

An exclusive interview with

Mr. Tahir Mahmood

Chairman,
Securities and Exchange
Commission of Pakistan (SECP)

Sir, you joined the Commission in 1989, when it was Corporate Law Authority, and since then you have been serving at various senior level positions. Would you like to tell us something about your career progression, experiences and achievements?

Though I started my career as a banker, I have been associated with the Securities and Exchange Commission of Pakistan / former Corporate Law Authority since 1989. I Joined as Deputy Registrar (BBP-18) through Federal Public Service Commission, and was elevated to BBPS-19 in 1993 again through FPSC as a Joint Registrar. I was deputed at EOBI as Head of Finance & Secretary to the Board from 1995 to 1998. Later in 1999, I rejoined SECP to serve as head of Karachi Office as Additional Registrar / Director. I was promoted as Executive Director (Enforcement) in July, 2006. In September 2010, I was appointed as Commissioner by the Federal Government. I represent the category of Commissioners who are appointed from within the SECP, based on their outstanding performance.

Being a senior fellow member of ICMA Pakistan, what are your views about the role and contribution of the Institute towards promotion of management accounting profession in the country?

The role of management accountants in today's world is of great importance in view of the global competition and challenges. The Institute is one of the leading professional accounting bodies of Pakistan and enjoys a very good reputation at the national and global levels. The Institute is playing an important role by fulfilling the human resource needs of the country, for leading positions in the public as well as private sectors. The Institute has played significant role in the national economic development of Pakistan imparting professional skills and expertise for the growth of public and private sector entities. The role played by the institute also has a socio-economic dimension as it is providing quality education to the less privileged at a competitive fee compared to other professional institutes.

The mandate of SECP has expanded over the years, in addition to regulation of corporate sector and capital market. Would you like to elaborate on its other supervisory, oversight and regulatory roles?

The SECP was constituted on January 1, 1999 in pursuance of the Securities and Exchange Commission of Pakistan Act, 1997



Mr. Tahir Mahmood joined former Corporate Law Authority (CLA) in 1989 as a Grade-18 officer through the Federal Public Service Commission (FPSC). The Securities & Exchange Commission of Pakistan (SECP) subsequently succeeded CLA under the SECP Act 1997.

After 21-years of service at the CLA & SECP, including five years as Executive Director, Enforcement, he was appointed Commissioner, SECP in September 2010. As a regular employee of the Commission, he was appointed Commissioner under section 5 of the SECP Act, 1997.

A fellow member of the Institute of Cost & Management Accountants, Pakistan (ICMAP) and Institute of Corporate Secretaries of Pakistan (ICSP), he has a degree in Law with extensive experience in company law administration, takeover laws, corporate restructuring, mergers and takeovers, corporate finance, judicial order writing, etc.

Mr. Tahir Mahmood is responsible for issuing around four hundred judicial orders, in his capacity as adjudicating officer and member of appellate bench, while working as Executive Director/Commissioner, SECP.

A large number of these orders were published in Corporate Law Decisions (CLD) Journals, and are referred to, today, by the legal community in their corporate law practice.

He is also a member of the Company Law Review Commission (CLRC), headed by Chief Justice of Pakistan (retd) Mr. Ajmal Mian. Mr. Tahir Mahmood has spearheaded the drafting of various laws during his tenure with SECP; his expertise in corporate laws, especially company law, and takeovers laws, are largely acknowledged by the legal fraternity. In addition, he is a member of various professional forums including National Council of ICMAP, and the South Asian Federation of Accountants (SAFA).

(SECP Act) as an independent statutory regulatory body mandated to administer corporate laws, and regulate capital market and corporate sector. While the mission has remained largely unchanged, the SECP's regulatory ambit has expanded over time and now includes following sectors:

- Insurance Sector (from 2000)
- Non-Banking Financial Sector including Modaraba (from 2003)
- Private Pensions (from 2008)

The SECP regulates the entities operating in insurance, capital markets and NBFCs sectors. It issues licenses, supervises their businesses and takes enforcement actions, where required. In case of the corporate sector, the SECP regulates all entities irrespective of the business being undertaken. The SECP's current mandated also includes registration and licensing of not-for-profit associations, self-regulated institutions like stock exchanges, commodity exchanges, securities depositories, clearing companies and credit rating agencies. Furthermore, it also registers/licenses market intermediaries like stock brokers/agents, commodity brokers, underwriters, registrars and transfer agents, debenture trustees, balloters, consultants to issue, book runners, asset management companies, investment advisors, pension fund managers, private equity and venture capital managers, REITs, investment banks, leasing companies, housing finance companies, modarabas, insurance companies, insurance brokers and surveyors.

SECP has an important regulatory role in enforcing cost audit application to industries and services sector in Pakistan. Do you think that SECP has fulfilled this role effectively and what are the challenges and hurdles in expanding the cost audit scope in Pakistan?

Like other developing economies, business in Pakistan is predominantly overseen by the government instead of being self-regulated. The government has to prescribe detailed rules and procedures; monitor compliance and initiate disciplinary action in cases of non-compliance. It is therefore imperative to have compliance & monitoring mechanisms in place, till such time that our businesses attain the desired level of self-discipline. Being well aware of its responsibility, the SECP has ensured that we enable provision for mandatory maintenance of cost accounting records and cost audit for various manufacturing industries. Requirements for maintenance of mandatory cost accounting records were first introduced in 1990 for Vegetable Ghee and Cooking Oil companies. Up till now the requirement has been extended to five different sectors in consultation with the stakeholders. Moreover, requirements in three more industries are in developmental stage. One of the greatest challenges is to develop consensus while introducing cost audit regime for new industries, e.g. pharmaceutical, electric and power generation, etc. The approach of the Commission is to facilitate the industry and not overburden them with the new regulations. It was because of this approach that the Companies Cost Accounting Records (General Order), 2008 was withdrawn. Later, special orders for specific industries

were developed and notified in consultation with ICAP and ICMAP. The aforementioned institutes have extended immense support in developing the special orders.

What benefits have cost audit brought to the sugar, cement and vegetable ghee/cooking oil industries?

Cement industry

Cost audit supported the switch-over from furnace-firing system to coal-firing system which substantially reduced the cost of fuel, and cost of manufacturing up to 15 percent. Bursting of paper bags used to be over 1 percent until few years back. The same has reduced by more than half. In cement industry, energy conservation steps were initiated to switch over to captive power generation which is cheaper than that purchased from WAPDA/KESC. Obsolete and slow-moving items of stores and spares were identified and monitored to improve the cash flows by way of curtailing the blockade of funds in such inventory. Comparison of actual production with 'rated' / 'budgeted' / 'previous-year' capacity enabled management to look for the reasons for variance and rectifying the causes. Transmission losses of electricity in cement industry were identified and several companies have taken corrective measures and reduced the cost of power substantially.

Sugar Industry

On the suggestion of cost auditors, a few units have installed their own refineries to further process molasses to produce alcohol. Few other units have started manufacturing chipboards. Pilferage and wastage has reduced and valuation of raw materials, work in process, finished goods and store/spare has improved considerably. Yield comparison, through the prescribed orders, also highlights the pilferage, wastage and usage of material as well as process problems. The valuation of bye-products is important to arrive at the true cost of the white sugar.

Vegetable Ghee and Cooking Oil Industry:

Data contained in the cost audit reports is beneficial in reviewing the duty structure for imported oil, cost of bye-products, such as oxygen or carbon dioxide. It helps to arrive at the correct cost of materials used in the production. The oil manufacturing industry, which has been operating at low capacity, was able to identify the idle capacity through these records. Statistical statements and other records such as yield statement, TFM (total fatty matter) recovery & other by-products statement, and details relating to chemical & energy consumption, tinplate yield & scrap records maintained under the order provide a mechanism for accurate cost reporting enabling better cost control by the management.

SECP has made some sincere efforts in the recent past to bring the informal business sector into the corporate network; however, these efforts have not been so successful. What are the reasons?

At present, around 63,000 businesses out of an estimated three million operate in the form of a company structure. Absence of

fiscal measures like reforming the tax framework, reducing the cost of registering property, and ease of enforcing contracts as well as business registration reforms for investor facilitation has been a major hurdle in this regard.

In order to facilitate the entrepreneurs and investors, and ensure an expeditious service delivery, the establishment of a Business One-Stop Shop, commonly referred to as a One-Stop Shop (OSS), is underway. There is a need to have one registration database where a businessman can provide details required by the corporate and tax regulators rather than providing details to the said regulators separately. This central information can then be accessed by respective regulators for their specific functions. The proposed reforms would not only streamline the business processes of the concerned regulators, these would also facilitate the investors and the general public.

SMEs are regarded as the engine of economic growth and the success of Asian Tiger countries is an ample proof of this. In Pakistan, the SMEs sector has been neglected in policy making and they are faced with liquidity and other financial constraints. What is the policy of SECP to attract SMEs to get corporatized and play their role in economic development of Pakistan?

Major incentives for SMEs to corporatize are reduction in corporate tax rates in comparison with association of persons. On SECP's recommendation corporate tax rate for the non-banking companies is reduced from 35% to 34% and it will be gradually reduced to 30% over five years. Reduction in Corporate tax is a positive move to encourage corporatization. Second incentive is to provide SMEs access to capital markets. For this purpose, we are working with the stock exchanges on introducing a Small and Medium Enterprises Exchange. We are contemplating whether to have it as a separate exchange or as a part of the existing exchanges. This will be an exchange where small and medium companies can raise money. Presently, only large companies can raise capital in Pakistan. The SECP has formed a technical committee, comprising members from all the three stock exchanges and the SECP for the introduction of SME board for listing of small capital based companies and venture companies.

Do you agree that there should be better coordination between SECP and FBR to detect those companies which are registered with SECP but are not registered with FBR and thus are outside the tax net?

The SECP ensures close coordination with other regulators and departments such as SBP and FBR. The SECP and FBR signed an MoU in March 2012 for better coordination and information sharing. Under the MoU, the SECP can seek information for its investigation or enquiry to any violation of laws administered by it in the form of information about corporate/non-corporate entities/individuals available with FBR. The FBR also seeks information about companies

registered with the SECP. Under the MoU, the SECP has provided information on 61,552 companies registered with the SECP to FBR in 2012.

What future initiatives the SECP intend to take to promote corporate governance in the corporate and public sector organizations in Pakistan, especially with the coming into power of the new government?

The SECP issued Code of Corporate Governance, 2012 for listed companies in April 2012 with various major changes to the previous code of 2002 and making one independent director mandatory, separating the offices of Chairman and the CEO and introducing new concepts like board evaluation and HR & Remuneration Committee. Accordingly, 40% of directors will be independent within the next 2 years, whereas thereafter 51% will be independent directors. CEO will be appointed only on the recommendation of the BoD. Concepts like audit committee, procurement committee and mandatory usage of International Financial Reporting Standards (IFRS) has been introduced. For the first time in Pakistan, now there are rules for Public Sector Companies' governance by the regulator aimed at board empowerment, transparency, accountability and better functioning of PSCs. With reference to the PSCs, these measures can contribute significantly to reduce their losses via better governance.

Additionally, the SECP is in the process of developing principles of Corporate Governance for non-listed companies. The Draft principles are available on the SECP's website for public comments. Similarly, the SECP has invited public feedback on Draft Not-For-Profit Associations (Licensing and Corporate Governance) Regulations, 2013.

What is your message to the Management Accountants in Pakistan?

With a shift in focus from compliance and control function to competitiveness support, a management accountant's main role, which was once confined to identification of problems, has now expanded to providing solutions. Management accountants are broadly involved in supporting, planning, organizing, controlling, directing and coordinating the decision-making of organizations in the private and public sector. A contemporary management accountant necessarily needs to focus on expanding his abilities in the field of information management for the use of non-financial information, to give substance to the new definition of performance which is reflected in total quality management and organizational culture. Globally, the organizations and businesses now perceive the management accountants as the ones that can help them to succeed. This is a challenging proposition which also gives rise to great opportunities, and management accountants need to rise to the challenge.

The interview ended with a vote of thanks to Mr. Tahir Mahmood, Chairman, Securities and Exchange Commission of Pakistan (SECP) a distinguished professional who spared his valuable time and gave his candid views exclusively for this journal. – Editor