

# Capital Markets and Corporate Sector

Capital market is a place where trading of numerous financial instruments like bonds, stocks, etc. takes place. Corporations participate in capital markets to raise funds to finance their investment in real assets. Capital markets play an active role in the development of an economy by connecting the monetary sector with the real one.

Globalization of financial markets has facilitated corporations by increasing their accessibility to foreign capital. The relatively free mobility of capital has raised opportunities for capital deficient economies. This integration of international financial markets has increased the risk for vulnerable countries since downturn in one country will reverberate throughout the integrating economies and in the case of large open economies like USA and China, major part of the world can be affected like a contagion. Financial crises in Latin America in 1994–95, East Asia in 1997–98 and Global Financial Meltdown in 2008 are the examples of that risk that financial integration has brought.

The COVID-19 pandemic plummeted global stock markets in March 2020. Analysts feared that like previous crises, stock markets will take years to recover. Fortunately, this time around, both the decline and the rebound took place very quickly. The rebound can mainly be attributed to the fiscal stimulus packages rolled out by the governments around the globe. What was unique is that governments sponsored spending even at the cost of a rising fiscal deficits, which limited the impact of a prolonged COVID-19 crisis.

Pakistan Stock exchange also successfully powered through initial COVID-19 induced economic downturn and earned the title of being the 'best Asian stock market and fourth best-performing market across the world in 2020.' The KSE-100 index continued to climb throughout the year. The increase in the KSE-100 Index was driven by government's large stimulus package, central bank's stable policy rate, an uptick in large scale manufacturing, improvement in external accounts and reforms introduced by the Security and Exchange Commission of Pakistan (SECP) and PSX in the wake of COVID-19. The salient feature of FY2021 was five Initial Public Offerings (IPOs) that took place in its first nine months. Such a large number of new issues and mobilization had not taken place for some years. The number of debt listings was also relatively higher this year.

The chapter will be covering performance of the equity market, debt market, commodity futures market, non-banking financial companies, corporate sector, Islamic finance and insurance sector in the FY2021. The chapter will also cover the reforms and regulations

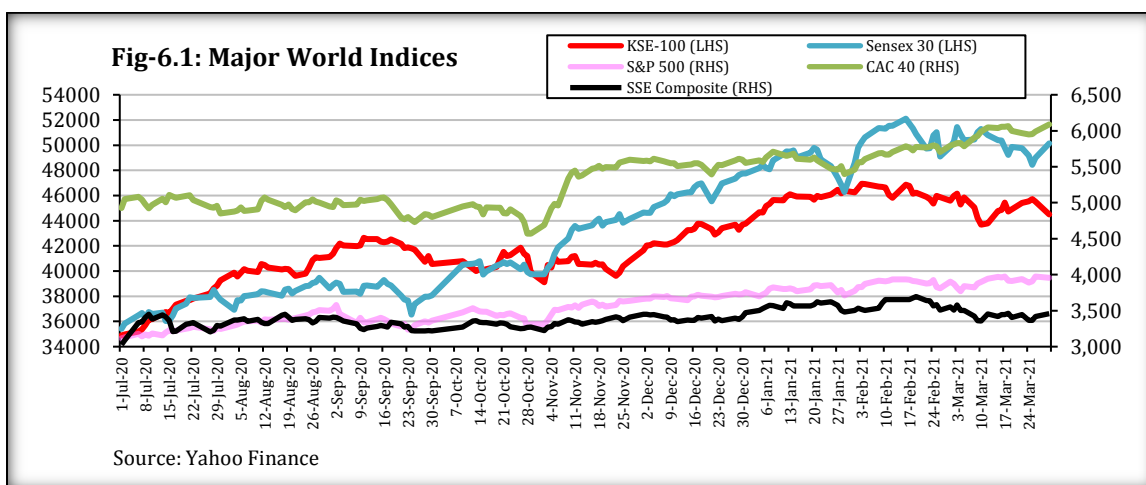
introduced by the SECP, the apex regulator of the capital markets, to facilitate the capital markets.

### I – Equity Market

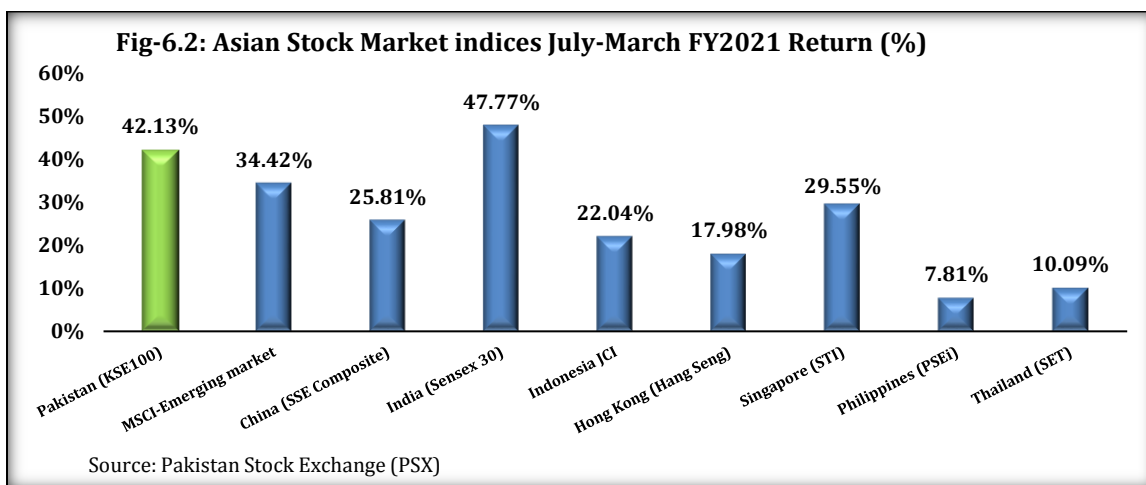
An equity market, also known as a stock market, is a market in which shares of listed companies are issued and traded. It mobilizes resources by linking investors and savers.

#### Global Equity Markets:

FY2021 began in the midst of the first ‘Great Lockdown’ period. Global equity markets, which witnessed a plunge in March 2020, rebounded when governments around the globe injected big stimulus money into their economies. As shown in the figure-6.1, major world indices faced short run fluctuations but registered a positive growth in the current fiscal year. The uptick is especially pronounced in November and December when the announcement of a vaccine assuaged the fears of investors.



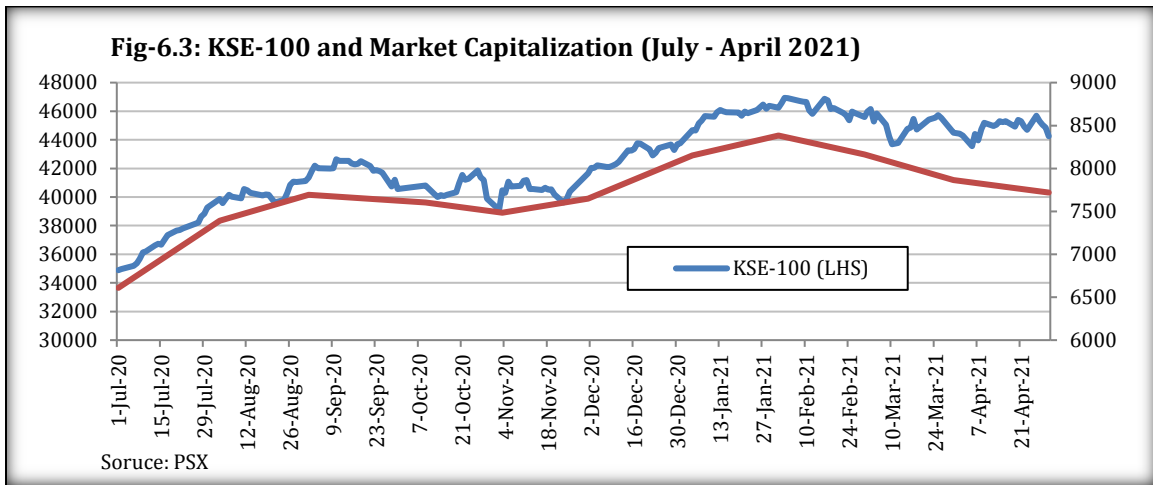
Major Asian stock market indices have also recorded a positive growth in the first nine months of the current fiscal year (Fig 6.2). Pakistan’s KSE-100 index and India’s Sensex 30 have seen the highest growth among the selected indices.



**Pakistan’s Equity Market (Developments during FY2021):**

Pakistan’s stock market’s performance has been remarkable this year. During July 2020 to April 2021 period, the benchmark KSE-100 index improved from 34,889.41 points to 44,262.35 points. During this time, the Index closed at its highest point of 46,933.63 on February 3, 2021, before the third wave of COVID-19 dragged it down. As of April 30, 2021, number of listed companies stood at 532, with total market capitalization of Rs 7,718 billion.

KSE-100 index has shot up by 63% since March 25, 2020



The turnover in shares reached its peak in January 2021, indicating that investors were actively investing in the market. The market activity slowed down after February 2021 as the third wave of COVID-19 intensified.

**Table 6.1: Month-wise performance of KSE-100 Index**

Months	2019 - 2020			Months	2020 - 2021		
	KSE 100 index	Market Capitalization (Rs billion)	Turnover in shares (billions)		KSE 100 index	Market Capitalization (Rs billion)	Turnover in shares (billions)
<b>Jul-19</b>	31,938.48	6,384.30	1.76	<b>Jul-20</b>	39,258.44	7,294.27	3.68
<b>Aug-19</b>	29,672.12	6,082.04	2.03	<b>Aug-20</b>	39,868.55	7,418.38	3.94
<b>Sep-19</b>	32,078.85	6,406.55	2.18	<b>Sep-20</b>	40,571.48	7,643.09	4.73
<b>Oct-19</b>	34,203.68	6,690.04	4.37	<b>Oct-20</b>	39,888.00	7,399.62	5.41
<b>Nov-19</b>	39,287.65	7,511.97	6.40	<b>Nov-20</b>	40,807.09	7,519.25	3.97
<b>Dec-19</b>	40,735.08	7,811.81	6.45	<b>Dec-20</b>	43,755.38	8,035.36	5.78
<b>Jan-20</b>	41,630.93	7,851.16	5.68	<b>Jan-21</b>	46,385.54	8,398.45	8.40
<b>Feb-20</b>	37,983.62	7,094.67	2.91	<b>Feb-21</b>	45,865.02	8,207.14	4.79
<b>Mar-20</b>	29,231.63	5,620.94	4.71	<b>Mar-21</b>	44,587.85	7,892.19	4.43
<b>Apr-20</b>	34,111.64	6,376.72	4.60	<b>Apr-21</b>	45,048.57	7,885.74	4.73
<b>May-20</b>	33,931.23	6,484.96	2.33				
<b>Jun-20</b>	34,421.92	6,529.70	2.23				

Source: Pakistan Stock Exchange

The distinguishing feature of this year is the significant number of IPOs that took place. It implies that companies are confident about business prospects. Their detail is given in box item-I.

**Box item-I: Initial Public Offerings in FY2021**

Despite the COVID-19 outbreak, Pakistan Stock Exchange witnessed five IPOs during July-March FY2021 period. In year 2020 alone, four IPOs took place, which is the highest number in the last five years. Investor's appetite was so strong that most of these issues were oversubscribed.

In 2020, first IPO was The Organic Meat Company (TOMCL), the leading exporter of halal meat from Pakistan. The Company was listed on PSX on August 3<sup>rd</sup> 2020. The Company offered 40 million shares at a strike price of Rs 20/share to raise Rs 800 million.

The second IPO of the year was TPL Trakker (TPLT), which provides technology solutions and IoT services. It raised Rs 802 million by offering 66.82 million shares at a price of Rs 12/share.

The largest IPO of the year 2020 was of the Rebar manufacturer Agha Steel Industries (AGHA). The company offered 120 million shares at a strike price of Rs 32/share, raising Rs 3.8 billion.

The fourth IPO of the year was Engro Polymer & Chemicals Limited, which conducted the Initial Public Offering of its preference shares on December 17<sup>th</sup> & 18<sup>th</sup>, 2020. Engro planned to raise Rs 375 million by offering Rs 37.5 million preference shares at the face value of Rs 10/- per share.

The successful IPO of Panther Tyres Limited (PTL) resulted in the fifth listing on the Stock Exchange for FY2021. The Issue of Panther Tyres Ltd. consisted of 40 million ordinary shares with a strike price of Rs 65.8 per share to raise Rs 2.6 billion.

It is a significant and positive development for the capital market of Pakistan whereby listings have taken place successfully in the challenging times of the Coronavirus pandemic.

The average daily shares volume has been higher this year compared to previous year, suggesting that more buyers and sellers are there in the market which makes it easier and faster to execute a trade. On 27<sup>th</sup> May 2021, PSX witnessed an all-time high daily trading volume with 2.21 billion shares traded in a single session.

**Table 6.2 Profile of Pakistan Stock Exchange**

	2017	2018	2019	2020	2021 (Till 8 <sup>th</sup> April 2021)
Total No. of Listed Companies	559	546	534	531	532
Total Listed Capital - Rs in billion	1,276.80	1,322.74	1,386.59	1,421.09	1,434.74
Total Market Capitalization - Rs in billion	8,570.92	7,692.78	7,811.81	8,035.36	7,865.93
New Companies Listed during the year	7	3	1	3	1
Average Daily Shares Volume - (Shares in Mn) (YTD)	249.19	194.03	163.98	323.51	553.76
Total Volume Traded - (Rs in Mn) (YTD)	73783.90	62323.05	57645.40	108425.65	-

Source: Pakistan Stock Exchange

**Market Capitalization of each sector at Pakistan Stock Exchange as of 31<sup>st</sup> March, 2021:**

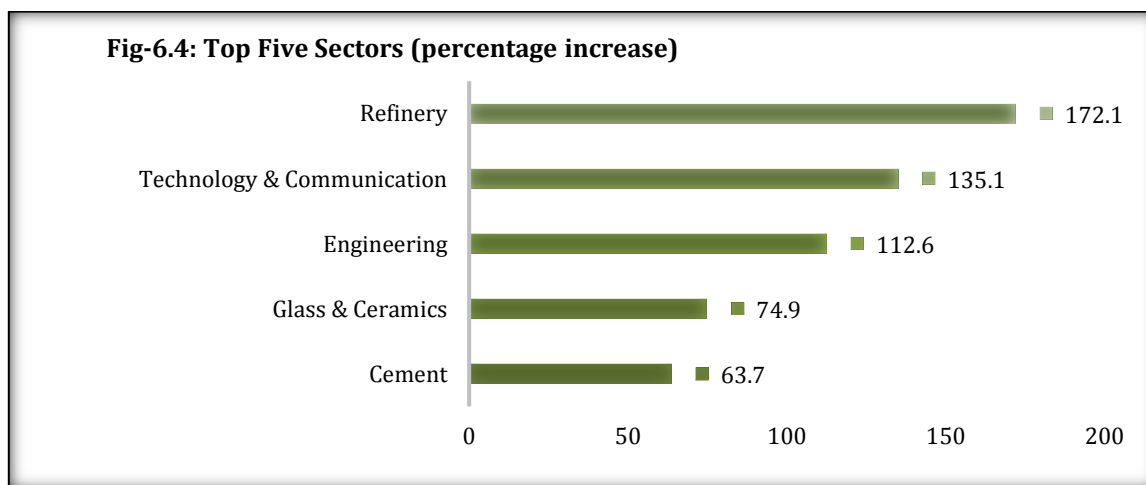
During July-March FY2021, the market capitalization of the PSX increased by 20.9 percent. Below is the detail of growth in each sector:

**Table 6.3: Market capitalization of each sector:**

Sectors	Market Cap On 30/06/2020 (Rs million)	Market Cap On 31/03/2021 (Rs million)	%Change
Automobile Assembler	241,244.95	329,647.11	36.6
Automobile Parts & Accessories	48,008.15	69,245.79	44.2
Cable & Electrical Goods	25,279.94	30,810.24	21.8
Cement	408,176.15	668,273.56	63.7
Chemical	307,193.43	408,065.32	32.8
Close - End Mutual Fund	2,919.58	3,414.79	16.9
Commercial Banks	1,070,354.21	1,247,233.14	16.5
Engineering	72,695.88	154,576.63	112.6
Fertilizer	472,487.69	487,722.25	3.2
Food & Personal Care Products	595,057.92	658,100.96	10.6
Glass & Ceramics	37,380.82	65,367.36	74.9
Insurance	151,405.78	168,327.06	11.2
Inv. Banks / Inv. Cos. / Securities Cos.	104,765.65	117,844.29	12.5
Jute	123.30	123.30	0
Leasing Companies	4,531.81	4,891.75	7.9
Leather & Tanneries	25,914.73	41,888.72	61.6
Miscellaneous	67,834.21	71,939.64	6.1
Modarabas	11,701.45	14,185.41	21.2
Oil & Gas Exploration Companies	969,427.07	986,752.39	1.8
Oil & Gas Marketing Companies	188,213.91	228,926.97	21.6
Paper & Board	59,783.06	84,203.40	40.8
Pharmaceuticals	272,870.67	294,303.64	7.8
Power Generation & Distribution	245,707.11	310,115.49	26.2
Refinery	53,835.38	146,527.25	172.1
Sugar & Allied Industries	65,812.41	75,790.82	15.1
Synthetic & Rayon	46,310.88	66,108.70	42.7
Technology & Communication	99,462.12	233,874.54	135.1
Textile Composite	222,361.07	298,073.56	34.1
Textile Spinning	44,051.96	70,847.42	60.8
Textile Weaving	2,527.59	3,725.39	47.4
Tobacco	512,591.23	458,140.17	-10.6
Transport	66,826.02	68,621.90	2.7
Vanaspati & Allied Industries	7,193.02	1,738.81	-75.8
Woollen	1,441.40	456.20	-68.4
Real Estate Investment Trust	24,216.09	22,325.94	-7.8
<b>Total</b>	<b>6,529,706.80</b>	<b>7,892,190.10</b>	<b>20.9</b>

Source: Pakistan Stock Exchange

Demand for stocks of Technology & Communication (T&C) sector spurred in the current pandemic. Work from home model accelerated the digital revolution (Fig 4). In addition, the listing of TPL Trakker also increased the market capitalization T&C. Prime minister's construction package has clearly boosted demand for Engineering and Cement sectors. As shown in figure 5, the share price of Lucky Cement has jumped by 70 percent since 1<sup>st</sup> July 2020. The Engineering sector witnessed an IPO this year of Agha Steel Industries that may have contributed to its growth.



### Total Market Capitalization of Top 15 Companies Listed at Pakistan Stock Exchange as on March 31, 2021:

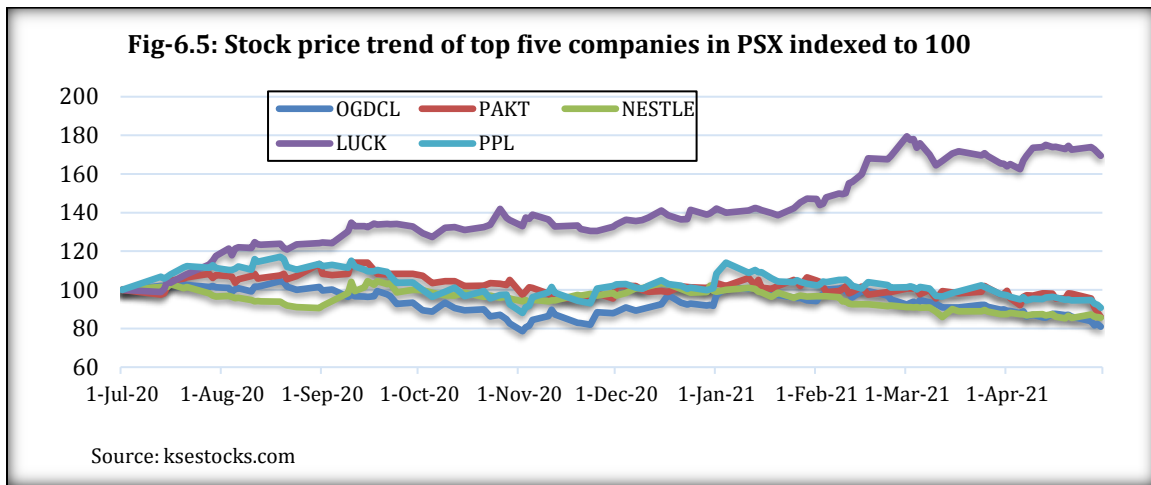
Below is the list of selected blue chip companies based on market capitalization.

**Table 6.4: Market Capitalization of Selected Blue Chips**

Scrip	Company	Shares (million)	Price (Rs)	Amount (Rs in billion)
OGDC	Oil & Gas Dev.	4300.93	101.61	437.02
PAKT	Pak Tobacco	255.49	1535.00	392.18
NESTLE	Nestle Pakistan	45.35	5849.90	265.29
LUCK	Lucky Cement	323.38	817.59	264.39
PPL	Pak Petroleum	2720.97	87.33	237.62
MARI	Mari Petroleum	133.40	1531.30	204.28
MCB	MCB Bank Ltd	1185.06	172.15	204.01
COLG	Colgate Palm	63.30	2700.00	170.91
HBL	Habib Bank	1466.85	116.18	170.42
MEBL	Meezan Bank	1414.72	113.18	160.12
ENGRO	Engro Corp	576.16	277.32	159.78
UBL	United Bank	1224.18	118.94	145.60
FFC	Fauji Fert.	1272.24	104.49	132.94
SCBPL	St.Chart.Bank	3871.59	29.55	114.41
KEL	K-Electric Ltd.	27615.19	3.98	109.91

Source: Pakistan Stock Exchange

Out of five major companies in the PSX, only Lucky Cement price has registered a positive growth. Fall in share price of Pak Tobacco partly explains the negative growth in the Tobacco industry. Share prices of OGDCL and PPL have dropped as Oil & Gas Exploration companies posted a modest 1.8 percent growth.



## II- Debt markets:

Debt market is the market where debt instruments are traded. A well-developed corporate bond market is essential for the growth of the economy, as it provides an additional avenue to government and the corporate sector to raise funds for meeting their financial needs. During July-March FY2021 period, 17 debt securities were reported, break-up of which is given below:

**Table 6.5: Debt securities**

Sr. No.	Type of Security	No. of Issues	Amount (Rs in billion)
i.	Listed Sukuk*	1	25.0
ii.	Privately Placed Term Finance Certificates**	2	16.5
iii.	Privately Placed Sukuk ***	4	18.5
iv.	Privately Placed Commercial Papers****	10	36.9
	<b>Total</b>	<b>17</b>	<b>96.9</b>

\* by (i) K-Electric Limited (Rs 25 billion);

\*\* by (i) Bank Alfalah Ltd. (Rs 15 billion); and (ii) Sadaqt Ltd. (Rs 1.5 billion);

\*\*\* by (i) The Hub Power Company Limited (Rs 6 billion); (ii) Kot Addu Power Co. Ltd. (KAPCO)(Rs 5 billion); (iii) The Hub Power Company Limited (Rs 4.5 billion) and (iv) Mughal Iron & Steel Industries Limited (Rs 3 billion)

\*\*\*\* by (i) K-Electric Limited (Rs 3.2 billion), (ii) K-Electric Limited (Rs 3.2 billion), (iii) K-Electric Limited (Rs 3.2 billion), (iv) K-Electric Limited (Rs 4 billion), (v) K-Electric Limited (Rs 4.5 billion); (vi) TPL-Trakker Ltd (Rs 1.32 billion);(vii) K-Electric Limited (Rs 4.5 billion), (viii) K-Electric Limited (Rs 4.5 billion), (ix) K-Electric Limited (Rs 4 billion) and (x) K-Electric Limited (Rs 4.5 billion)

**Corporate Debt Securities Outstanding:** As of March 31, 2021, 93 corporate debt securities remain outstanding, amounting to Rs 782.875 billion, comprising following categories:

**Table 6.6: Corporate debt securities (outstanding)**

Sr. No.	Name of security	No. of issues	Amount outstanding (Rs in billion)
i.	Term Finance Certificates (TFCs)	49	151.898
ii.	Sukuk	41	623.356
iii.	Commercial Papers (CPs)	3	7.621
	<b>Total</b>	<b>93</b>	<b>782.875</b>

Source: Securities and Exchange Commission of Pakistan

**National Saving Schemes:**

Central Directorate for National Savings CDNS is one of the mainstays to raise the domestic debt for the government through sale of different retail debt securities commonly referred to as National savings Schemes (NSS). The share of NSS is roughly around 20 percent in the domestic debt and around 10 percent of the public debt of the country.

The product basket of the National Savings Schemes (NSS) ranges from three months Short-Term Savings Certificates (STSC) to ten years long term Defense Savings Certificates.

**Table 6.7: Product basket of the National Savings Scheme**

S.No	Rate of profit on National Savings Schemes w.e.f. 25-03-2021			
	Name of Scheme	Rate of Return (per annum)	Maturity Period	Tax Status
1	Defence Savings Certificates	9.68%	10 Years	Taxable
2	Special Savings Certificates/Accounts	8.87% (Average)	3 Years	Taxable
3	Regular Income Certificates	9.36%	5 Years	Taxable
4	Savings Account	5.50%	Running Account	Taxable
5	Pensioners' Benefit Account	11.52%	10 Years	Tax exempt
6	Bahhood Savings Certificates	11.52%	10 Years	Tax exempt
7	Shuhada Family Welfare Account	11.52%	10 Years	Tax exempt
8	National Prize Bonds (Bearer)	10.00%	Perpetual	Taxable
9	Premium Prize Bonds (Registered) *	8.84%	Perpetual	Taxable
10	Short Term Savings Certificates (STSC)			
	STSC 3 Months	6.92%	3 Months	Taxable
	STSC 6 Months	7.30%	6 Months	Taxable
	STSC 12 Months	7.40%	12 Months	Taxable

\*Effective from 10.03.2021

Source: Central Directorate of National Savings

Due to discontinuation of institutional investment and discontinuation of highest domination prize bonds, the net proceeds have been counted at Rs -86 billion as of March 31 2021. Scheme wise net investment is as under:

**Table 6.8: National Savings Schemes (net investment)** (Rs in million)

S #	Name of Scheme	2016-17	2017-18	2018-19	2019-20	(Jul-20 to Mar-21)
1	Defence Savings Certificates	16,620.00	10,743.61	57,171.04	92,783.09	(7,264.97)
2	National Deposit Scheme	(0.69)	0.05	(0.03)	-	(0.00)
3	Khaas Deposit Scheme	(51.43)	(0.19)	(0.04)	(0.05)	(0.24)
4	Special Savings Certificates (Regd)	(39,344.59)	(51,180.06)	31,842.49	13,945.72	4,963.60
5	Special Savings Certificates (Bearer)	(0.75)	(0.55)	-	(0.01)	(0.50)
6	Regular Income Certificates	(20,950.65)	8,726.28	142,088.06	83,232.25	16,246.34
7	Bahhood Savings Certificates	57,432.10	45,395.28	119,573.11	83,379.96	409.41
8	Pensioners' Benefit Account	18,716.71	21,504.37	43,367.37	33,875.95	11,204.20
9	Savings Accounts	4,684.42	3,412.99	(166.22)	4,536.97	(768.33)



S #	Name of Scheme	2016-17	2017-18	2018-19	2019-20	(Jul-20 to Mar-21)
10	Special Savings Accounts	65,246.58	59,939.19	(132,393.53)	200,770.58	(17,155.69)
11	Mahana Amdani Accounts	(55.20)	(46.70)	(73.84)	(60.42)	(55.03)
12	Prize Bonds	97,791.58	101,575.66	40,432.08	(171,109.88)	(85,942.92)
13	National Savings Bonds	-	-	-	(137.00)	-
14	Short Term Savings Certificates	2,077.37	560.55	761.00	19,254.58	(19,021.61)
15	Premium Prize Bonds (Registered)	2,921.72	2,323.20	2,819.96	11,322.72	11,736.54
16	Postal Life Insurance	2,529.79	875.45	1,248.42	627.96	(648.98)
17	Shuhda Welfare Accounts			42.14	27.02	13.69
Grand Total		207,616.95	203,829.13	306,712.00	372,449.41	(86,284.50)

Source: Central Directorate of National Savings

### III- Commodity futures market:

Pakistan Mercantile Exchange Limited (PMEX), is the first technology driven, web-based, demutualized multi-commodity futures exchange in Pakistan. The exchange offers diverse range of international commodities and financial futures, including gold, silver, crude oil, currency pairs, as well as local agricultural products including cotton, wheat, rice and spices.

During the period July 01, 2020 to March 31, 2021, 2.31 million lots of various commodities futures contracts including gold, crude oil, US equity indices and FX pairs, worth Rs 2.014 trillion were traded on PMEX.

### IV. Non-Banking Finance Companies

**Mutual Funds:** As of December 31, 2020, assets under management of mutual funds stood at Rs 985.18 billion. Money Market Funds dominated the industry with the largest share i.e. 41.84 percent of the mutual fund industry, followed by Equity Funds comprising 24.5 percent and Income funds having industry share of 24.08 percent.

**Investment Advisory:** At present, twenty-one Non-Bank Finance Companies (NBFCs) have licenses to conduct investment advisory business, in addition to asset management services, while out of twenty-one, four NBFCs have an exclusive license for conducting investment advisory services. As of December 31, 2020, the total assets of discretionary/non-discretionary portfolios held by all of the Investment Advisors amounted to Rs 313.88 billion. Major highlights of the Mutual Fund Industry are stated below:

Description	Total number of Entities	Total Assets (Rs in billion)
Asset management / Investment advisory Companies	23	43.685
Mutual Funds / Plans	308	985.176
Discretionary / non-discretionary portfolio	-	313.881
Total size of the industry	-	1,342.742

Source: Securities and Exchange Commission of Pakistan

**Box item-II: The NBFC Reforms and Developmental Activities**

- ▶ To facilitate the growth of the mutual fund industry and to safeguard the investor’s interest, the SECP has taken the following initiatives:
- ▶ Digital platform for investment in mutual funds launched with the name “Emlaak Financials”;
- ▶ Detailed mechanism prescribed for digital account opening by Asset Management Companies (AMCs), enabling them to conduct online Customer Verification process for opening of online accounts.
  - Amendments introduced to NBFC Regulations, 2008, to provide following relief to Non-Bank Microfinance Company (NBMFCs) enabling them to have access to credit lines from their wholesale lender and strengthen their equity base:
  - Pakistan Microfinance Investment Company, the wholesale lender of NBMFCs, can now extend unsecured finance to NBMFCs up to 10 percent of its own equity. This will support NBMFCs, who can now avail unsecured subordinated loan to strengthen their equity base;
  - Allowing wholesale lender an extra allowance of 10 percent in exposure to a single NBMFC, significantly increasing its capacity to accommodate NBMFCs
- ▶ Approval granted for incorporation of an NBFC that will exclusively focus on financing to SMEs
- ▶ Licensed an NBFC that will exclusively engage in issuance of guarantees to enhance the quality of debts instruments issued for financing of infrastructure projects in Pakistan
- ▶ Following significant amendments have been made in Voluntary Pension System (VPS) regulatory framework, in order to revamp the regulatory structure and introduce relaxations for ‘ease of doing business’ and growth of the sector:
  - Pension Funds Manager allowed to offer index funds to ensure availability of passive investment strategy products to VPS investors
  - Restriction on pledging of individual pension account has been removed for pledging, lien or encumbrance against a loan or advance, given by the employer to the employee.
  - Requirement for prior approval of the SECP for advertisements to invest in a pension fund has been removed and the SECP shall specify minimum requirements for advertisements.
  - Pension fund managers are allowed investment in securities on behalf of pension fund through a single Universal Identification Number.
  - Per broker commission limit has been enhanced from 10 percent to 25 percent, in line with Mutual Funds.
  - Participant may change his retirement age between sixty and seventy years, by giving notice in writing to the Pension Fund Manager.

Source: Securities & Exchange Commission of Pakistan

**Private Equity and Venture Capital Funds Management Services:**

As on December 31, 2021, the number of NBFCs licensed by the SECP to undertake the business of Private Equity and Venture Capital Fund Management Services stands at six. These NBFCs, have so far successfully launched five Private Equity and Venture Capital Funds and the combined size of these funds stands at Rs 7,889 million.

**Voluntary Pension Schemes:** The assets under management of the voluntary pension industry currently stand at Rs 35.6 billion as of December 31, 2020. Highlights of the pension fund industry are as under:

**Table 6.10: Voluntary pension schemes**

Description	Status as of December 31, 2020
Total assets of pension industry (Rs)	35.6 billion
Total number of pension funds	19
Total number of pension fund managers	10

Source: Securities and Exchange Commission of Pakistan

**Lending NBFCs:** Lending NBFCs include leasing companies, investment finance companies, housing finance companies, discount houses and non-bank microfinance companies. Highlight of each category is stated below:

**Table 6.11: List of lending NBFCs**

S.No	Lending NBFC	No. of companies	Growth in sector size (%)	Asset size as of 31 <sup>st</sup> Dec, 2020 (Rs billion)
1	Leasing Companies	6	-	5.98
2	Investment Banks	12	0.65	66.35
3	Non-Bank Microfinance Companies	26	2.57	129.07
4	Modarabas	38	-	51.43

Source: Securities and Exchange Commission of Pakistan

**Real Estate Investment Trusts (REITs):** Currently, there is one REIT scheme i.e. Dolmen City REIT (DCR), which has successfully completed over five years of operations. As of December 31, 2020, the fund size of DCR was Rs 54.4 billion. The number of companies licensed to undertake REIT Management Services currently stand at eight.

The SECP is also engaged in further revamping the REIT Regulations, 2015 after exhaustive consultations with relevant stakeholders for adding growth and vibrancy in the REITs sector. Key reforms have been identified for conventional REITs and for introducing a complete model enabling launch of REITs for public private partnership-based infrastructure projects in Pakistan.

## V- Corporate Sector

**Company incorporation trend:** Facilitation extended during the pandemic coupled with availability of uninterrupted online services has helped in achieving an impressive growth of 39 percent in number of registered companies during July- March FY2021 vis-à-vis the corresponding period of last financial year. Out of 19,246 new companies incorporated during this period, around 99 percent companies were incorporated using online process.

**Online CTC Issuance:** In order to optimize business processes and to improve experience with the end users, a facility for issuance of digital certified company profile and mortgage register is launched. Any person may now obtain digital certified company profile and mortgage register of any company, registered with SECP by simply signing up to its eService portal for submission of online application.

**Online Digital portal for Banks:** In pursuit of its agenda to promote ease of doing business and digitalization, the SECP, in coordination with SBP, had launched an exclusive digital portal, enabling banks to open corporate accounts without seeking physically certified copies of statutory documents.

**Digital Incorporation Certificate:** SECP has started issuance of digital incorporation certificate. New electronic certificate is equivalent to the physical certificate for all legal purposes. It includes various security features, including SECP monogram, electronic seal of the registrar, QR code and a hyperlink for instant verification from the SECP's record. After this development, the company incorporation process has become fully electronic. This physical contact-free service has been especially fast-tracked in the light of the current pandemic and with a view to further reduce the time to incorporate a company.

**Launch of the Secured Transactions Registry for Unincorporated Entities:** This initiative is in line with international best practices and methodology of World Bank Ease of Doing Business Index which aims to improve access to finance for SMEs and agriculture sector through use of their movable assets as collateral besides providing a mechanism for protection of secured creditors.

**Establishment of Business Centre in Islamabad:** Business Centre in Islamabad is established for swift incorporation of companies and respond any requests for information and queries promptly. The Business Centre is equipped with a professional team and latest technology and will help improve overall customer experience.

**Launch of Combined Certificate of Registration:** SECP has launched digital combined certificate of registration with SECP and other provincial departments. The single certificate shall signify company incorporation with the SECP and as well simultaneous registration with provincial departments including Punjab Employees Social Security Institution (PESSI), Sindh Employees Social Security Institution (SESSI), Labour & Human Resource Departments and Excise & Taxation Departments of Punjab and Sindh.

It will be digital certificate delivered electronically to applicant, hence, making registration process fully electronic and hassle free. The single certificate is featured with QR code and a hyperlink for instant verification of registration status of company with SECP and other provincial departments.

**Box item-III: Regulatory Relief to Corporate Sector to dilute impact of COVID-19 Pandemic:**

Considering the gravity of COVID-19 pandemic on the public health and the lockdown situation in the country, following regulatory relief is provided to the corporate sector:

- i. Usual planning for convening Annual General Meeting for financial year ended December 31, 2020 was modified as follows;
  - a) Members participation through virtual mode to avoid large gathering;
  - b) Detail of video link facilities was to be shared by the companies with the shareholders;
  - c) Companies were to ensure protective measures i.e. provision of hand sanitizer, masks and distant seating;

- d) Postal balloting for special businesses;
- ii. To avoid large gathering at one place for the General Meetings during the COVID-19 outbreak, the companies were directed to modify their usual planning for General Meetings and consider provision of video link facilities, webinar or other electronic means so that the shareholders can provide comments/suggestions for the proposed agenda items of the General Meeting through the same.

Source: Securities and Exchange Commission of Pakistan

## VI- Islamic Finance Sector

**Shariah Governance Regulations, 2018:** During July-March FY2021, the SECP issued certificate of Shariah compliance to seven companies in terms of the Shariah Governance Regulations, 2018, for the development of the Islamic financial and capital market. SECP has issued certificates of Shariah compliance for sukuk issuances worth Rs 280 billion, including the “Power Energy Sukuk-II” by Government of Pakistan worth Rs 200 billion and “Pakistan International Airlines Corporations Limited-Sukuk” worth Rs 20 billion.

## VII- Insurance Sector

The insurance sector in Pakistan comprises of 10 life insurers, 40 non-life and one state-owned national reinsurer. Developments in insurance sector from July 2020 to March, 2021 are as follows:

**Corporate Insurance Agents Regulations, 2020:** This regulation is notified to provide comprehensive regulatory framework, with wider scope for business undertaken through corporate insurance agents (including banks) and technology-based distribution channels.

**SEC (Reinsurance Brokers) Regulations, 2020:** The SEC (Reinsurance Brokers) Regulations, 2021 have been issued with the aim to notify the regulatory framework for regulation of reinsurance broking business. Reinsurance broking refers to the arrangement of reinsurance between the direct insurance company and the reinsurer. One of the key features of regulations is to prohibit dual role of the registered insurance brokers to act as direct insurance broker and reinsurance broker on the same risk.

## Capital Market Reforms and Developmental Activities

- 1. Professional Clearing Member (PCM):** The Professional Clearing Member Regulations, 2020 were approved and notified on September 23, 2020. These regulations stipulate licensing, conduct operational requirements for a company functioning as a PCM. Such a company shall provide clearing/settlement and custodial services to securities brokers and their customers, thereby increasing business efficiency. Subsequently, a company Eclear Services Limited has been granted license to act as PCM on May 03, 2021 which is expected to be operational in due course.
- 2. Digitization and simplification of account opening process:** Investors have been facilitated to seamlessly open their accounts with a broker from anywhere in the country, eliminating the need to submit any documents physically or visit a broker.

In order to ensure maximum investor protection, an online customer verification process has been introduced for opening of online accounts.

- 3. Facilitation in Opening of Investor Account by Non-Resident Pakistanis or Foreigners:** During COVID-19 pandemic, NRPs and foreigners faced practical difficulties in getting their documents attested for opening of trading accounts. The SECP, accordingly introduced amendments in Centralized Know Your Customer (KYC) Organization (CKO) Regulations, with an option of 'Notarization' to allow them to get attestation by either notary public or Consul General of Pakistan. This step has facilitated NRPs or foreign investors to comply with regulatory framework and enabled them to invest in Pakistani capital market.
- 4. Opening of Non-Resident Pakistani Rupee Value Account (NRV Account):** Pursuant to the launch of NRV Account under Roshan Digital Account initiative, NRPs can invest in listed shares and open accounts with capital market intermediaries on the basis of KYC information submitted to the banks. Requisite regulatory amendments have been made and operational system has been implemented for sharing of KYC information and opening of trading accounts.
- 5. Ease of doing business:** The CKO performs independent verification of information of all new customers. Considering difficulties faced by market participants and investors, necessary amendments in respective regulatory framework have been made to address the practical difficulties and make the process more seamless, which include allowing company provided mobile number for opening of account and facilitating Asset Management Companies, group of companies and International Broker Dealers, in using single UIN in respect of multiple accounts.
- 6. Operationalization of Collateral Management Company and Electronic Warehouse Receipts**

Concerted efforts were made for operationalization of the electronic warehouse (EWR) receipt. The registered Collateral Management Company (CMC) became operational and first EWRs were issued in March 2021. Further, approval was also granted for EWR based contracts to be traded at PMEX. In addition, EWRs issued by the CMC can also be used as eligible collateral for obtaining financing from financial institutions.

- 7. Development of primary capital market:** Following measures have been taken for development of primary capital market:
  - i. Introduction of book building mechanism for discovery of profit rate in case of fixed rate instrument: In order to facilitate the issuer to issue debt securities to investors at a competitive rate based on market demand, book building mechanism for the discovery of profit rates in case of fixed rate instrument has been introduced through amendments in the Public offering Regulations, 2017.
    - Recently, Government of Pakistan has raised Rs 200 billion through issuance of Pakistan Energy Sukuk-II by utilizing said book building system. The issue was oversubscribed by 70 percent and GOP was able to borrow funds at a rate less than KIBOR with increased participation from different classes of investors.

- ii. To increase outreach, bringing efficiency and creating ease, PSX has digitalized the e-IPO process for both equity and debt issues.
- iii. Enhancing the options for structuring of debt securities: - For ease of doing business and to streamline the issuance of secured and unsecured conventional debt securities, the scope of activities performed by investment agent has been enhanced to cover issuance of secured and unsecured conventional debt securities. Relevant amendments have been made to the Debts Securities Trustees Regulations, 2017, Public Offering Regulations, 2017 and Public Offering (Regulated Securities Activities Licensing) Regulations, 2017. Through these amendments, the issuers are now able to raise funds through issuance of debt securities either through trust structure or by way of issuance agreement.
- iv. Broadening the universe of the Advisor to the Issue: In order to facilitate and encourage listing of securities on Growth Enterprise Market (GEM) Board of PSX, the SECP has now allowed banks, accounting and auditing firms to act as Advisor for GEM Board.
- v. Review Of Market Making Framework - In order to promote liquidity in the secondary debt market and encouraging financial institutions to register with PSX as market maker, the market making regulations of PSX have been revamped. In order to improve liquidity in the secondary debt market, Chapter 12A has been added in PSX Rule Book, which specifically deals with market making of debt securities, including Government Debt Securities and explicitly provides the roles and responsibilities of the market maker with respect to such debt securities.
- vi. Encourage companies to list other classes of shares: - In order to facilitate the issuer, the SECP has allowed listed companies, whose ordinary shares are already listed on the stock exchange, to list their other class of shares without mandatorily making a public offer of respective class of shares. Consequential amendments have also been made in the PSX Regulations.
- vii. Facilitating issuance of Government debt securities: - In order to facilitate the issuance of Government guaranteed debt securities and public offering of debt security by state owned enterprises having entity rating of BBB+ and above, the eligibility criteria for public offer has been relaxed and the requirement of profitable track record has been waived off.
- viii. Reduced Regulatory burden: Regulatory requirements such as credit rating, market making, information memorandum have been relaxed for certain type of debt securities. Objective eligibility criteria for public offering of debt securities has also been considered to enable companies having a track record of less than three years and profitable track record of less than two years, to raise funds
- ix. Promote innovative solutions through Sandbox: To test new business models and promote innovation, SECP has introduced a regulatory sand box. Under the first cohort, SECP granted approval to six business models including crowd funding platform<sup>1</sup>. In order to continue promoting fintech innovation in a closed and

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<sup>1</sup> Crowd funding is a new financial product that enables startups/small companies to raise funds at a lower cost

secure environment, the process of 2<sup>nd</sup> cohort under the Regulatory Sandbox Guidelines has been initiated.

### **Way forward**

After a volatile ride in FY2020, the stock and debt markets bounced back in FY2021 and the KSE-100 appears set on rising into FY2022. There have been significant listings in the capital market and overall IPOs received an encouraging response from investors. More IPOs are waiting in the queue. Though the third wave of COVID-19 dragged the KSE-100 index down in March and April of FY2021, reforms introduced by the SECP and government's robust policies will not only help the capital market to withstand the pressure but also remain bullish.

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