



**Chairman, Securities and Exchange Commission of Pakistan (SECP)**  
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**ICMAP:** Would you like to briefly highlight the reforms and initiatives taken by the SECP in the last few years to revamp all the relevant laws, including the Draft Companies Bill 2016?

**ZH:** After assuming office in December 2014, my first priority was to reform and develop an effective regulatory environment for capital markets, insurance, corporate and non-bank financial sectors in Pakistan. In this regard, a number of measures and changes in the laws were carried out among which notable of all is the successful demutualization and integration under Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012, which is a major step forward in economic development. The integration is expected to reduce market fragmentation and create a strong case for attracting strategic partnerships necessary for providing technological expertise and assistance.

I am glad that in the last one and half years, a number of laws such as the Securities Act, 2015, the Companies (Amendment) Act, 2015, the Stock Exchanges (Corporatization, Demutualization and Integration) (Amendment) Act, 2015, and the Futures Market Act (FMA), 2016, have been promulgated, which can certainly be termed as SECP's major successes. In addition, the National Assembly passed the Corporate Restructuring Companies Bill (CRCB), 2016, on March 17, 2016.

The Securities Act, which came into effect in May 2015, incorporates the International Organization of Securities

Commissions (IOSCO) benchmarks enhancing disclosure requirements and curbing activities like market abuse and insider trading.

As for the CRC Bill, it has been drafted as a first step for the establishment, licensing and regulation of corporate restructuring companies and the manner in which they can conduct their businesses. This bill seeks to declare the corporate restructuring as a new form of business under which companies can be formed in Pakistan for the purpose of making financially distressed companies into financially and operationally viable ones. In addition, the Bill will provide a basic set-up for a rehabilitation mechanism for sick units in the country. The Bill has been drafted after extensive consultation with relevant stakeholders.

The Futures Market Act is aimed at regulating the futures market fairly, efficiently and transparently and protecting investors who trade in commodities. At present, the futures market is being regulated under the Securities and Exchange Ordinance (SEO), 1969. We felt that the law was fundamentally incomplete and lacked a proper and logical structure.

In addition to the above-mentioned laws, 12 rules and regulations have been prescribed by the SECP and 14 amendments to rules, regulations and schedules have been made. Seven rules and regulations have been published to obtain public opinion. Some rules have been forwarded to the federal government for approval.

One of the most important tasks for me was to review the Companies Ordinance, 1984. Pakistan's economy, particularly the corporate sector, has considerably evolved and expanded. In the 21 years after the ordinance was promulgated, two significant developments, i.e. the growth of non-banking finance companies and the introduction of single-member companies took place. In order to encourage their growth and also to meet with the regulatory requirements, the ordinance was amended in 1991, 1999 and 2002. However, such amendments were introduced in piecemeal and were narrowly focused, often resulting in a disconnect or overlap in the statutory provisions.

It was, therefore, necessary to carry out a holistic review of the ordinance. In order to undertake this vitally important exercise, I revived the process for early completion of the new companies' law, incorporating significant changes in the existing law to make it relevant to the current economic environment. An in-house committee was constituted in April 2015, to review and revamp the existing company law. Consequently, the draft of the new law was presented for public consultation, which has recently been completed.

New concepts have been introduced in the bill, including simplified documentation process in company formation, improved roles of directors, financial reporting

requirements based on size of the company and new mechanism of schemes of mergers. Special focus has been given on the enhanced role of auditors and their reporting mechanism.

Besides capital market growth, the SECP as part of the National Financial Inclusion Strategy of Pakistan, is also actively engaged in supporting the government's agenda of financial inclusion, export growth and employment generation through growth of the SMEs sector. In this regard, major restructuring in the regulatory regime of the NBFCs and Modarabas is underway to ensure the growth of small and specialised financial institutions that principally focus on the SME sector. Moreover, we are working to create an enabling and empowering regulatory framework for the unregulated microfinance institutions. These two steps will ensure improvement in 'Access to Finance' and employment generation.

Early last year, I established the first ever dedicated Islamic Finance Department (IFD) at the SECP to ensure a coordinated and harmonised Shariah governance framework for all the financial as well as non-financial companies within the SECP's purview. The definition of the Shariah-compliant company and security have also been defined in the draft companies bill for the first time ever as a separate class of companies. Subsidiary legislation has been drafted, which will lay forth the grounds for the regulation and supervision of Shariah-compliant companies, the screening criteria, eligibility of Shariah advisers and Shariah audit among other things.

The SECP will also revamp the regulatory regime for insurance brokers by bringing the reinsurance brokers within its regulatory ambit through appropriate amendments to the insurance laws. This will lead to retain valuable foreign exchange in the country. Efforts are being made to build liquidity in the commodities exchange through introduction of new products, and improve existing risk management regime and framework for default management at Pakistan Mercantile Exchange (PMEX).

Furthermore, SECP has made a concerted effort to ensure full compliance with the IOSCO principles in various areas. I am pleased to share that efforts have also been made for re-inclusion of Pakistan in the MSCI Emerging Markets (EM) Index, as the SECP meets the qualitative and quantitative criteria for the same. These efforts bore fruit on June 15, 2016, when Pakistan was included in the MSCI Emerging Markets Index.

However, our achievements have not made us complacent. We have a clear vision and a detailed roadmap for the future. I foresee introduction of key structural and regulatory reforms, development of equity, derivatives, debt, commodities markets, and measures for improving governance, risk management, efficiency and transparency in capital market operations. ■

**ICMAP:** What measures have so far been taken by the SECP to improve audit reporting and meeting challenges faced by the audit profession in the country? And

**ICMAP:** What measures have been taken by SECP to ensure compliance with IFRS by the companies in Pakistan?

**ZH:** In today's world, information and accountability have assumed a large role in our society. Auditors have a vital role in ensuring public trust in financial reporting and business practices and upholding the reputation of the accountancy profession in the country.

Time and again, I have emphasized that the independent audit of an entity's financial statements is a vital service to investors, creditors, and other participants in economic exchanges. One of the objectives of the SECP is to align the quality of assurance services on a par with more advanced corporate jurisdictions of the world. Emphasis is placed on evolving role of the auditor and the need for flexibility and adaptability of the audit professional to the continuous changes proposed by IFAC.

As you are aware, most of the IFRS are adopted by the SECP by notification in the Official Gazette. When notified, the Standards have the authority of law. The SECP has taken action against companies and auditors for non-compliance with various provisions of the Companies Ordinance, 1984, IFRS, AFRS, ISAs, audit reporting and other laws, rules and regulations.

Over the last few years, significant changes have taken place in the laws governing practicing chartered accountants. Implementing these changes will not only enhance the quality of the audit and allied services provided by the chartered accountants, but also improve the credibility of Pakistani chartered accountants throughout the world. A step in this direction is the constitution of a joint ICAP-SECP committee to develop an independent audit oversight structure in Pakistan, under the chairmanship of Dr. Tariq Hassan, Advocate Supreme Court of Pakistan. An independent Audit Oversight Board (AOB) is recommended to be established by appropriately amending the SECP Act, 1997, which shall be responsible for the oversight of auditors of public interest companies. The AOB shall perform its functions mainly through effective oversight of the Quality Assurance Board (QAB), but it shall have appropriate powers to carry out direct inspection of audit firms, in case it is not satisfied with the work performed by the QAB.

Furthermore, recognizing the significance of cost audit and need for a structured mechanism to assess the work performed by cost auditors, the SECP has mandated quality control rating of cost auditors. The said requirement shall

be a positive step forward towards implementation of a structured review mechanism and reinforce accountability of cost auditors.

**ICMAP:** What are your views on forming an independent 'Financial Reporting Council' like they have it in the UK and other countries to regulate financial reporting in Pakistan and to protect rights of investors?

**ZH:** Financial reporting councils in international jurisdictions have been established for the purpose of independent oversight function of accounting and auditing professions and for related reporting requirements. In Pakistan, the functions of improvement of corporate governance and enforcement of accounting, auditing and governance standards are already being performed by the SECP and all initiatives are introduced after extensive discussions with all the stakeholders, other regulatory bodies, professionals and industry/sector at large.

As far as the function of setting standards is concerned, Pakistan is moving towards adoption and compliance of the IFRS. The adoption of the international reporting and auditing framework is not only beneficial to the country vis-à-vis boosting of investor confidence but also securing of better compliance rating from organizations such as IOSCO. Furthermore, Project to Improve Financial Reporting and Auditing Standards (PIFRA) is already working to increase the accuracy, completeness, reliability, and timeliness of intra-year and year-end government financial reports in Pakistan at the national, provincial, and district levels.

As for oversight functions, the SECP and the Institute of Chartered Accountants of Pakistan (ICAP) have concluded discussions for establishment of an audit oversight board. So, the SECP is performing functions which are entrusted to the financial reporting councils in other countries.

**ICMAP:** What measures have been taken by SECP to relax regulatory and reporting requirements for small and medium enterprises (SMEs) so that they can contribute to economic development of the country?

**ZH:** The SECP is a strong advocate of a progressive SME sector and has developed a strategy for promoting SMEs in Pakistan by introducing the emerging venues, supportive to performance, smooth access to finance and capital markets and accountability to the stakeholders.

At present, non-bank financial companies, insurance and corporate sector comprise of more than 70,000 non-listed companies (NLCs) with a total paid-up capital of above Rs1 trillion. It is relevant to note here that around 85% of the NLCs fall into the category of SMEs. The



SMEs are largely dependent on the banking sector. For a robust SME sector, there is a dire need for regulatory framework improvement, finance market access and capital provision for economic development especially in the underdeveloped areas of the country.

The SECP, while considering the practical difficulties being faced by the NLCs and their auditors regarding applicable accounting framework for preparation of their annual financial statements, has issued a notification approving the revision in existing qualifying criteria for non-listed companies. Thereby, non-listed companies are broadly categorized as public interest, large-sized, medium-sized and small-sized companies on the basis of their nature of business/incorporation, paid-up capital, turnover, revenue and donations received (Section 42 companies).

In order to bring transparency, accountability and efficiency to the corporate sector and to meet the requirements of IOSCO principles, the SECP has approved the adoption of IFRS for SMEs and Accounting and Financial Reporting Standards for Small Sized Entities (SSEs).

The SECP has already approved regulations governing listing and trading of equity securities of SMEs. The regulations in addition to certain prerequisite conditions provide a set of procedures for issuing, listing and trading of shares of SMEs. Now SMEs can raise funds from the capital market to meet their financial needs, and for executing new projects and expansion of their existing businesses.

We endeavor to prescribe less stringent regulatory and statutory responsibilities with regard to SMEs. In this regard, the SECP has agreed on incentives for the SME sector that include in addition simplifying the registration process arranging awareness seminars, reducing compliance cost, less stringent monitoring and surveillance internal procedures. The following measures have also been taken to reduce regulatory cost for SMEs:

- Reduction in registration fee for small companies (with authorized capital upto Rs100,000), from Rs2,500 to Rs1,000 under online mode, and from Rs5,000 to Rs 2,000 under offline mode; and
- Introduction of capital-based filing fee structure with substantial reduction in filing fee of companies with small capital base.

**ICMAP: What challenges and hurdles are being faced by the SECP in discharging its regulatory role of enforcing cost audit application in various sectors?**

**ZH:** The SECP has essentially enacted cost audit regime in

Pakistan on the same footing as applicable in India and Bangladesh. The Companies Ordinance, 1984, contains an enabling provision for cost audit. Moreover, Companies (Audit of Cost Accounts) Rules, 1998, have been enacted to provide modus operandi of approval of cost auditor and relevant detail of cost accounts to be prepared by a class of companies. Cement, sugar, chemical fertilizer, electric power generation companies are required to prepare cost accounts by virtue of respective cost orders.

In manufacturing companies, the financial health of a company mainly depends on the cost of production which may include major cash outflow of the company. And whereas cost audit determines a true and fair view of the overall financial position of the company, therefore, importance of cost audit cannot be undermined.

The major challenge is striking the correct balance between 'cost of compliance' versus 'cost of business'. The compliance with the cost order entailed exhaustive preparatory work for the segregation of costs, additional manpower and resources. The existing requirements of financial reporting were already extensive. Therefore, the SECP endeavors that cost orders are enacted for industries in a manner that is not arduous for cost of doing business, do not require heavy expenditures on frequent systems upgrades or do not expose companies to undue risks due to inadvertent breach of data confidentiality. Moreover, the SECP from time to time, reviews industry practices and through various forums seeks feedback regarding practical difficulties faced by the industry. For example, the SECP reviewed vegetable ghee sector, which revealed that practically the local industry imports the bulk of refined, bleached and deodorized cooking oil and markets it after packaging.

The manufacturing constitutes only negligible part of the producing process hence the cost records/audits did not add value to the understanding of the financials of such companies. It was also noted that businesses in ghee and cooking oil sector mostly operate in other than company form. Therefore, the Vegetable Ghee and Cooking Oil Companies (Cost Accounting Records) Order, 1990, was withdrawn.

Similarly, the SECP observed that the conditions of domestic polyester staple fibre industry had been facing extremely bad business cycles, resulting in difficult market conditions and domestic oversupply. Unchecked dumping from China had eroded industry margins and domestic producers suffered continuous losses. Keeping in view the practical difficulties faced by companies engaged in the business of synthetic and rayon, including polyester fibre, filament yarn, production and manufacture of rayon and viscose tyre yarn/cord, the SECP extended the applicability of Synthetic and Rayon Companies Order, 2012. ■

Meanwhile, in view of the evolution of cost regime, the SECP is also considering introducing cost audit for pharmaceutical, paper and board, automobile and electronics/engineering sectors after discussions with all stakeholders.

The SECP has been entrusted with a multifaceted role of ensuring accountability and transparency and at the same time enhancing the ease of doing business. It is, therefore, constantly evaluating its regulatory regime to achieve the delicate balance that I mentioned earlier.

**ICMAP: The mergers and acquisitions are a frequent phenomenon in today's business environment. What role is the SECP playing to ensure smooth mergers of corporate entities?**

**ZH:** Mergers and acquisitions reflect a robust developing and ever-expanding corporate sector. The SECP does not wish to curb this practice. However, it has been felt that by virtue of its better understanding and knowledge of the financial and economic aspects of the mergers the SECP should be given a greater role in their approval. For NBFCs, approval for mergers and acquisitions are already given by the SECP. Therefore, provisions have been proposed in the Companies Bill, 2016, for the power to approve schemes of amalgamation and reconstruction be given to the SECP. This shall facilitate the process of merger and also help in bringing about more transparency and accountability.

Under the current company law, mergers and acquisitions have to be approved by a court of law. The SECP's role is limited to providing comments on the merger petitions. In order to make this exercise more comprehensive and meaningful, the SECP has constituted an in-house, inter-departmental committee to comprehensively review the comments that are filed with the Court.

**ICMAP: Some serious efforts were made by the SECP in recent past to formalize the informal business sector; however, these were not so successful. What are the reasons?**

**ICMAP: What future initiatives are being planned by the SECP to promote corporate governance and strengthen financial reporting in the country?**

**ZH:** I felt it necessary to carry out a holistic review of the relevance of corporate structures, their objectives in the current economic environment, creation and maintenance of a liberal, deregulated and efficient corporate sector, balanced growth of corporate enterprises, particularly small and medium enterprises and the extent of its harmonization with the best international practices.

Therefore, after assuming office, I revived the process of

completion of draft Companies Bills, incorporating significant changes in the existing law to make it relevant to current economic environment. After in-house deliberations, the draft of the new law was presented for public consultation. New concepts introduced in the Bill include a simplified documentation process in company formation, improved roles of directors, financial reporting requirements based on size of the company and new mechanism of schemes of mergers. The new law shall address gaps thereby reducing over-regulation that was discouraging business entities from corporatization.

Also, the concept of limited liability partnership (LLP) has been approved by the Commission. The LLP is a relatively new business structure, which would fill the gap between business firms such as sole proprietorships and partnerships, which are generally unregulated. As an alternative business structure, the LLP will help convert informal, unregistered and unregulated sector into a formal and regulated regime.

In order to facilitate availability of non-banking financial products and expand outreach to smaller cities, a concept of Capital Market Hub has been introduced under which offices or representatives of stock brokers, mutual funds, banks, pension funds and insurance companies will be there in one place. A financial hub has been opened in Abbottabad and a new CRO in Gilgit-Baltistan has been set up. Moreover, facilitation centers are also being established in all major cities where the SECP did not have its presence. The objective is to vigorously encourage investors from small cities to join the corporate/capital market.

The SECP also foresees increased documentation of economy through promotion of small and mid-sized, non-deposit taking lending NBFCs.

It is pertinent to mention here that the orthodox style of doing business is still prevalent in Pakistan. This includes too much dependence on family human capital, lack of interest in funding growth through external capital, ineffective succession planning and non-transparent systems. The consistent regulatory interventions by the SECP aid in combating orthodox style of doing business, raising awareness about benefits of corporatization, long-term sustainability and ability of companies to raise external capital, informed decision making thereby resulting in documentation, diversification, expansion and growth potential of businesses.

**ICMAP: What future initiatives are being planned by SECP to promote corporate governance and strengthen financial reporting in the country?**

**ZH:** The Code of Corporate Governance sets a minimum benchmark in terms of governance standards, brings about consistency in the corporate practices and promotes

transparency through enhanced disclosure requirements. The SECP through implementation of the code foresees availability of enhanced information to market participants, hence better protection of the rights of all investors, particularly minority shareholders.

It is, however, important to note that corporate governance is a joint responsibility of all concerned rather than just the regulator's prerogative. The importance of corporate governance lies in its contribution both to business prosperity and to accountability.

With increasing attention to financial reporting, the distinctive roles of directors, external auditors and audit committee has gained momentum during the last decade and has been addressed in the revised code. Also, the increasing role of internal auditor in defining appropriate internal controls over financial reporting is manifest in the code. At the same time, a link is established between internal controls and financial reporting by placing responsibility on audit committees to identify key financial reporting risk areas. The committee in turn monitors such risks and controls through internal audit. Currently, the SECP is also deliberating on phased implementation of best practices regarding internal control over financial reporting framework tailored to local industry needs.

The statutory role of external auditor and ancillary financial reporting mechanism has been considerably strengthened in the context of listed companies. Furthermore, in collaboration with the International Finance Corporation (IFC) and Centre for International Private Enterprise (CIPE), the SECP is currently holding roundtable sessions to raise awareness on Principles of Corporate Governance for non-listed companies. In addition, the SECP is actively moving towards introduction of Shariah audit mechanism and adoption of new accounting standards on Islamic Finance issued by AAI OFI (the Accounting and Auditing Organization for Islamic Financial Institutions).

The SECP, as a regular practice, conducts gap analysis to identify inconsistencies between the requirements of the ordinance and IFRS/IAS. For this purpose, it consults stakeholders, including professional institutions, for guidance to companies in certain areas of financial reporting where incorrect accounting practices are being followed. Such endeavors have been helpful in achieving full compliance with IFRS as well as improve the quality of financial reporting.

It is noteworthy that over the last decade, consistent evolution of regulatory regime and focused implementation of relevant laws and regulations has resulted in greater financial discipline, uniform presentation of financial

results and an organized and more disciplined corporate culture which has, to a great extent, bridged the gap between various stakeholders, shareholders, the Board of Directors and the Auditors. The SECP foresees a greater role of audit professionals and board in strengthening financial reporting through the Companies Bill, 2016.

**ICMAP: How do you see the role of management accountants in formulating policies, especially for monitoring of corporate sector, including capital markets, non-bank finance, insurance industry and other sectors?**

**ZH:** I believe that management accountants can play a vital role in formulation and effective implementation of corporate strategy to ensure optimum utilization of resources. Being key members of top management and decision making team, management accountants help organizations take appropriate decisions for business prosperity and growth. It is heartening to learn that the expertise of management accountants has improved and it goes beyond core finance function, i.e. leadership, taxation, financial information system, enterprise resource planning, operations management, etc.

The Code of Corporate Governance demands segregation of duties of internal and external auditors and requires extensive responsible reporting. In this regard, management and operational decisions by Board of Directors in the corporate sector are derived from reporting by management accountants.

I would also like to mention here that my team at the SECP consists of management accountants who are in key decision-making positions and contribute effectively in development of effective regulatory regime.

**ICMAP: ICMA Pakistan can render its technical services to the SECP in developing policies for corporate and business sectors and to conduct studies on various issues of the industry. Would you be interested in signing an MOU with the ICMA Pakistan to undertake joint assessments?**

**ZH:** The SECP believes in synergizing with all stakeholders and pursues a consultative approach to strengthen its regulatory regime. Moreover, it has already formed joint committees, and has signed MOUs with regulators and professional institutions, including ICMAP to discuss diverse issues. I am open to signing an MOU with the ICMA Pakistan.

The interview ended with a vote of thanks to Mr. Zafar Hijazi, Chairman, SECP who spared his valuable time and gave his candid views exclusively for this Journal - Editor