8,082.52	10.1
November	32,255.20	6,867.98	4.3	42,622.37	8,696.51	12.6
December	32,816.31	6,947.36	4.0	47,806.97	9,628.51	9.1
January	31,298.60	6,699.11	3.8	48,757.67	9,727.73	11.6
February	31,369.51	6,587.38	3.4	48,534.23	9,619.84	8.8
March	33,139.00	6,915.68	4.2	48,155.93	9,594.81	7.0
April	34,719.29	7,205.96	6.1	49,300.90	9,835.43	6.0
May	36,061.56	7,357.59	7.5	50,935.91*	10,044.07*	-
June	37,783.54	7,588.47	5.5	-	-	-

\*Upto 8<sup>th</sup> May, 2017.

Source: Pakistan Stock Exchange



### Sector Wise Analysis

The Market Performance of some of the major sectors is as under:

#### Oil & Gas Exploration Companies

In this sector, 4 companies are listed at Pakistan Stock Exchange. As on March 31, 2017 market capitalization of the sector was Rs. 1,216,215.74 million, compared to Rs. 1,081,869.92 million on June 30<sup>th</sup> 2016. The sector has shown an increase of 12.4% in its market capitalization during July-March 2017. The Sector yielded after-tax profit of Rs. 90,498.09 million in 2016.

#### Oil & Gas Marketing Companies

In this sector, 8 companies are listed at Pakistan Stock Exchange. As on March 31, 2017 the market capitalization of the sector was Rs. 411,178.81 million, compared to Rs.248,274.44 million on June 30 2016. The sector has shown an increase of 65.6% in market capitalization during July-March. The profit after tax of this sector is Rs. 22,728.37 million.

#### Refinery Companies

In this sector, 4 companies are listed at Pakistan Stock Exchange. On March 31, 2017 the market capitalization of the sector Rs.139,797.17 million, recording increase of 48.6% in market

capitalization since 30<sup>th</sup> June 2016. The profit after tax of this sector is Rs.10,155.32 million

**Fertilizer**

In this sector, 7 companies are listed at Pakistan Stock Exchange. On March 31, 2017 the market capitalization of the sector was Rs. 622,095.88 million against Rs. 616,515.11 million on June 30<sup>th</sup> 2016. The sector registered an increase of 1% in its market capitalization during July-March, 2017. The profit after tax of this sector stood at Rs. 100,542.38 million in 2016.

**Cement**

This sector comprises of 21 companies with the market capitalization of Rs.907,679.94 million on 31<sup>st</sup> March 2017 compared to Rs.685,395.51 million on June 30 2016, showing an increase of 32.4% since June 30, 2016. On the back of higher consumption and good exports, the sector showed tremendous growth which translated into good financial results. The sector recorded profit after tax of Rs.61,721.09 million in 2016.

**Power Generation & Distribution**

In this sector, 19 companies are listed at Pakistan Stock Exchange. As on March 31, 2017 the market capitalization of the sector was Rs.339,654.44 June 30, 2016 million. The profit after tax of this sector is Rs.31,580.78 million in 2016.

**Chemicals**

In this sector, 27 companies are listed at Pakistan Stock Exchange. As on March 31, 2017 the market capitalization of the sector was Rs.331,025.36 million, which shows an increase of 74.5% since June 30, 2016. The profit after tax of this sector is Rs.9,095.06 million in 2016.

**Auto Mobile Assembler**

In this sector, 12 companies are listed at Pakistan Stock Exchange. As on March 31, 2017 the market capitalization was Rs.490,743.58 million. This sector has shown increase of 79% in market capitalization since June 30, 2016 .The profit after tax of this sector

is Rs. 26,857.46 million in 2016.

**Auto Mobile Parts**

In this sector, 10 companies are listed at Pakistan Stock Exchange. As on March 31, 2017, the market capitalization was Rs.99,131.58 million. This sector has shown increase of 75% in market capitalization since June 30, 2016 .The profit after tax of this sector is Rs. 5,642.91 million in 2016.

**Commercial Banks**

This sector, comprises of 21 listed banks with listed capital of Rs. 447,932.294 million. The market capitalization of the sector is Rs.1,697,803.19 million on March 31, 2017, which was Rs.1,376,222.51 million on June 30 2016. The profit after tax of this sector is Rs.177,276.54 million in 2016.

**Pharmaceuticals**

In this sector, 9 Pharmaceutical companies are listed with Pakistan Stock Exchange. As on March 31, 2017, the market capitalization of the sector Rs.333,531.92 million. The Profit after tax of this sector is Rs.12,711.28 million in 2016.

**Textile Spinning**

This is the largest sector with 85 companies listed at Pakistan Stock Exchange. On March 31, 2017 the market capitalization of the sector was Rs.59,020.18 million, an increase of 31% since June 30 2016. The sector has shown a loss of Rs. 8,681.67 million in 2016.

**Textile Composite**

In this sector, 52 companies are listed at Pakistan Stock Exchange. On March 31, 2017 the market capitalization of the sector was Rs.227,696.16 million, and profit after tax of this sector stood at Rs.12,596.59 million in 2016.

**Textile Weaving**

In this sector, 142 companies are listed at Pakistan Stock Exchange. As on March 31, 2017, the market capitalization of the sector Rs.54,113.21 million. The profit after tax of this

## Pakistan Economic Survey 2016-17

sector is Rs.3,335.58 million in 2016.

### Sugar & Allied

In this sector, 32 companies are listed at Pakistan Stock Exchange. As on March 31, 2017, the market capitalization of the sector Rs.121,214.62 million. The profit after tax of this sector is Rs.5,242.71 million in 2016.

### Engineering

In this sector, 16 companies are listed at Pakistan Stock Exchange. As on March 31,

2017 the market capitalization of the sector was Rs.183,008.71 million. This sector has shown increase of 164% in market capitalization since June 30 2016 .The profit after tax of this sector is Rs. 5,537.68 million in 2016.

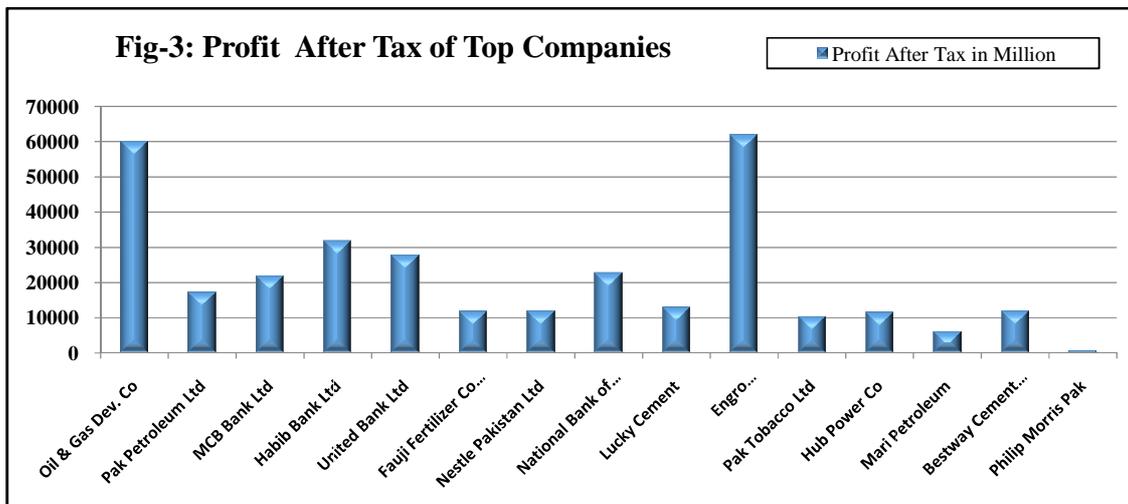
### Performance of Selected Blue Chips

Profit after tax and Earning per Share (EPS) along-with necessary detail of some of the selected companies are given in the following table. It may be observed that corporate profitability improved in most of the cases during 2016.

**Table 6.3: Price Earning Ratio of Top Fifteen Companies**

Name of Company	Profit After Tax in (Rs. Billion)	Market Capital (Rs. Billion)	EPS	Market Price (Rs) March 31, 2017	PE ratio	Current Outstanding Shares
Oil & Gas Development Company	59.97	637.87	13.94	148.31	10.64	4,300,928,400
Pakistan Petroleum Limited	17.24	305.44	8.74	154.91	17.71	1,971,715,615
MCB Bank Limited	21.89	253.10	19.67	227.40	11.56	1,113,030,752
Habib Bank Limited	31.82	395.48	21.69	269.61	12.43	1,466,852,508
United Bank Limited	27.73	278.66	22.65	227.63	10.05	1,224,179,688
Fauji Fertilizer Company Limited	11.78	131.80	9.26	103.60	11.19	1,272,238,147
Nestle Pakistan Limited	11.85	412.45	261.24	9095.00	34.82	45,349,551
National Bank of Pakistan	22.75	158.86	10.69	74.67	6.98	2,127,512,862
Lucky Cement	12.94	270.79	40.03	837.39	20.92	323,375,000
Engro Corporation Limited	61.86	192.76	118.11	368.02	3.12	523,784,755
Pak Tobacco Ltd.	10.36	386.97	40.55	1514.58	37.35	255,493,600
Hub Power Company	11.58	151.66	10.00	131.06	13.10	1,157,154,400
Mari Petroleum	6.05	167.63	54.89	1520.47	27.70	110,250,000
Bestway Cement Ltd.	11.88	167.02	19.93	280.11	14.06	596,252,783
Philip Morris Pak	0.58	167.04	9.34	2712.5	290.42	61,580,341

Source: Pakistan Stock Exchange



### Leading Global Stock Market Trends

Pakistan Stock Market has outperformed during current financial year among leading Global Stock Markets and more specifically in Asian region including India, China, Hong Kong, Singapore, etc. As already discussed the PSX ranked 5<sup>th</sup> best performing market in the world in 2016. In terms of Index, PSX has shown a growth of more than 27 percent during first

nine months of current year and ranked at top of the list among some of the leading international and regional stocks. During this period, Bombay Sensex increased only by 9.7 percent. During this period, the MSCI Emerging market index improved by 14.9 percent and MSCI frontier market index improved by 9.8 percent. Table 6.4 gives the detail of some of the leading Asian and world stock markets.

**Table 6.4: Global Stock indices during July 1, 2016 to March 31, 2017**

Sr.No	Country	Stock Name	Date		Change July, 2016/March2017	
			June 30, 2016	March 31, 2017	Points	%
1	Pakistan	PSX 100 Index	37,783.54	48,155.93	10,372.39	27.5
2	Japan	NIKKEI 225	15,575.92	18,909.26	3,333.34	21.4
3	Hong Kong	Hang Seng	20,794.37	24,111.59	3,317.22	16.0
4	Turkey	Bursa Istanbul ISE 100	76,817.19	88,947.40	12,130.21	15.8
5	USA	S&P 500	2,098.86	2,362.72	263.86	15.4
6	MSCI EM	MSCI EM MKT	834.10	958.37	124.27	14.9
7	Vietnam	VN	632.26	722.31	90.05	14.2
8	UK	FTSE	6,504.30	7,322.90	818.60	12.6
9	Singapore	Strait Times	2840.93	3175.11	334.18	11.8
10	Indonesia	Jakarta Composite	5,016.65	5,568.11	551.46	11.0
11	China	Shanghai Comp.	2,929.61	3,222.51	292.9	10.0
12	MSCI FM	MSCI Frontier	489.11	537.11	48.0	9.8
13	India	BSE-30	26,999.72	29,620.50	2,620.78	9.7
14	Bangkok	Set 50	910.56	996.44	85.88	9.4
15	Philippines	PSEi	7,796.25	7,311.72	-484.53	-6.2

Source: Pakistan Stock Exchange

### New listing at Stock Exchange

During the period July 2016 to March 2017, approval for listing was granted by SECP to 3 companies. i.e. 55.750 million ordinary shares

by TPL Properties Ltd; 50 million ordinary shares by Loads Ltd and 32.50 million ordinary shares by Roshan Packages Ltd., to the general public.

Sr. No.	Name of Company	Book Building Date	Retail Portion Subscription Date	No. of Shares Offered (million)			Offer Price / Strike Price (Rs.)	No. of Shares Subscribed (million)			Times Subscribed		Total Sum raised (Rs. million)
				Book Building	General Public	Total		Book building	General Public	Total	Book building	General Public	
1	TPL Properties Limited	June22-23, 2016	NA	55.750	0	55.750	12.50	57.50	NA	57.50	1.03	NA	696.875
2	Loads Limited	September 06-07, 2016	September 28-29, 2016	35.625	14.375	50.00	34	127.837	14.66	142.49	3.59	1.02	1,700.000
3.	Roshan Packages Limited	17-18 January, 2017	30-31 January 2017	24.375	8.125	32.50	86.25	80.435	8.519	88.954	3.30	1.05	2,803.125

Source: Securities Exchange Commission of Pakistan

### Debt Capital Markets

Efficient and liquid debt markets can help mitigate the adverse impact of financial crises by providing an alternative source of financing.

In Pakistan, the debt market has largely remained underdeveloped and effective measures need to be are being put in place to bridge this gap with other regional and modern economies. The Capital Market Development

## Pakistan Economic Survey 2016-17

Plan (CMDP) envisages implementation of number of initiatives and measures for the growth of Debt Capital Markets.

During the period July 2016 to March 2017, a total of 06 debt securities were issued. The break-up of these debt issues is as following:

Sr. No.	Name of Security	No. of Issues	Amount (In billion rupees)
i.	Privately Placed Term Finance Certificates	1*	3.0
ii.	Privately Placed Sukuk	4**	12.492
iii.	Listed Sukuk	1***	10.50
	Total	6	25.992

\*(by JS Bank Limited); \*\*(by Pak Elektron Ltd, Meezan Bank Ltd, Ghani Gases Ltd and Byco Oil Pakistan Ltd); and \*\*\* (by Fatima Fertilizer Company Ltd)

As on June 30 2016, a total of 88 corporate debt securities were outstanding with an amount of Rs. 601.23 billion as follows:

Sr. No.	Name of Security	No. of Issues	Amount outstanding (In billion rupees)
i.	Listed Term Finance Certificates (L-TFCs)	14	21.10
ii.	Privately placed Term Finance Certificates (PP-TFCs) and Listed on OTC	36	130.39
iii.	Sukuk	36	448.22
iv.	Privately placed Commercial papers	1	0.80
v.	Participation Term Certificates (PTCs)	1	0.716
	Total	88	601.23

Source: Securities & Exchange Commission of Pakistan

### Mutual Funds

Assets Under Management (AUM) of the industry stood at Rs.694 billion on March 31, 2017 as compared to Rs.546 billion as on June 30, 2016 showing an increase of almost Rs 148 billion. Equity funds dominated the AUMs of

the industry with the largest share i.e. 48%. Income funds held the second largest share i.e. 19%, followed by Money market funds with share of 12%. Major highlights of the mutual fund industry, as on March 31, 2017 in comparison with June 30, 2016, are as under:

Description	(Rs in million)	
	March 31, 2017	June 30, 2016
Total Assets under Management of Industry	694,273	546,222
Total Number of Funds	203	192
Discretionary/Non-discretionary portfolio	137,255	139,229

Source: Securities & Exchange Commission of Pakistan

To facilitate further growth of the mutual fund industry and to safeguard the investor's interest, SECP has introduced several initiatives including:

**Cooling-off rights:** Cooling-off rights were given to first-time investors of mutual funds allowing them to obtain refund of their investment within three business days of the date of issuance of investment report to investor. The motive was to allow the investor

to withdraw his investment in case of misselling by the mutual fund and aimed at protecting the investor interests.

**Standardized benchmarks for CIS:** All asset management companies were directed to use standardized benchmarks for their collective investment schemes. This measure has been taken to increase investors' awareness and to provide ease of reference to the investors. They are now able to make more uniformed

comparisons of performance set against their benchmarks.

**Financial Inclusion:** In order to increase retail outreach and to enhance financial inclusion, introduction of Sahulat Sarmayakari Account for low risk customers and branchless banking account holder were introduced.

**Development of Distribution Network:** Requirements for distributors selling mutual funds of a single Asset Management Companies (AMC) have been prescribed. A new class of mutual funds distributors comprising of qualified and experienced individuals has been introduced, who can distribute the mutual funds units of a single AMC only by complying with minimum qualification. This requirement is likely to provide job opportunities to individuals interested to carry out the distribution function of the AMC's and shall also encourage to establish a vibrant distribution network.

**Increasing Outreach:** SECP has allowed AMCs intending to increase their outreach beyond big cities to charge marketing and selling expenses. The objective of this initiative is to increase the retail penetration of mutual funds and distribution network of AMCs across the country.

**Risk Management:** Requirements about liquidity management, internal credit assessment and identification of clients to curtail/manage large redemption risk for the money market schemes have been introduced.

### Modarabas

The modarabas have played a vital role in the development and growth of Islamic modes of financing in the country in terms of declaration of highest dividend percentage to their certificate holders. The modarabas are providing a wide range of Islamic financial products and services to the masses in line with the Shari'ah principles.

Modarabas were advised to expand their outreach, especially to SMEs and the low-income groups. In this regard, four Modarabas opened first Islamic financing facility center in

Rawalpindi to provide affordable financing on Islamic Shari'ah principles to the common people to buy motorcycles and other products.

As on March 31, 2017 there were 37 modaraba companies and 28 modarabas, registered with the SECP. Moreover, the aggregated equity of modarabas was Rs. 20,712.00 million, whereas the total assets of the modaraba sector stood at Rs. 41,473.00 million. Out of the total 25 operational modarabas, 19 modarabas declared cash dividend.

Keeping in view the practical difficulties and to bring operational flexibilities, the modaraba regulatory framework is being reviewed in line with international best practices. The major reforms inter alia include:

- Introduction of the concept of unlisted modarabas to facilitate new entrants and to help growth of Islamic financial services industry.
- Introduction of a new concept of fund raising through issuance of Term Equity Certificates.
- Prescribing new limits regarding certificate holding of Modaraba Company and its related parties in a Modaraba to encourage and maximize equity participation by the public.

It is expected that the suggested amendments, once approved and notified, would be helpful in promoting Modarabas as pure Islamic financial institutions and providing impetus for the growth of the sector.

### Real Estate Investment Trusts (REITs)

The first REIT of Pakistan, namely Dolmen City REIT (DCR), was launched in June 2015. Dolmen City REIT is a closed ended, listed, Shariah compliant, perpetual, rental REIT scheme. As of March 31, 2017, the fund size of Dolmen City REIT was reported at Rs 41.5 billion. Dividend yield for Dolmen City REIT for the year 2016 stands at 10.40%, in line with the offering document. This represents a low risk steady stream of income for individual investors who do not possess enough market

knowledge to take the decision while investing in real estate. Stock price of DCR remained stable during the period at an average of Rs10.42, touching a high of Rs11.20 and a low of Rs.9.89.

**Voluntary Pension Scheme (VPS)**

The SECP regulates the VPS in Pakistan through the VPS Rules, 2005. The regulatory regime envisages a trust structure for the protection of the investors. The VPS envisages voluntary contributions by Pakistani nationals in a pension fund approved by the SECP. The amount accumulated in a pension fund during

working life can be used to avail regular stream of income at retirement. The government has given tax incentives to individuals under the current tax regime to encourage savings for retired life.

During the period under review, the Assets Under Management (AUM) of the voluntary pension industry witnessed increase of Rs. 5.15 billion or 21 % as compared to June 30, 2016.

Major highlights of the pension fund industry, as on March 31, 2017 in comparison with June 30 2016:

Description	March 31, 2017	June 30, 2016
Total Assets under Management of Industry (Rs. in billion)	24.4	19.3
Total Number of Funds	19	17
Total Number of Fund Managers	10	9

**Source: Securities & Exchange Commission of Pakistan**

In order to foster further growth of the pension fund industry and to safe guard the interest and rights of the investors, SECP has instituted several regulatory reforms. The proposed amendments in the **VPS Rules, 2005 have been approved by the federal government.**

**Availability of financial statements on website:** The corporate entities including mutual funds are allowed to make financial statements available on the website.

**Participant to be informed as and when any activity takes place in their account:** A pension fund manager shall send an account statement whenever there is an activity in the account of a participant.

**Conditions applicable to trustee:** In addition to scheduled banks and CDC, any company with the approval of SECP may act as a trustee provided that the trustee has competent and experienced resources to the satisfaction of the SECP and is registered with the SECP.

**Corporate Sector**

**Measures for e-Governance**

**Launch of new User Registration System under e-Services:** SECP launched the new User Registration System under e-Services on

March 30, 2017. The new system would replace the existing requirement of obtaining digital signatures from National Institutional Facilitation Technologies (NIFT) with registration of users by employing user login, password and PIN code, for signing of the documents to be submitted to the Commission and the registrar concerned. Introduction of the new system will translate not only into reduction of cost from Rs. 1,500/- per user to Rs. 100/- per user, it will also reduce turnaround time from days to minutes for registration of users of e-Services. This will also be a one-time registration without any renewal and associated cost as was earlier required on an annual basis. This facility will be a great incentive for potential promoters of companies, and is likely to further facilitate corporate growth in the country.

**Integration of e-Services with Punjab Business Registration Portal:** SECP has approved signing of an MOU with the Punjab Information Technology Board to integrate e-Services of SECP with the Business Registration Portal developed by PITB for registration with the provincial authorities including Industries, Commerce & Investment Department, Labour and Human Resource Department, Punjab Employee Social Security

Institution and Excise, Taxation & Narcotics Control Department.

**Revamping of e-Services:** The e-Services portal of SECP is being revamped through optimal utilization of information and communication technologies with the following objectives:

- Enabling online inspections for end-users of company information
- Enabling online issuance of certified true copy of forms and returns
- Simplification of submission process of forms and returns through a user friendly interface
- 24/7 availability
- Availability of e-Services through mobile apps

### Facilitation

**Establishment of Facilitation Desk at Sialkot Chamber of Commerce & Industry:** In order to encourage company incorporation, to facilitate / promote e-filing, and to enhance the scope of facilitation, the SECP has established facilitation desk at Sialkot with the collaboration of Sialkot Chamber of Commerce & Industry.

**Establishment of facilitation Desk at Gwadar:** The SECP has signed an MOU with China Ports Holding Company (Pvt.) Limited to establish a facilitation Centre at Gwadar.

**Establishment of Company Registration Office at Gilgit-Baltistan:** The SECP has expanded its outreach by establishing Company Registration Office (CRO) at Gilgit-Baltistan.

**Establishment of Incorporation and Facilitation Desks:** Incorporation and Facilitation Desks have been established at the three big CROs at Karachi, Lahore and Islamabad.

### Legal Framework Development

**Companies (Appointment of Legal Advisers) (Amendment) Act, 2017:** SECP achieved another milestone in ease of doing business, as its recommendations to amend the 43-year-old

Companies (Appointment of Legal Advisers) Act, 1974, have been approved by the Parliament in February 2017. The Companies (Appointment of Legal Advisers) (Amendment) Act, 2017, has been promulgated and the threshold of the paid-up capital for companies to appoint their legal adviser has been increased from over Rs. 0.5 million to over Rs.7.5 million. Through this initiative, around 30,000 companies have been relieved from this regulatory burden.

**Amendments in Companies (General Provisions & Forms) Rules, 1985:** The amendments in Companies (General Provisions & Forms) Rules, 1985 have been made to minimize growing incidents of corporate disputes between the shareholders and the management or within the management. These amendments prescribe:

- Detailed procedure for transfer of shareholding in a private company and the returns for notification to the register of such transfer.
- The minimum time for acceptance of offer of right share made to the member under the Companies Ordinance, 1984.
- Certain documents to be filed with the register, while notifying removal of directors.

**Amendments in Companies (Registration Offices) Regulations, 2003:** Amendments in Companies (Registration Offices) Regulations, 2003 have been made to ensure smooth functioning of CROs, to reflect present practices/ procedures and to cater to future requirements.

**Companies (Appointment of Legal Advisers) (Amendment) Act, 2017:** The new amendment aim to save the small sized companies from financial burden. A large number of companies will be benefited from the new amendment.

**Employees Provident Fund (Investment in Listed Securities) Rules, 2016:** The regulatory requirements pertaining to investment of Provident Fund were redundant and cumbersome. SECP notified the Employees

Provident Fund (Investment in Listed Securities) Rules, 2016. SECP carried an extensive consultative process before finalization of the said Rules. The new Rules emphasize on improving/tightening governance structure of the employees' provident fund/trust, coverage of risk vis-à-vis ensuring possibility of maximum return on the fund. Furthermore, the new Rules are comprehensive and provide more investment avenues to the fund/trust to increase employee's wealth.

**Principles of Corporate Governance for Non-listed companies:** There was no applicable framework of governance for Non Listed Companies (NLCs). SECP in collaboration with International Finance Corporation (IFC) has formulated best acceptable Principles of Corporate Governance for Non Listed Companies after extensive consultation with stakeholders. These are voluntary guidelines that will set out the corporate governance landscape for over 60,000 NLCs operating in Pakistan by providing a governance toolkit to improve their internal and external governance structures. The Commission has held one awareness session in Karachi and plans to hold seminar in Lahore and Islamabad. The principles will change the governance paradigm for NLCs by enabling the corporate sector to adopt the best international practices.

**Whistle blowing mechanism:** SECP has designed implementation strategy for whistle blowing mechanism for listed companies resulting in improved good corporate governance and regulatory oversight. This mechanism would include preparing an Act for protection and reward of Whistle-blowers, establishing an external whistle blowers program at Commission level and prescribing an internal whistle blowing program at company's level.

**Valuers' Regime:** Valuers' regime introduced in Companies Bill has garnered a lot of attention of real estate industry. In this regard, regulatory regime has been strengthened for companies registered with SECP having real estate as their principal line of business to

operate under certain regulations by providing complete mechanism for maintaining proper accounts and approval of authorities. It is anticipated that prospective investor will be encouraged to invest in real estate project initiated by a company which has a transparent financial record. Consultation within SECP, State Bank of Pakistan and Pakistan Banks Association has been completed.

**Audit Oversight Board:** A joint committee of ICAP and SECP deliberated upon the necessity of independent oversight mechanism for audit profession in compliance with international best practices. Committee submitted its recommendations in the form of a report along with proposed legal framework to President ICAP and Chairman SECP. In line with recommendations of the Committee, enabling provisions for establishment of Audit Oversight Board (AOB) was enacted through the Securities and Exchange Commission of Pakistan (Amendment) Act, 2016. Its establishment would ensure effective oversight of the quality of audit of public interest companies. The federal government has notified members of the AOB.

**Authentication of Statutory Returns filed by the Companies:** In order to ensure transparency and sanctity of information notified through statutory returns filed by the companies with the Commission, all companies were directed by the Commission to ensure that returns filed with the Commission and CROs shall be authenticated by an officer as defined under the Ordinance, who shall also be duly authorized through a resolution of the Board of Directors in writing.

#### **Islamic Finance**

The following measures were taken during the period under review for development of Islamic capital market:

- Tax neutrality for Sukuk vis-a-vis conventional instruments was achieved through an amendment to the Tax Ordinance on August 31, 2016.
- A 2 percentage point tax rebate for Shariah-compliant listed manufacturing companies

was introduced through the Finance Act, 2016. The Shariah-compliance criteria for this tax rebate has been notified by FBR. This tax rebate for qualifying listed manufacturing companies, along with tax neutrality for sukuk, shall facilitate the growth of Islamic capital market.

- A holistic Shariah governance framework is being drafted under the enabling provision in the proposed Companies Bill.
- A Sub-committee on Islamic Capital Markets chaired by Chairman SECP has been formed under the Implementation committee for development of Islamic Capital Market. The committee held external consultations for development of sukuk and Islamic REIT. Amendments in relevant rules and regulations are in progress in the light of the feedback received from stakeholders.

SECP consultative forum on Islamic Finance has been established which comprises of representatives from industry and financial sector.

- SECP- SBP Joint forum on Islamic finance is working in close coordination to address various industry problems and challenges in Islamic Banking and Finance. SBP-SECP reviewed the Commodity Murabaha Product proposed by PMEX, and recommended changes to tailor it to conform to Shariah principles.
- All Shares Islamic Index has been launched at PSX. The index represents companies meeting certain Shariah compliance criteria. Additional disclosure requirements for companies listed on PSX has been included in the proposed Companies Bill for the purpose of Shariah screening in order to include or remove a scrip from this index.
- Islamic Mutual funds have registered phenomenal growth. The Share of Islamic Mutual Funds represent 38 % of the total Mutual Fund industry as on January 31, 2017.

- An Independent Shariah Advisory Board (SAB) has been formed at SECP consisting of renowned scholars. The Shariah Advisory Board make recommendation to the Commission on all matters related to Shariah.

### National Savings Schemes (NSS)

National Savings (NS) has initiated the process of restructuring, with the resurrection of the corporatization of National Savings through Pakistan Savings Bill and with the appointment of a professional Head of the Department from the market. Its existing centralized organizational hierarchy has been restructured by bringing it on modern banking lines, while empowering field offices by delegating the powers in Zonal offices which were formed based on cluster of three regions each.

During 2016-17, CDNS has taken numerous strategic level initiatives for both strengthening of the National Savings Schemes (NSS) and the Organization. After a gap of 7 years, NS has successfully launched Rs.40,000 Premium Prize Bond (Registered) on March 10, 2017 which is issued to only registered investors in their names and has the unique features of both the profits paid biannually and the prize money through quarterly draws. Both the profits and the prize money are also directly credited into investors' bank accounts which are being offered for the first-time, thereby saving time of the investors.

This is a major step towards documentation of economy. Another historic milestone was on January 14, 2017, when CDNS became the only non-banking member of National Institutional Facilitation Technologies (Pvt.) Limited (NIFT) – the Banking Clearinghouse. With this initiative, the profits of NS investors can be collected into their respective accounts; thereby, offering safety and security, and access to ATMs & Internet & Mobile Banking offered by their banks. This has resulted in overall improvement in time for the collection of profits by the senior citizens through cheques from 5/10 days before to now 1/3 days. On the automation side, the organization is going to complete digitization of more than 222 National Savings Centres (NSCs) across Pakistan by

## Pakistan Economic Survey 2016-17

September, 2017; thereafter, the third and the final phase of digitization will be initiated to complete 100% digitization of NSCs across the Country.

NS has rolled out a major IT infrastructure revamping initiative which is being assisted by the World Bank, USAid and Karandaaz (funded by UKAid and the Bill and Melinda Gates Foundation). Under this initiative, a Centralized IT System with modern ERP system will be put in place, a Data Centre/ Warehouse and Disaster Recovery Centre will be established, Data Digitization and Documentation Management System along with the Business Intelligence framework will also be introduced. NS is also coming up with numerous Alternate

Delivery Channels (ADCs), like access of accounts by the investors through cell phone and internet, etc., which will act as cornerstone for achieving Financial Inclusion targets. The project of NSC connectivity across the digitized offices has also been initiated.

The product basket of National Savings Schemes (NSS) ranges from three months Short Term Savings Certificates to ten years long term Defence Savings Certificates. As of 31st March, 2017, the portfolio of NSS is Rs.3,409,376.34 million which constitutes around 24 percent share of domestic debt and is also equal to 30 percent of total banking deposits. Latest scheme-wise net investment is as under:-

S.	Name of Scheme	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 (July-Mar)
1	Defence Savings Certificates	7,295.52	29,892.00	12,970.78	16,183.34	8,053.00	17,152.52
2	National Deposit Scheme	(0.94)	(0.56)	(0.28)	(1.04)	(0.26)	(0.13)
3	Khaas Deposit Scheme	(0.55)	(1.19)	(0.83)	(4.25)	(2.00)	(0.18)
5	Special Savings Certificates (Regd)	(52,834.15)	46,401.52	57,619.55	28,547.06	(1,932.80)	(22,063.09)
6	Special Savings Certificates (Bearer)	(0.85)	(0.31)	(0.80)	-	-	(0.70)
7	Regular Income Certificates	43,971.60	36,046.99	62,783.32	50,582.10	(16,223.03)	(20,649.16)
8	Bahbood Savings Certificates	52,254.51	47,622.66	53,962.99	45,927.75	63,761.07	45,337.14
9	Pensioners' Benefit Account	16,359.53	17,538.90	18,471.19	15,701.91	20,645.05	16,224.89
9	Savings Accounts	3,978.46	1,098.94	283.17	3,859.39	3,807.69	1,600.61
10	Special Savings Accounts	61,098.77	150,835.98	(53,463.73)	100,124.92	30,924.10	47,795.38
11	Mahana Amdani Accounts	(90.52)	(78.53)	(72.45)	(72.98)	(63.01)	(42.18)
12	Prize Bonds	56,324.21	56,175.39	57,058.40	75,884.55	123,901.93	82,331.54
14	Postal Life Insurance	-	-	-	-	-	-
13	National Savings Bonds	-	(3,425.58)	-	(62.60)	-	-
14	Short Term Savings Certificates	-	3,969.69	(2,628.92)	389.09	157.88	841.56
15	Premium Prize Bonds (Registered)	-	-	-	-	-	769.00
	Grand Total	188,355.59	386,075.89	206,982.38	337,059.25	233,029.61	169,297.19

-. Not Applicable, R: Registered, B: Bearer, Figures in Parenthesis represent negative numbers  
Source: Central Directorate of National Savings

### Conclusion

A Capital Market Development Plan, 2016-2018 has been developed detailing the way forward for the Pakistan capital markets. The implementation of the Plan has been kicked off by taking various initiatives by the SECP during 2016-17. The PSX has gained lot of

momentum in 2016 and stood 5<sup>th</sup> among the global markets in terms of providing returns to the investors. During July- 8<sup>th</sup> May, FY 2016-17 period PSX witnessed an overall bullish trend and PSX 100 index gained 32.4 percent over end June 2016 and remained on top in Asian markets.