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## Moin M. Fudda

Chairman, Central Depository Company (CDC)

**ICMA Pakistan:** Please tell us briefly about the role, functions and regulatory framework of CDC?

**Moin M. Fudda:** The role of CDC is to establish and operate a book-entry system for the transfer of securities (whether listed or not) and to keep record of all transfers taking place in the system including information relating to securities holders and to provide information to the Issuers of securities in accordance with law.

The main functions of CDC are to establish and administer CDS; provide facilities for effecting electronic Deliveries of Book-entry Securities and Pledges in respect of Book-entry Securities; provide information in relation to Book-entry Securities to CDS Elements and other persons in accordance with the Central Depositories Act, 1997 and the CDC Regulations and such other facilities and services as the CDC may from time to time determine in accordance with its memorandum of association. Further CDC function is also to co-operate with the Commission, the State Bank of Pakistan, the Securities Exchange and the Clearing House in carrying out the above functions and to provide such assistance as is required by the Commission, the State Bank of Pakistan, the Securities Exchange and the Clearing House in carrying out their functions and duties under the Companies Act, 2017, the Securities Act, 2015, the Securities and Exchange Commission of Pakistan Act, 1997, the Banking Companies Ordinance, 1962, or under any other applicable law for the time being in force.

As far as regulatory framework is concerned, CDC is licensed by SECP under the Central Depositories (Licensing and Operations) Regulations, 2016 made pursuant to Securities Act, 2015 as a central depository. The functions of CDC and operations of CDS are subject to and governed by the Central Depositories Act, 1997, the Securities Act, 2015, the Central Depositories (Licensing and Operations) Regulations, 2016 and the CDC Regulations. The CDC Regulations define the role and responsibilities of CDC and CDS Elements in connection with CDS.

**ICMA Pakistan:** What initiatives and reforms have been taken by CDC to facilitate investors of capital market?

**Moin M. Fudda:** Over the years, CDC has taken a number of initiatives and reform measures with a view to improve the operations of the capital market and protect the interest of general investors, which include but not limited to introduction of Investor Account Services for retail level investors for custody of securities directly with CDC; withdrawal of Group Account (Omnibus structure) facility; introduction of Sub-Account Opening Form also containing client level authorization for handling of their securities by Participant; implementation of SMS, web access, e-Alerts and e-Statement services; direct settlement of trades from client accounts in CDS; direct circularization of Account Balance and Account Details Statement to sub-account holders; enhanced compliance monitoring and disciplinary measures etc.

**ICMA Pakistan: What is the role of CDC to facilitate and protect the investors?**

**Moin M. Fudda:** Investor Protection has a vast scope where CDC seeks to put in place appropriate measures to protect the interest of investors. Such measures include but not limited to the following:

**Unique Identification Number:** UIN is a CNIC / NICOP or passport number of an individual. In case of company or body corporate, UIN is the registration number of such company or body corporate. An investor cannot open an account or trade without having his UIN registered with NCCPL. UINs are issued by NCCPL after due verification including NADRA check. CDS account and trading account with broker are also opened on the basis of UINs registered with NCCPL where KYC/CDD is performed.

As per section 24 of the Central Depositories Act, 1997, a Participant shall not handle securities of his sub-account holders without their authorization. Under the CDC Regulations, sub-account can only be opened on the basis of duly filled and signed Sub-Account Opening Form ("SAOF"), which also contains client level authorization for handling of securities. Where it is observed that sub-accounts are opened without obtaining SAOFs, CDC blocks such sub-accounts until default is rectified.

Section 78 of the Securities Act, 2015 and Regulation 16 of Securities Brokers (Licensing and Operations) Regulations, 2016 read with Regulation 4.19 of CDC Regulations requires Stock Brokers to clearly segregate client assets and do not commingle them with their own assets. Further, Section 4 of the Central Depositories Act, 1997 states that legal title to securities held in sub-account shall vest in the sub-account holder. Therefore, in the event of bankruptcy of a Participant, the securities of the sub-account holder remain safe.

**Transfer of Holding:** Where admission of a Participant is restricted or suspended in the CDS due to any non-compliance, the investors of such Participant have the option to transfer their securities directly through CDC in accordance with the CDC Regulations.

**Asset under Custody:** CDC has introduced and implemented the Asset under Custody regime where Broker Participants can only hold securities in propriety and client accounts to the extent of 25 times of their respective Capital Adequacy Level ("CAL"). Through such measure, a Broker Participant cannot hold unlimited securities under its custody, thus minimizing the custody exposure.

**Disciplinary Action:** CDC takes disciplinary action against non-compliant element who is found to be in breach of its regulatory framework. Predominantly, such breaches are identified during compliance monitoring activity carried out by CDC under the CDC Regulations. It is important to note that any action taken by an SRO against a brokerage house or a listed company, corresponding action is also taken by other SROs.

**ICMA Pakistan: What are the criteria for ensuring compliances of prescribed regulations by brokerage houses?**

**Moin M. Fudda:** Brokerages houses are subject to various regulatory requirements prescribed by SECP under the statutes. For joint inspection, detailed criteria for ensuring compliance of such regulations is prescribed under the Joint Inspection Regulations, 2015 where risk-based approach is employed for

selecting the brokerage houses. In addition, SROs have also devised their own mechanism for compliance monitoring of brokerage house.

**ICMA Pakistan: What steps you suggest to bring transparency and efficiency in capital and financial markets in Pakistan?**

**Moin M. Fudda:** The capital market in Pakistan is quite small as compared to other markets in the region in terms of market size, products and investor base. Our market has a long way to go to be at par with other markets where focused approach is required particularly in following areas:

- o Improvement in account opening process
- o Development of debt and derivative markets
- o Investor awareness and cultivation
- o Deployment of modern technology
- o Online services to address the outreach of investors

**ICMA Pakistan: What measures are required to promote risk management culture in Pakistan?**

**Moin M. Fudda:** Risk culture can be defined as individual and group behavior within an organization that determines the way in which the company identifies, understands, discusses and acts on the risks the organization confronts and takes.

Risk culture is the responsibility of the leadership team because it is critical to the effective management of the business. It is clear that a poor risk culture in certain organizations contributed to the last financial crisis and it continues to cause high-profile problems in the financial sector. So it is no surprise that regulator, rating agencies and other stakeholders are focused on risk culture to understand whether organizations are handling risk appropriately. In addition to external regulatory pressures, there are often internal motivations for improving how extensively risk management practices are demonstrably embedded within an organization and how they can be measured in an objective and consistent manner.

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The first step in developing an effective risk culture is understanding your entity's current risk culture and how well it supports the entity's approach to managing risk. One way in which this can be done is to break down risk culture into more measurable attributes such as Risk Competence, Organization, Relationships and Motivation.

One way to measure the current status of each of these indicators is to undertake a survey. This not only provides information on current risk culture but also provides a benchmark which can be used to measure progress over time.

**Building an Effective Risk Management Culture in Pakistan**

Risk Management is a disciplined approach to ensure achievement of organization's strategic and operational objectives, therefore require specialized knowledge and skills.

Risk culture starts from the top of organization and trickle down to the bottom.

There exist innumerable challenges that hinders in building an effective risk culture in Pakistan which include lack of knowledge and skills at Board level; non-availability of specialized human resources in job market; absence of a

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specialized institute to promote risk management across organizations to impart required knowledge and skills; lack of regulatory emphasis on organization's risk management and its reporting; lack of awareness of risk management and its value creation to organization among the stakeholders; highly concentrated shareholding in companies within Pakistan due to which company's business decisions are based on risk preference of holding family.; lack of participation of institutional shareholders in general meetings of companies and low allocation of financial and other organizational resources.

To overcome the above challenges and promote risk management culture in Pakistan, we need to take the following steps;

#### **Training of Board Members and inclusion of Risk Specialist on the Board**

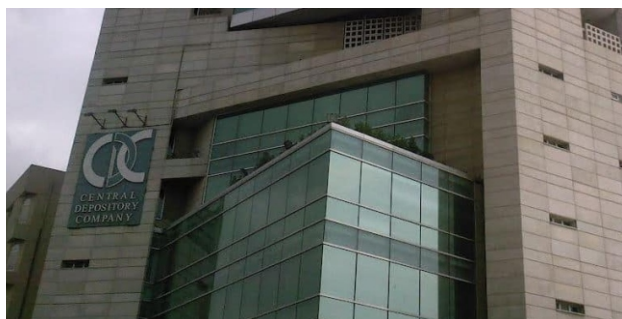
Although Securities & Exchange Commission of Pakistan make it compulsory to the Board Members to be a certified director under directors training program in the Listed Companies Code of Corporate Governance Regulations 2017, but the training includes insufficient material related to Board's responsibility towards Risk Management.

#### **Establishment of Specialized Risk Management Institute**

The Government would establish an specialized risk management institute in collaboration with private sector with the objective to build curriculum to training human resource in the field of risk management and conduct CPD activities related to risk management.

#### **Inclusion of Risk Management as Subject to Professional Studies**

Risk Management should be part of the curriculum of professional studies such as ICMA Pakistan or CA Pakistan to



impart risk management skills in professionally qualified workforce of the country.

#### **Regulatory Emphasis through Regulations**

Securities and Exchange Commission of Pakistan may emphasize on risk management through upcoming laws, rules and regulations and amendment in the existing laws. It is further recommended that the SECP shall issue guidelines for implementation of enterprises risk management framework within listed companies in line with the COSO ERM framework.

#### **Awareness of Risk Management Sessions**

Awareness of risk management sessions are to be organized through professional institute such as ICMA Pakistan or CA Pakistan, with specific emphasis shall be made on Risk Culture Building process as stated above and value creation through risk management.

#### **Allocation of Resources to Risk Management**

Organizations should allocate adequate resources to build risk culture within the organization by providing trainings to employed workforce related to risk management.

#### **Linking of Performance Reward System with the Company Risk Management Strategy**

Companies and organizations are to be encouraged for linking its performance reward system with risk management policy and strategy to create and promote risk management culture within organizations.

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**ICMA Pakistan:** Can you suggest areas in which ICMA Pakistan and CDC can collaborate for development of capital market?

**Moin M. Fudda:** We believe both CDC and ICMA Pakistan can jointly play an important role towards investor awareness and cultivation through workshops and seminars at different locations. CDC can also avail the expertise in areas of mutual interests.

**ICMA Pakistan:** What skills and certifications are required by new professionals who would like to join Stock Exchange, Brokerage house, Depository Company or Clearing house?

**Moin M. Fudda:** Given that the operations of the capital market are highly regulated, the best candidate to join any of these institutions shall possess a professional degree in law, accountancy or business with adequate knowledge or experience of the capital / financial market. An ICM certified would be a preferred choice.

*The Editorial Board thanks Mr. Moin M. Fudda, Chairman CDC for giving his exclusive interview for Management Accountant Journal.*