



SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN (SECP)



Mr. Aamir Khan

**Chairman, Securities & Exchange
Commission of Pakistan (SECP)**

“ ICMA Pakistan members are serving at senior positions within the SECP, at CDC, NCCPL and other market institutions/ intermediaries and their role in improving the ease of doing business climate within the capital market are commendable. However, academic and professional research is a key area where ICMA Pakistan can play a greater role by identifying critical measures and innovative solutions for further facilitating ease of doing business in Pakistan ”

ICMA Pakistan: Kindly apprise briefly about the major SECP reforms to promote ease of doing business and reduce over-regulation?

AK: The SECP is Pakistan's largest regulator in terms of the sectors falling within its purview. SECP's assigned mandate includes the capital market, the corporate sector, the insurance industry, the non-banking finance companies, and private pensions. SECP also exercises oversight over various external service providers to the corporate and financial sectors, including chartered accountants, credit rating agencies, corporate secretaries, brokers, surveyors etc. Recently, the SECP has also assumed the role of secured transactions registry. To match the diversity and dynamism of this wide-ranging mandate, it is essential to pursue a multi-faceted reform agenda that balances effective regulation and supervision and a strong compliance framework accompanied by measures that ensure a facilitative environment that fosters the

development, promotes ease of doing business and reduces the cost of doing business. We, at the SECP, realize that today's financial and corporate sector regulators cannot maintain the traditional approach of taking a back seat to regulation. Our expanded canvas necessitates evolution into a far more vibrant and active regulator that drives growth and development while pursuing closer linkages and greater contribution of its regulated sectors to the real economy. The reforms undertaken for ease of doing business and reducing over-regulation may, therefore, be evaluated in a broader backdrop.

In the capital markets, concerted efforts are underway for simplifying the overall regulatory framework and reducing regulatory costs to ensure a viable business model for intermediaries and make our market an attractive capital generation avenue. Revamping of public offering regulations, bringing a new set of regulations for the listing of growth enterprises, substantial reduction of stock market-related

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transactions fee at CDC and NCCPL are a few examples of the reforms introduced in this area. A new brokerage regime has been introduced that balances the financial standing and compliance burdens of brokers based on the functions they may choose to perform.

There have been significant improvements to the regulatory framework for specialized companies to provide the required flexibility for innovation and ensure rapid development and increased penetration of regulated financing alternatives to a wider spectrum of sponsors and investors. The pricing issues of asset management companies (AMCs) have been resolved by allowing charging of different types of expenses within the overall expense ratio without any sub caps, encouraging widespread distribution network and substantially reducing annual monitoring fees. With the withdrawal of regulatory cap on management fees, AMCs have been allowed to charge

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management fees within the Expense Ratio Cap. AMCs have also been allowed to charge selling and marketing expenses including alternative delivery channels expenses to all categories of funds without any time and sub-limit. Furthermore, to reduce the operational burden on AMCs, the SECP has removed different regulatory approval requirements for mutual funds. The required regulatory approvals have been drastically reduced with approval for minor amendments to the constitutive documents no longer requiring SECP approval. Fees for the mutual fund industry have been substantially reduced. To make it simpler to galvanize financing for the MSMEs small-sized entities engaged in microfinance but having less than 5000 borrowers and less than Rs.50 million outstanding loans are not required to obtain the license. Furthermore, the exposure limits of registered non-bank microfinance companies have been increased to facilitate individual borrowers and microenterprises. The SECP is also aggressively pursuing reforms to the private funds' industry to enable private investors and venture capitalists to fund business needs. The regulations governing real estate investment trusts have been revamped to streamline and simplify the REITs model and harness its potential for greater transparency and documentation in the real estate sectors

For the corporate sector, fees have been reduced significantly, the company registration process has been simplified by merging several forms and procedures and a corporate restructuring company has been set up enabling efficient resolution of NPL and corporate rehabilitation. In the first half of 2019, the SECP has launched its unified online company registration system which completely integrates e-Services with the Federal Board of Revenue (FBR) and the Employees Old-Age Benefits Institution (EOBI) at the Federal level and with

Business Registration portals of Punjab and Sindh at the Provincial level. As a result, Pakistan's ranking in “Starting a Business” indicator has improved by 58 points from 130 last year to 72 this year as per the World Bank Doing Business Report 2020. Moving forward, SECP plans to extend the OSS facility to KP and Baluchistan as well.

Operationalization of the secured transaction registry that will drastically improve access to finance for SMEs and farm credit, is at an advanced stage. To reduce compliance burden, fourth and fifth schedules of the Companies Act, 2017 have also been amended to facilitate the business community without compromising the decision-making needs of users.

The corporate governance framework has been aligned with global best practices by shifting from a rule-based regime to a “comply or explain” approach that includes a combination of mandatory and recommended practices. With only 8 mandatory requirements, the remaining 30 requirements have been shifted to comply and explain the basis, thereby significantly reducing the compliance cost of companies. Further issue of capital has also been facilitated by amending the regulations and removing certain requirements.

SECP has also embarked upon a transformational journey of digitization through its recently launched initiative called 'Leading Efficiency Through Automation Prowess (LEAP)'. This will support to achieve 100% end-to-end automation, complete integration with multiple government agencies for one-time registration and above all enabling digital financial reporting for companies through Extensible Business Reporting Language (XBRL).

ICMA Pakistan: What factors are creating a negative impact on business growth in Pakistan? What needs to be done?

AK: That is a very broad question, so I shall limit my response to the areas falling within the ambit of SECP's scope. Although significant improvements in the starting business landscape have been acknowledged by the World Bank, I believe there is still immense potential for furthering growth and improving the overall business climate. Some key enablers include simplification of the regulatory framework and reducing the cost of doing business. Unfortunately, over the years layer after layer of regulations by multiple institutions has resulted in manifold increases in compliance costs. Different levels of registration and reporting requirements by various federal and provincial agencies are overburdening businesses. I think laws and regulations need to be simplified and harmonized to remove duplications and redundancies, create flexibility to efficiently handle emerging issues and facilitate businesses.

Limited access to finance is also a key driver hampering business growth in Pakistan. There is dire need to strengthen the linkage between financial markets and the real economy. SECP has already instituted various measures in this area such as encouraging corporatization while promoting start-ups, introducing concepts of collateral management companies, initiating the concept of the regulatory sandbox, promoting private equity and venture capital funds, setting up secured transaction registry, etc. However, further efforts in this area are required by all stakeholders including FBR, SBP and financial intermediaries.

Dispersed and manual processes are also inhibiting business growth in this competitive technology-driven world of today. Digitalization and cross-agency linkages can help harness the

potential of increased automation, connectivity and business innovation. For example, the SECP can facilitate banks for digital account opening by corporates by making available required documents through a shared platform.

ICMA Pakistan: Do you think documentation of un-registered economy is essential for improving the doing business climate?

AK: Documentation of the un-registered economy can most certainly play a pivotal role in improving the overall business climate of our country. I foresee unprecedented levels of organized and inclusive economic growth in Pakistan if we are able to successfully regularize our 'informal' sectors. Unregistered businesses pollute the formal economy by incentivizing undesirable business practices such as lack of documentation, tax evasion, unfair labor policies, etc. Although substantial effort has already been made in this area, the existence of the un-registered economy is partially due to the inability of previous governments to adopt simplified and business-friendly requirements that motivate the sector to come forward in the interest of Pakistan's future generations. The SECP has introduced the concepts of single-member company and limited liability partnerships to encourage registration of businesses. We are also exploring the concept of a single business registry for all types of businesses to promote business registrations leading to documentation of the economy. Further reforms aimed at promoting ease of doing business and simplifying registration procedures as already discussed can play an important role in improving the business climate.

ICMA Pakistan: How SECP e-Services have helped in making the company registration process faster and simpler for investors?

AK: SECP pioneered the launch of its e-Services module in 2008 which revolutionized the company incorporation process besides enabling online filing of statutory returns. The e-Services project is an electronic data gathering and retrieval system that performs automated collection, acceptance and forwarding of submissions by companies required to file forms and documents with the SECP under applicable laws. It was launched with the purpose of increasing the efficiency of the corporate sector for the benefit of investors, companies, and the economy by accelerating receipt, acceptance, and dissemination of time-sensitive corporate information filed with the SECP. Regular up-gradation of the e-Services module coupled with an online fee payment facility has made the registration and reporting processes a click away. Resultantly, the time to incorporate a company has drastically reduced from weeks to days and with the most recent upgrades, to just four (4) working hours. On average around 95% of companies are being incorporated through e-Services and more than 50% of companies are incorporated within the same day.

The latest developments include making e-Services a One-Stop-Shop for company registration through the integration of systems between the SECP and federal and provincial agencies. A single online application through SECP's e-services can now enable registration with six different agencies i.e. SECP, FBR, EOBI, Punjab Employees Social Security Institution (PESSI), Sindh Employees Social Security Institute (SESSI), Excise & Taxation Department and Labor Department of Punjab and Excise, Taxation & Narcotics Control Department and Labor Department of Sindh.

These initiatives, besides facilitating entrepreneurs, have also been acclaimed in international publications on ease of doing business. In "Starting a Business" indicator of World Bank Doing Business Report 2020, Pakistan's ranking has been improved by 58 points from 130 to 72. Besides, an improvement of 15 points has been made in the "Business Dynamics" pillar of Global Competitiveness Report 2019 mainly due to a reduction in cost and time to start a business.

ICMA Pakistan: Can you briefly outline a few major initiatives of SECP for promoting ease of doing business for capital markets?

AK: Having broadly touched upon SECP's ease of doing business initiatives, I would like to share some recent achievements for promoting ease of doing business specifically for the capital markets:

- a) A centralized KYC organization has been established which acts as a KYC repository for the capital market, reduces duplication of documentation requirements and enhances investor protection.

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- b) To facilitate investors, a standardized Customer Relationship Form has been introduced for account opening with securities brokers which have replaced the earlier lengthy Trading Account and Sub-Account opening forms.
- c) Cumbersome requirements such as bank verification for account opening have been abolished.
- d) In order to enable efficient utilization of capital by market participants, additional margin and collateral requirements have been abolished and liquidity margins have been revised which are now only applicable to large exposures of brokers.
- e) To address practical difficulties, issues relating to blank selling in the deliverable futures market have been addressed which have resulted in increased market activity.
- f) In order to make available leveraging tools to investors and augment market liquidity, Murabaha Share Financing System has been approved which allows financing in Shariah-compliant securities.
- g) To facilitate market intermediaries, SECP is also in the process of streamlining the scope of inspection regime by eliminating multiple inspections of regulated entities and bringing efficiency in the overall process in order to reduce the compliance burden on market participants.

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- h) Minimum and maximum limits of brokerage commission have been prescribed to regularize a previously unregulated area, support growth of the industry, promote competition by creating a level playing field for all market participants and to ensure delivery of quality service standards by the brokerage industry.
- i) To facilitate companies and issuers and optimize the use of technology, electronic submission of accounts and other information/documents to PSX has been allowed.
- j) To further facilitate companies that do not meet the prescribed criteria for listing on the Main Board of PSX but aspire to raise funds through capital markets, Growth Enterprise Market (GEM) has been established.
- k) Pakistan's first Regulatory Sandbox has been introduced to encourage innovation in financial services. Applications are being received for innovative products and services.

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- l) Various types of regulatory fees/levies for insurance companies and insurance brokers have been reduced to facilitate the insurance industry. Upon SECP taking up the issue of imposition of sales tax on life and health insurance with provincial revenue authorities, the Sindh Revenue Board has reduced effective rate of sales tax on individual life insurance policies from 8% to 3% and exempted health insurance from the application of sales tax till June 30, 2020.
- m) The SECP has steered the development of a Central Insurance Repository (CIR) to maintain details of policyholders and insurance policies for the life insurance sector in electronic form. CIR is expected to be launched on February 14, 2020.
- n) Major reforms undertaken for the non-banking finance companies sector include:
 - o Amendments to NBFC Rules, 2003 to prescribe minimum threshold for obtaining IFS license to undertake microfinance business i.e. license not required if (a) less than five thousand active borrowers or (b) outstanding loan portfolio is less than Rs. 50 million.
 - o Amendments to NBFC Regulations, 2008 to foster the growth of mutual fund industry and microfinance sector by reducing multiple approvals for AMCs, extending validity period for approval of Offering Document, simplified documentation for registration of new CIS, and enhancement of exposure limits for microfinancing for an individual loan from Rs. 200,000

to Rs. 500,000 and for housing and micro-enterprise loan from Rs.500,000 to Rs. 1.5 million.

- o To provide new investment opportunities to investors, Government Securities based funds/plans and infrastructure sector equity funds permitted to AMCs.
- o AMCs allowed to charge Selling and Marketing expenses including Alternative Delivery Channels expenses to all categories of funds without any time and sub-limit
- o AMCs allowed to charge different types of expenses within the overall expense ratio cap by removing regulatory pricing sub caps.
- o Facilitation of credit guarantee companies under the NBFC regulatory reforms. Such companies will be in the business of issuing guarantees to enhance the quality of debt instruments issued to finance infrastructure projects in Pakistan.

ICMA Pakistan: Experts say that despite the improvement on EODB Index; massive, costly and time-consuming business regulations at Federal, Provincial and Local levels are still impeding business growth and FDI inflow. Your comments, please.

AK: Achieving significant improvements in some key areas of the EODB index, in my view, is just the beginning of a long yet fulfilling journey. Consistent focus is required for improvements in all areas affecting business growth so that an overall conducive business environment is available to local and foreign investors alike. To address issues of cumbersome and costly business regulations, we at the SECP, are regularly reviewing laws, rules, regulations, and processes in the context of EODB. As explained earlier, recently a number of regulations have been revised, processes simplified and fees significantly reduced. Here I would also like to share a recent initiative by the Government of Pakistan namely Pakistan Regulatory Modernization Initiative (PRMI) that has been launched to map, simplify or eliminate redundant business processes and automate necessary regulatory regimes to minimize the interaction of businessmen with the Government.

ICMA Pakistan: One of the EODB indicators is to protect minority shareholders' rights in corporate governance and related-party transactions. Please share SECP's reforms initiated to comply with this indicator?

AK: Pakistan continues to perform very well on the protecting minority investors' indicator and globally ranks 28 on this indicator. For further improvements in this particular indicator, the SECP has made necessary amendments to PSX regulations whereby listed companies are required to immediately disclose significantly related party transactions to the exchange for timely information dissemination to all stakeholders, as soon as such transactions are entered into. Given the inherent risk of conflict of interest in transactions with related parties, immediate disclosures of related party transactions have become the norm for protecting minority interest.

In order to provide maximum facilitation to foreign minority investors, the SECP and other market infrastructure institutions are setting up a formal centralized forum to discuss corporate governance and other related matters. Market research and surveys are currently being carried out to identify areas of concern for foreign investors to chalk out a remedial course of action.

ICMA Pakistan: What are the major bottlenecks faced by our industry and how SECP is playing its role in removing these hurdles?

AK: We at the SECP endeavor to create an enabling business environment where access to finance is available to all and where financial intermediaries are able to effectively channelize financial resources to productive uses. From SECP's perspective, documentation of businesses is another important area in addition to enhancing insurance penetration to address financial fragility issues. As explained earlier, we are fully cognizant of the issues and challenges in areas falling under our regulatory domain. SECP's foremost obligation remains towards building a regulatory environment that is sound, efficient and cost-effective. Yet, we are equally passionate about ensuring that it is empowering for business growth. We need to be fiercely vigilant in the pursuit of transparency, yet be tirelessly focused on reducing regulatory barriers and costs! One, must not be sacrificed at the cost of the other. We are witnessing a wave of similar reforms and enabling changes across the entire spectrum of government agencies.

Stakeholder engagement is one of our primary functions. We consult and meet industry participants regularly and also interact with industry through various forums and committees. These interactions provide us required feedback, suggestions and support for implementing envisaged reforms. I am confident that the SECP is trying its best, within its regulatory mandate, to remove all possible hurdles faced by the industry in collaboration with industry stakeholders.

ICMA Pakistan: Please comment on stock market abuses and how SECP ensures protection to investors?

AK: When we speak of stock market abuses, they may include a wide range of abuses including insider-trading, front running, pump and dump schemes, creation of a false market, etc. In order to ensure fair market practices and to protect investors' interest, the SECP ensures timely disclosures of material information by the listed companies, their directors and sponsors, in an effective manner. In addition to this, we have a dedicated setup for market surveillance to actively monitor trading activity and to detect any malpractices. In order to build the capacity of the frontline regulator to monitor trading activities to ensure fair trade practices, PSX has recently signed an agreement to acquire \$2.85mn trading and surveillance systems from China's Shenzhen Stock Exchange. While improving the user's experience at the trading platform, the system will substantially enhance the market surveillance capacity of PSX as the frontline regulator.

The SECP initiates investigations regarding any market abuses and on the basis of findings of the investigation, takes appropriate action that may include criminal and civil proceedings as well as the issuance of prohibitory orders. Apart from this, market abuses are also being monitored through prompt actions in case of any complaints filed with regard to any market manipulative practices.

The SECP is fully committed to promoting the integrity and efficiency of the capital market by making it more disciplined and transparent. The regulator has adopted a zero-tolerance policy towards offenses and market abuses and has accordingly strengthened its surveillance capabilities and systems. Over the past six months alone, 17 prohibitory orders were issued and

two criminal complaints were filed related to violations of securities laws.

ICMA Pakistan: What role the professional accounting bodies like ICMA Pakistan can play in promoting ease of doing business?

AK: Accounting bodies like ICMA Pakistan can be instrumental in enhancing financial literacy; educating and guiding promoters, employees and associated intermediaries through training and capacity building programs; and facilitating the implementation of reforms for achieving ease of doing business. A number of ICMA Pakistan members are serving at senior positions within the SECP, at CDC, NCCPL and other market institutions/intermediaries and their role in improving the ease of doing business climate within the capital market is commendable. However, academic and professional research is a key area where ICMA Pakistan can play a greater role by identifying critical measures and innovative solutions for further facilitating ease of doing business in Pakistan. We should also further build on the MOU entered by the SECP with ICMA Pakistan to enhance investor education through the SECP flagship Jamapunji initiative.

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ICMA Pakistan: In what areas you think ICMA Pakistan and SECP can jointly conduct policy research and capacity building training?

AK: As indicated earlier, policy research is a key area where ICMA Pakistan can greatly contribute to assist SECP and other regulatory bodies to devise and improve policies and develop long-term developmental plans. Research is required to identify impediments and find solutions to strengthen linkages between the financial markets and the real economy. Finding ways and means to assist the agriculture sector and SMEs in securing affordable financing is another critical aspect that ICMA Pakistan can assist the SECP with. Innovative solutions to handle challenges in documenting the economy, enhancing financial inclusion, extending market outreach, expanding the investor base, encouraging fundraising through listings of debt and equity securities, can also be found through research and debate by the professional community.

On the capacity building front, I believe ICMA Pakistan is already conducting Directors Training Programs and also partnered with the SECP at the Institute of Financial Markets Pakistan for training and capacity building of market intermediaries. We are expecting ICMA Pakistan to play an active role in the Government's capacity-building efforts for State-Owned Entities.

The Editorial Board thanks Mr. Aamir Khan, Chairman, Securities & Exchange Commission of Pakistan (SECP) for giving his exclusive interview for Management Accountant Journal.