



January-June 2023

Newsletter

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

PAKISTAN HAS A STRATEGIC PLAN IN PLACE TO GROW ISLAMIC FINANCE

we have a financial inclusion strategy that covers all the components needed to create Islamic financing

The Federal Minister for Finance & Revenue, Muhammad Ishaq Dar

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Chairman's Message

It brings me immense pleasure to resume this bi-annual newsletter, encompassing the Commission's reforms, events, and achievements. With this publication, my aim is to keep the SECP's workforce well-informed about the activities and milestones accomplished by all departments. I look forward to witnessing more and more successes being documented by each department.

I am confident that through our collective efforts, SECP will continue to introduce reforms that foster the organized development of our regulated sectors, promoting sustained economic growth and development.

While thanking you all for your contributions and for the support extended by my fellow Commissioners, I would like to share some developments over the past few months. Firstly, as you are aware, the foremost order of business after I assumed this office was to open communication channels across the Commission. For this reason, a townhall was called in December 2022, where mostly HR related matters were highlighted.

A committee was formed following the townhall meeting, to review compensation & benefits, performance & promotion management, etc. After detailed deliberations, the committee proposed recommendations that have already begun to be put in place.

Likewise, the subject of fund deficit of SECP has been among my top priorities since my appointment as the Chairman. The Commission, noting the severity of the matter, analyzed the existing fee structure and has proposed rationalization of fee in different regulated sectors. Furthermore, expenses are being monitored to reduce operational costs. Such decisions, at times perceived as unpopular, are essential to ensure operational independence and business continuity of the SECP. This is an area where I look forward to your continuous support. I'm happy to inform you all that we have hired a project manager to begin work on our shared dream of having our own office building.

In the recent past, SECP has taken cognizance of coercive recovery practices adopted by certain microfinance institutions. In this regard, necessary directives were issued to all NBFs to strictly adhere to SECP's instructions. Moreover, to address the rise of unauthorized nano-lending apps, SECP is directly engaged with Google, to counter proliferation of illegal apps. As a result, Google has introduced personal loan app policy in Pakistan, which will only allow lending apps that have been approved by the SECP to be available on the app store. In addition, SECP is actively pursuing this matter with PTA, to ensure that the risks and challenges posed by this growing sector are timely addressed.

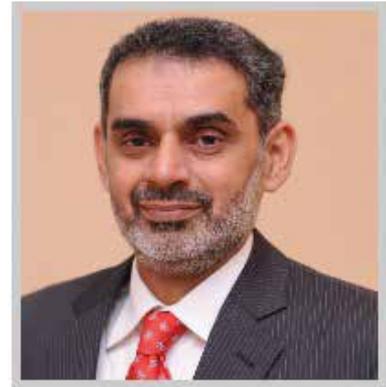
Ease of doing business, digitalization, investor protection and stakeholder engagement, are all among the top areas of interest for the commission, and shall continue to be so. I am very pleased that through our determined efforts, we have been able to make significant inroads and cut down on pendency in the past few months. This has been achieved despite the overall challenges faced by the economy. Moving forward, I am certain that the Commission will be able to achieve greater heights in the years to come, with the active and able support of the entire team of SECP.

With the resumption of this newsletter, I would urge all of you to develop an understanding of the workings and ambit of SECP and their impact. In this regard, internal processes, in particular coordination within and between departments is also being reviewed for improvement, to promote better cohesion and coherence.

I recommend creating an editorial board composed of young individuals and women for SECP's newsletter. This initiative aims to increase the frequency of publication, inject new and innovative ideas, infuse vibrancy, and provide a platform for the exchange of diverse thoughts and perspectives.

I wish you all the very best!

*Those who are interested in becoming part of the Editorial Board for the Newsletter, please send an email to sajid.gondal@secp.gov.pk



AKIF SAEED

CHAIRMAN SECP

Akif Saeed was appointed Chairman SECP on December 16, 2022. Prior to this, he has served as head of various divisions since 2004 and later also served as Commissioner from December 2014 to December 2017.

He has extensive regulatory, operational and business knowledge of various infrastructure entities in the capital markets. Akif headed the team that led a overhauling of Securities law in Pakistan and drafted the new Securities Act, 2015 and Futures Act, 2016.

Akif Saeed is a Chevening alumnus and completed his Master's in Business Administration from the University of Edinburgh. He holds a master's degree in economics from Government College Lahore.

PAKISTAN'S INAUGURAL ISLAMIC CAPITAL MARKET CONFERENCE

SECP holds Pakistan's Inaugural "International Conference on Islamic Capital Markets (ICM)"



Pakistan's First International Conference on Islamic Capital Markets, organized jointly by the Securities and Exchange Commission of Pakistan (SECP) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), was held on May 29, 2023. The theme of the one-day conference was "ICM development with ecosystem completion: innovation, growth, and transformation".

The conference was supported by the Asian Development Bank (ADB), Pakistan Stock Exchange (PSX), National Clearing Company of Pakistan Limited (NCCPL), Central Depository Company (CDC), Almeezan Investments, and other leading industry players in the non-bank financial sector.

The Federal Minister for Finance & Revenue, Muhammad Ishaq Dar, delivered the keynote address. He noted that Pakistan has a strategic plan in place to grow Islamic finance and said that the government has a financial inclusion strategy that covers all the components needed to create Islamic financing. He emphasized that major financial markets across the globe have exhibited evidence that Islamic finance has already become mainstream, parallel to the global financial system, and that it has the potential to tackle extreme poverty and boost shared prosperity.

H.E. Sheikh Ebrahim Bin Khalifa Al Khalifa, Chairman, Board of Trustees, AAOIFI, said in his keynote address that the principles of Islamic capital markets foster social and economic development and support sustainable growth, job creation, poverty alleviation, and the overall well-being of communities. He reiterated

AAOIFI's overall commitment to the Islamic finance industry of Pakistan, as well as its capital market, and assured AAOIFI's full support for improving the quality of AAOIFI standards implementation in the country.

SECP Chairman Akif Saeed, in his speech said that a calculated approach is needed to transform all segments of the financial system to transform into a complete Islamic ecosystem. While highlighting key reforms introduced by SECP in recent years within the sphere of Islamic finance, he assured the audience of SECP's complete commitment to transform its regulated sectors in accordance with wishes of people of Pakistan as embodied in the Constitution. He further laid down priority areas of SECP, which include focus on promoting product development & innovative solutions, implementing international best practices in governance and ethical standards, enhance capacity building through collaborations, and strengthen the





legal and regulatory frameworks for Islamic finance.

State Bank of Pakistan (SBP) Governor Jameel Ahmed also spoke at the event and communicated the central bank's commitment to transforming the financial sector into a shariah-compliant system. He mentioned that SBP and SECP, as part of the federal government's steering committee, are playing their roles in achieving the aligned goals for the transformation towards an Islamic economic system.

The event was a resounding success, bringing together prominent speakers from Bahrain, Turkey, Malaysia, the UAE, and the UK, in addition to local industry experts, scholars, and practitioners.

Through a series of panel discussions, and breakout sessions, the participants highlighted growth opportunities in different

segments of the Islamic capital market and non-bank financial sectors. There was a broad consensus that a strategic development plan needs to be introduced and implemented for the organized development of Islamic finance across all sectors.

On the topic of Islamic fintech, experts agreed that in the fast-changing dynamics of the market, propelled by technological advancements and the growing demand for innovative products that cater to emerging sectors, tech-based products and services need special focus and facilitation.

Participants unanimously resolved that all stakeholders must work together for the shared prosperity of the Muslim Ummah through the development of a sustainable and efficient Islamic financial system.



Corporate Supervision and Regulatory Actions Symposium



Securities and Exchange Commission of Pakistan (SECP) hosted the Symposium on "Corporate Supervision and Regulatory Actions – Challenges and Reforms" on June 23–24, 2023. SECP Chairman Akif Saeed, in his welcome address, said that SECP aims to build a strong and growing corporate sector that is attractive to both domestic and foreign investors, ensuring economic stability and prosperity for our nation. He thanked the World Bank for their support in creating a conducive corporate environment in Pakistan.

Honorable Chief Justice of Pakistan Umar Ata Bandial graced the event as the Chief Guest. Honorable Chief Justice of Pakistan (R) Iftikhar Muhammad Chaudhry and Honorable Chief Justice of Pakistan (R) Tassaduq Hussain Jillani delivered keynote addresses.

Honorable Chief Justice Umar Ata Bandial said that the law should support and encourage private businesses that will automatically translate into economic growth. He said that certainty, fair taxation, & transparent regulation are essential for business growth, adding that SECP's primary responsibility is to protect minority shareholders & small investors. Good business requires transparent regulation and timely and fair disclosure of information. Justice Bandial extended support for any statutory amendments in this regard.

Honorable Chief Justice of Pakistan (R) Tassaduq Hussain Jillani gave a presentation on corporate social responsibility (CSR) and its reforms in Pakistan. He pointed out some successful CSR programs in the country and also shed light

on CSR Reforms undertaken by the SECP including CSR reporting guidelines, integration of CSR into Code of Corporate Governance as well as capacity building and awareness programs to educate companies on CSR. He also pointed out the areas where Pakistan's corporate sector is lacking in CSR. He said that only listed companies are required to comply with the CSR requirement, and that SECP has taken a soft approach so far which needs to be made more stringent.

Honorable Chief Justice of Pakistan (R) Iftikhar Muhammad Chaudhry spoke on the role of judiciary in economic development, regional integration and Foreign Direct Investment (FDI). He said that a well-functioning judiciary has a pivotal role in governance, democracy, constitutionalism, and economic growth. He said that there should be a clear division of responsibilities, even amongst courts, so that the matters of companies and businesses are not delayed because the courts are busy elsewhere.

Many notable members of the judiciary also took the stage and addressed on key challenges and opportunities pertaining to the corporate sector of Pakistan. Honorable Justice Jawad Hassan from Lahore High Court gave a keynote address on "Evolution of Company Law Jurisprudence and role of Company Benches of the Hon'ble High Court".

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Senior Puisne Judge Mr. Justice Irfan Saadat Khan, from the High Court of Sindh, addressed the symposium on "Implementation of Sections 5 & 6 of Companies Act, 2017, Issues and Challenges." He quoted examples from his own judgements and explained how the interpretation of law is only half of the story, the laws themselves are equally significant. He mentioned SECP's laws and shed light on their significance.

Honorable Mr. Justice Yousuf Ali Sayeed spoke on "Reflective Loss and the Derivative Action". He said that owning a company's shares do not offer a right to shareholders over the assets of the company, and the cases need to be decided keeping this in mind. He elaborated how the shareholders, at times, try to claim damages that are not necessarily their's but are, in fact, the company's losses. However, if the claimant can satisfy that the reported loss counts as a derivate loss, then the court should also operate accordingly.

Honorable Mr. Justice Syed Muhammad Attique Shah, from Peshawar High Court, spoke on "Best practices in conducting cross-examination". He talked about including technology in judicial processes, such as Lahore and Peshawar courts allowing video link appearances. He shared examples from his own career and insisted that technology could prove instrumental in ensuring speedy justice.

Honorable Mr. Justice Sardar Ejaz Ishaq Khan IHC gave the final address of Day 1 of the Symposium on "Company Bench and Conduct of Liquidation." He accentuated the need for SECP to ensure expertise in finance, accounting, and law, not just for the financial officers but especially for the liquidators. He said that SECP needs to look into whether they can shoulder the responsibility of a liquidation case. They should not be focused on digging until they find the final penny to make a case ascertainable.

Honorable Justice Mian Gul Aurangzeb gave the concluding speech of the day. He built upon the points raised by Justice Ejaz and said that SECP ought to play a more proactive role in having a larger panel of legal advisors than they have right now, not just in cases of liquidation but also in other corporate matters, while also appreciating SECP prosecutors for assisting the court.

Notable speakers, apart from the legal fraternity, also graced the event. Mr. Sergio Ariel Muro, World Bank (WB) Senior

Financial Sector Specialist, delivered a presentation on the subject of "Towards Efficient Business Restructuring and Exit: Lessons from International Experience". He underlined the importance of establishing a robust insolvency system. He recommended strengthening formal insolvency mechanisms, establishing accessible and cheap out-of-court procedures for MSEs, facilitating conciliation and mediation, and promoting debt forgiveness and discharge of natural-person debtors.

Mr. Badiuddin Akber, CEO of Central Depository Company (CDC) of Pakistan Limited, gave a presentation on CDC procedures, including Automated Securities Settlement Process. He also elaborated Investor Protection Measures put in place by the CDC.

Chief Prosecutor and SECP Prosecution & Legal Affairs Division Head-Executive Director Muzzafar A. Mirza gave a presentation on "Laws Governed by SECP with special reference to supervision and regulatory actions".

The second day of the Symposium was dedicated to stakeholder consultation to suggest way forward with respect to issues relating to company court rules, mergers, liquidations, RegTech, Suptech, Digitisation, and the adoption of Alternate Dispute Resolution (ADR).

A round of discussions was held on "Application of the Companies (Court) Rules 1997 – Issues, Challenges and Reforms with Especial Reference to Insolvency and Liquidation". The formal discussion kicked off with Hon'ble Chief Justice Tassaduq Hussain Jillani posing queries in front of the panellists and Hon'ble Justices Junaid Ghaffar, Abdullah Baloch, Jawad Hassan, Syed Muhammad Attique Shah, and Rozi Khan Berrech as chairs.

The final round of discussion was on "Role of ADR in resolving Corporate Disputes", under the chairman ship of Chief Justice Umar Ata Bandial. During deliberations, honourable Justice Yousaf Ali Sayeed said that the countries where mediation has become popular and shown results, also saw statutory restrictions to send the disputes to mediators before litigation.

Honorable members of the superior judiciary, Registrars, prominent advocates, key adjudication officers of the regulated sectors of SECP and related professionals participated in the symposium.



Consolidated Circular for Modaraba Sector

On January 2, 2023, the SECP issued a consolidated circular containing all statutory and regulatory requirements. The Consolidated Circular is to provide a comprehensive and prudent regulatory environment for the Modaraba sector while ensuring ease and efficiency in compliance.

The Circular SRO 2310 contains all prior circulars, notifications, clarifications, and directives that have been issued by SECP since 1999 for the Modaraba sector, while all duplications, repeals, and redundant statutory requirements have been deleted. All the up-to-date statutory and regulatory requirements have been compiled in a systematic order.

A comprehensive exercise has been done to review all previously issued circulars, clarifications, and notifications. A list of all repealed circulars and notifications issued since 1999 has also been provided at the end of the consolidated circular. The said circular is available on SECP's website.

Guidelines for Offering Islamic Financial Services

SECP has issued Guidelines for Offering Islamic Financial Services, 2023 to facilitate growth of Shariah-compliant financial products in the financial services market. The guidelines cover key principles for the conduct of Shariah-compliant operations and introduce the concept of "Islamic windows" in all regulated sectors. They also provide detailed guidelines for the conversion of conventional financial institutions into Islamic financial institutions and foundational principles for developing cohesive Shariah governance within Islamic financial institutions. The guidelines are available at SECP's website.

Master Circular for Mutual Funds, CISs, and IASs

The SECP has issued an updated Master Circular for Asset Management Companies and Investment Advisors, which covers matters related to digitization, advertisements, categorization, disclosure requirements, CPPI based schemes, exchange traded funds, performance benchmarks, selling and marketing of CIS, sales load and expenses, valuation and provisioning, certifications, outsourcing arrangements, risk management and compliance, merger of open-end schemes, procedure for unit holders meeting, separately managed accounts and closed end schemes.

Working Group formed on Motor Third Party Liability Insurance

The SECP has formed a working group to explore the possibilities and mechanisms for effective implementation of Motor Third Party Liability (TPL) Insurance in the country. The group includes industry experts, representatives of Insurance Association of Pakistan (IAP) and SECP officials.

Recommendations include schedule for engagement with other relevant bodies, public awareness, availability of affordable products and central database of motor insurance policies. TPL insurance offers insurance protection against death, bodily injury and property damage to victims of road traffic accidents or their legal heirs.

SECP warns public to avoid unauthorized lending apps

The SECP has warned the public about unauthorized lending apps, namely "MoneyBox" and "MoneyClub," which are using the names of licensed Non-Banking Finance Companies (NBFCs) without any regulatory approval. The SECP maintains a publicly available list of licensed NBFCs and digital lending apps that have the SECP's permission to offer lending services. Complaints or evidence against companies involved in unauthorized activities can be sent to complaints@secp.gov.pk.

Diagnostic report on Islamic finance

The SECP has released a diagnostic report to document key issues and challenges for Islamic finance in the nonbank financial sector. The report contains specific recommendations for its promotion and aims to comply with the Federal Shariat Court's ruling while standardizing and improving the quality of Islamic goods and services.

The reports are expected to accelerate efforts for growth of Islamic capital markets, takaful industry, and Islamic financial institutions and create a conducive environment for the implementation of a strategic action plan. They are available on SECP website.

SECP proposes Shariah Governance Regulations, 2023

The SECP has issued draft Shariah Governance Regulations, 2023 to strengthen the framework for Shariah-compliant businesses, Shariah-compliant securities, and Shariah advisors. The proposed regulations provide for a complete process for the construction of an Islamic index at the stock exchange and introduce the concept of Shariah supervisory boards.

SECP intends to organize stakeholder consultation sessions in Karachi and Lahore in collaboration with the Pakistan Stock Exchange, the Federation of Pakistan Chambers of Commerce and Industry, and other stakeholders.

Comprehensive review of the Companies Act

The SECP has initiated a comprehensive review of the Companies Act, 2017 in Pakistan to align it with international best practices. Mr. Akif Saeed, Chairman of the SECP, has established a Special Committee to review the Act, recommend amendments, and organize an extensive consultation with stakeholders. SECP welcomes all

stakeholders to share their thoughts and suggestions on areas such as governance, compliance, financial reporting, stakeholder facilitation, and other critical aspects of the Act.

Rating requirement for investment in short term instruments by CISs

The SECP has specified rating requirements for investment in short term debt instruments by open-ended collective investment schemes (CIS). These requirements were introduced through amendments in earlier issued Circular No. 7 of 2009, in consultation with Mutual Fund Association of Pakistan (MUFAP), Pakistan Credit Rating Agency Limited (PACRA) and VIS Credit Rating Co. Limited (VIS). The credit rating of any short-term security in the portfolio of money market schemes shall not be lower than A1 (A One), income schemes shall not be lower than A 3 (A Three), Shariah Compliant (Islamic) Scheme, and Balanced Scheme shall not be lower than A 2 (A Two). The AMCs whose open-ended CISs have already taken exposure in below rated short term debt instruments shall comply with the requirement within a period of six (6) months from the date of publication of the Circular.

VPS fund schemes for KP Govt employees

The SECP has granted No objection certificates (NOCs) on four voluntary pension fund schemes, including two shariah based schemes, specifically for Khyber Pakhtunkhwa Government employees. These schemes will be managed by two pension fund managers (PFM), specifically for KP Government employees. The Voluntary Pension System (VPS) is a self-contributory defined contribution pension scheme open to all adult Pakistanis having a computerized national identity card.

Pakistan's first P2P Lending Platform

SECP has approved the first Peer-to-Peer (P2P) Lending Service Provider in Pakistan, Finja Lending Services Limited (FLSL). The regulator evaluated the service provider's adherence to regulatory guidelines, risk management protocols, data protection measures, and overall operational efficiency. SECP had introduced an enabling regulatory framework for P2P lending within the existing NBFC Regulations, 2008, which provides the foundation for P2P service providers to operate transparently, securely, and in compliance with regulatory standards. P2P lending platforms bring numerous benefits to the financial ecosystem and contribute towards the growth and accessibility of financial services.

SECP amends NBFC Regulations to adapt to new technologies

ISLAMABAD, May 17: The SECP has revised the Non-Banking Finance Companies and Notified Entities Regulations, 2008,

with a view to promote the development of the digital financial environment and financial inclusion.

The SECP has carried out a thorough analysis of current regulations to remove redundancies and exercised broad public consultation to propose amendments in the regulations. The focus was to address market requirements, provide ease of doing business through digitalization, and protect the interests of NBFCs' customers.

For the introduction of digital fund management, lending platforms, and trustee services, enabling provisions have been made. These provisions are designed to make it easier for digital technologies to be used in order to increase accessibility, efficacy, and cost-effectiveness.

Amendments have been introduced to ensure AMCs will inform unitholders of account activity and keep client information confidential, as well as a time frame for dividend distributions and provisions for borrower protection for lending NBFCs have been introduced.

Investment Advisors are allowed to offer portfolio management services to any investor, but must formulate a risk management policy and contingency plan approved by their Board of Directors for better risk management, accountability, board oversight, and client protection.

Non-deposit-taking NBFCs have been given greater flexibility in determining their exposure limits, as the total unsecured exposure limit of 100% of equity has been removed. Additionally, new licenced lending NBFCs have been given one year to meet the minimum investment requirement in their core businesses. Further, the time to file CEO applications has been extended from 10 days to 30 days.

Grievance Handling Mechanisms for Insurance Sector

The SECP has issued requirements for a Grievance Handling Mechanism for the Insurance Sector to ensure effectiveness, robustness, and uniformity in the process. These requirements cover areas of formulation of grievance handling policy, maintenance of a centralized grievance handling system, acceptable modes for lodging complaints, bifurcation of complaints, timelines for resolution, communication with policyholders, awareness of grievance handling mechanisms, monitoring for continuous improvement, and reporting and record-keeping of complaints-related data. These requirements are in line with other financial sectors and international best practices and will be applicable to all insurers and takaful operators.

Digital Lending

Standards issued for digital lending

- Google stopped lending apps from accessing contacts, photos
- SECP published whitelist of digital lending apps to prevent online fraud

After COVID-19, the fintech sector has endured worldwide expansion. There are numerous online and mobile apps that offer personal loans, and Pakistan is no exception. Some of these applications are operated by Non-Banking Finance Companies (NBFCs) that hold a license by the Securities and Exchange Commission of Pakistan (SECP) and some are also licensed by the State Bank of Pakistan (SBP).

With the global popularity of digital nano loans, the licensed digital lending NBFCs have made rapid progress to further the journey of financial inclusion by lending to more than 2.4 million borrowers with disbursement of over Rs. 63 billion during the CY 2022. However, with growing number of loans, the SECP has noticed an increasing trend of borrower's complaints against digital loan providers, specifically those involved in nano lending. These complaints are not only registered directly with SECP's portal but the social media forums like Facebook and Twitter are flooded with coverage against these loan providers. The complaints mainly relate to exorbitant interest rates, inadequate/misleading disclosures, loan disbursement without borrowers' consent and coercive collection practices.

Given that lending is a licensed activity in Pakistan, there are numerous digital lending apps operating in Pakistan without license and are, therefore, illegal. Entering into any loan agreements or dealings with unlicensed apps may have adverse implications, therefore, users are advised to avoid using such unauthorized apps.

Although NBFCs' digital lending apps offer quick, unsecured small ticket loans to borrowers and may act as a source of credit for otherwise underserved or unserved strata, the loan rates they charge can be proportionally quite expensive for the reason these are unsecured loans.

Considering the severity and sensitivity of the issues, the SECP proactively engaged with chief executive officers of all NBFCs engaged in digital lending as early as July 2022. CEOs were advised to adopt best lending practices, ensure full disclosures and fair treatment of borrowers, avoid excessive pricing, deploy a robust complaint resolution mechanism and ensure privacy protection and data security. The lenders were informed that SECP expects the industry to take the initiative of

practicing caution and develop standards for protection of borrowers through adequate disclosures.

At the same time, SECP started working on devising digital lending standards based on global best practices and specifically by learning from recent regulatory interventions in regional financial markets. Thereafter, extensive consultation and deliberations were carried out internally as well as with external stakeholders. Resultantly, the SECP, in order to safeguard the interests of borrowers ensuring fair treatment, disclosure and protection of personal information as well as curbing unethical loan recovery practices in digital lending ecosystem, through Circular No. 15 of 2022 dated December 27, 2022 has issued digital lending standards applicable on Non-Banking Finance Companies (NBFCs) undertaking lending activities through digital channels/mobile applications (Apps). The Circular aims to tackle concerns involving mis-selling, breach of data privacy, unfair business conduct and unethical & coercive recovery practices of licensed digital lending NBFCs.

The requirements stipulate the minimum mandatory disclosures to borrowers at all stages after the digital App download and before entering into loan agreement. The disclosures include; information regarding App access to user data during the App registration process, and the privacy policy, mark-up rate, financing details, fee and charges, early settlement charges and contact details before the borrower enters into a loan agreement.

Significant disclosure in the form of Key Fact Statement (KFS) are required before the loan disbursement to the borrower including; loan amount approved, cooling-off period, Annual Percentage Rates, tenor of loan, installments/lumpsum payment amounts with date(s), all fee and charges, inter-alia processing fee, late payment charges and Per day charges for late payments. To ensure transparency and ease of understanding, the App shall display the summary of KFS through a video/audio, screen shot and email/SMS in both English and Urdu languages. Any fee not included in KFS will not be charged to the borrower.

Digital Lenders are restricted to make any upfront deductions (first instalment, charges, fee etc.) from the approved loan amount. Similarly, the terms and conditions along with Annual Percentage Rate as agreed between Digital lender and borrower at time of grant of loan shall not be subsequently changed without prior consent of the borrower including automatic increase in credit limit. In addition, disbursement and recovery shall be carried out only through the bank account/branchless

banking accounts of the digital lender and disbursement shall be ensured to be made in the bank account/branchless banking account of the borrower.

Digital loan disbursement shall be subject to acceptance of all the underlying terms and conditions by the borrowers. Digital Lender shall also ensure digital provision of loan sanction letter, terms and conditions, account statements and privacy policies with respect to borrower's data, to the borrower through email/ SMS upon execution of the loan contract. The Commission has also specified a comprehensive grievance redressal mechanism with detailed monthly reporting over and above the current NBFC grievance redressal framework.

To discourage non-licensed digital lenders, the licensed digital lender shall be required disclose its full corporate name and licensing status (including license no.) on its lending platform(s)/App(s), documentation, materials and advertisements and also provide its license status along with approval granted by the Commission for respective App to Google Play Store and/or App Store. The Digital Lender shall make available on its website, updated information regarding its lending products including complete terms and conditions. Any advertisement and publication shall be fair and reasonable and not contain misleading information. Further, in order to prevent borrower's over-indebtedness and manage credit risk, the Digital Lenders shall develop an internal mechanism to monitor the overall exposure of its borrowers by; requiring undertaking from borrowers regarding their current borrowing from all lenders; obtaining membership of CIBs; and ensuring regular/continuous reporting to all the credit bureaus operating in Pakistan on real time basis.

On the digital side, the Commission has made its prior approval mandatory to launch Digital Lending Platforms/Apps after the lender has received compliance certificate from PTA's approved Cyber Security Audit Firm. Lenders will be allowed to operate only one App at a particular time and the list of Digital Lending Apps of NBFCs shall be placed on SECP's website. Confidentiality and privacy of data is at the forefront of Commission's digital lending framework and it has been made obligatory that data shall not be stored on any cloud infrastructure outside the jurisdiction of Pakistan. Moreover, data currently stored on cloud infrastructure/hosting/data centers outside the jurisdiction of Pakistan shall be shifted/transferred inside the jurisdiction of Pakistan within the specified period. Similarly, digital lender will not be allowed access to the borrower's phone book or contacts list or photo gallery even if the borrower has given consent in this regard. The lender shall also not be allowed to contact the persons in the borrower's contact list, other than those who have been specifically authorized by the borrower as guarantors and who have also provided their consent to the digital lender at the time of loan approval.

The Circular also specifies the time period for all Digital Lenders to comply with various provisions of the framework, ranging from immediate, seven days, ninety days or one year, keeping in view the necessity, sensitivity and practicability of the implementation requirement.

The digital lending framework aims to smoothen the digital lending process, protect consumers from unethical loan recovery practices and empowers borrower to make more informed decisions with full transparency. This framework will not only discourage ambiguity and bad practices but will also encourage the genuine players to responsibly practise lending which help foster trust and eventually growth of the sector.

The SECP believes that the framework will pave the way towards a secure, inclusive, and accessible digital lending ecosystem and expects the industry stakeholders to understand the potential of fintechs in effective credit delivery as well as the need for maintaining a compliant operational environment to usher a healthy and sustainable growth of the sector. However, borrowers are advised to thoroughly read through all of the terms and conditions of the loans, including interest/markup rate, services fees, and late payment charges/penalties, before signing up for a loan using these digital apps as well as compare APRs of different apps at the time of applying for a loan.

The licensed NBFCs are subject to legal action, if any applicable rules are violated or borrowers are given false or misleading information. Borrowers who have grievances may approach the respective NBFC for settlement and if their concerns are unresolved, they may also file a complaint with SECP through its Service Desk Management System.



SECP Actively Engages in IOSCO's 48th Annual Meeting, Focusing on Standard Setting and Inclusiveness



The SECP was represented by Chairman Akif Saeed at the 48th Annual Meeting of the International Organization of Securities Commissions (IOSCO), held in Bangkok, Thailand, from June 13–15, 2023. On the sidelines, meetings of the Asia-Pacific Regional Committee, Growth, Emerging Markets Committee, and Presidents Committee were also held.

IOSCO, with its members regulating over 95% of global financial markets across 130 jurisdictions, provides a vital platform for financial supervisors to convene, collaborate, and discuss market developments to establish common positions. During the Annual Meeting, Jean-Paul Servais, Chair of IOSCO, recognized the noteworthy progress made on key topics, including crypto assets, sustainable finance, and financial stability.

Over the course of various meetings, the delegates engaged in discussions covering various subjects such as sustainable finance, private finance, liquidity risk management, CCP margin requirements, decentralized finance, leveraged loans, and benchmarks. Notably, the emphasis was placed on market developments and capacity building in emerging markets, prompting IOSCO to pursue concrete measures.

SECP's active participation in IOSCO's Annual Meeting demonstrates its strong commitment to global cooperation in the securities industry. By contributing to standard setting and promoting inclusiveness, SECP aims to enhance market integrity, investor protection, and financial stability. This event served as an invaluable opportunity for SECP to exchange knowledge and insights with international counterparts, further solidifying Pakistan's position in the global securities landscape.



Sustainability Insights

Sustainable and socially conscious business practices are increasingly being pursued globally. SECP published a position paper on ESG Regulatory Roadmap in 2022, deliberating on the evolving landscape of sustainability related initiatives and proposed way forward by an inclusive approach to adopt best practices. The corporate sector, multilateral agencies, investors and academia positively endorsed the efforts of SECP aimed at mainstreaming ESG practices in line with Pakistan's international commitments.

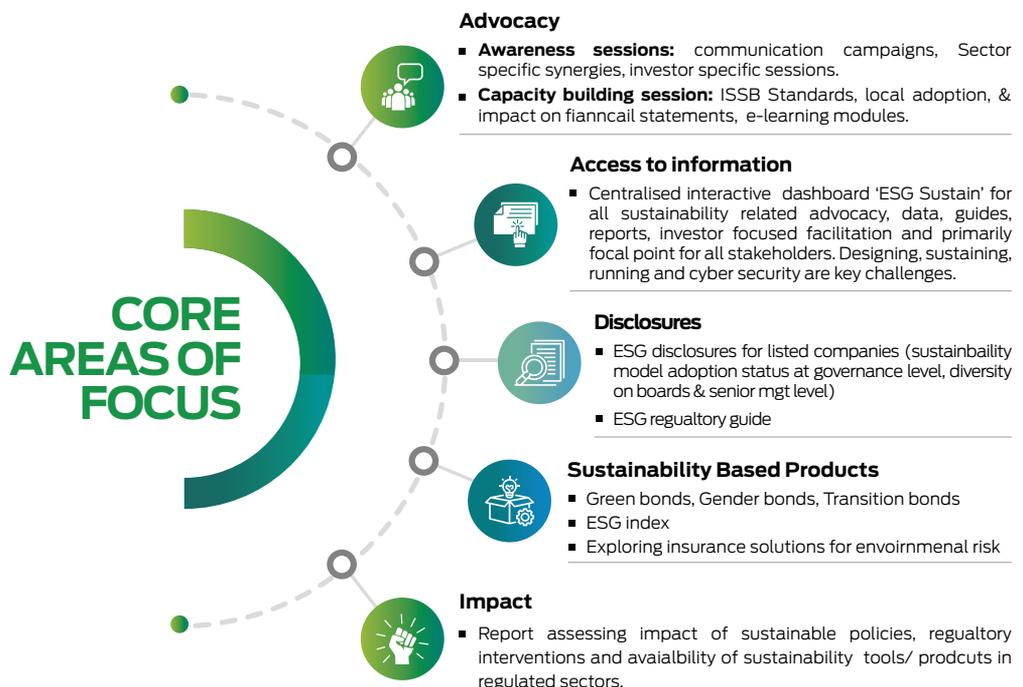


Symposium on environmental, social and governance (ESG)

In order to keep the momentum of discussion on sustainability and diversity related issues, a premier ESG symposium in collaboration of UN WOMEN was held in January 2023 at Karachi. The event attracted dynamic representation from private sector presenting their success stories and aspirations for strengthening ESG ecosystem. SECP stressed the need for creating synergies for alignment with sustainability and climate-related objectives. Ms. Sharmeela Rasool, Country Representative UN Women, Pakistan emphasized the significance of Women's Economic

Empowerment Principles leading to inclusive economic growth. Plenary discussion moderated by Mr. Ahmed Iqbal with panelist Mr. Farrukh Khan, CEO PSX, Mr. Ehsan Malik, CEO (PBC), Mr. Farrukh Rehman, Director (ICAP) and Ms. Fareeha Ummar, Portfolio Manager UN WOMEN Pakistan shared need for collaborative efforts. Working session from private sector led by Mr. Muhammad Shoaib, Director (CFA Society) mapped their best practices and showed commitment to strengthen areas in ESG considerations. Mr. Akif Saeed, Chairman SECP stressed the critical role of institutions in promoting sustainable business practices, transition challenges and need for tangible future targets.

Based on the feedback from the advocacy session, a draft consultative paper on ESG action plan for regulated sectors was circulated amongst key stakeholders (capital market institutions, multilateral institutions, academia) providing the key areas of focus and mapping stakeholders.





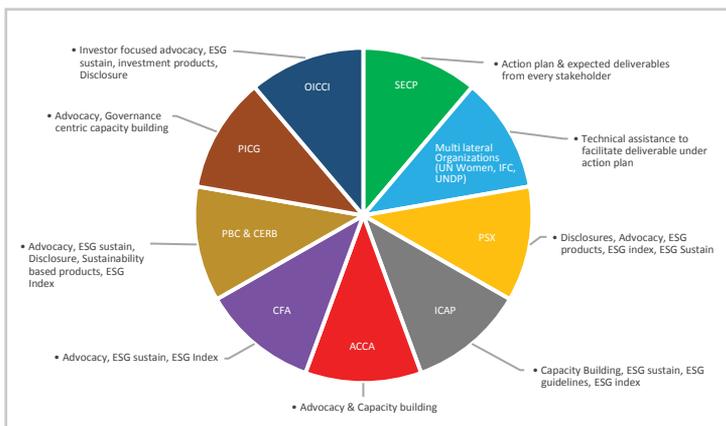
Capacity building session on Sustainability Disclosures and Reporting

In perspective of draft action plan and evolving international framework for corporate sustainability reporting, SECP in partnership with Institute of Chartered Accountants of Pakistan (ICAP) held capacity building session at Lahore in May 2023 attended by senior representatives of companies, multilateral institutions, professional bodies, capital market institutions and business forums. Mr. Farrukh Rehman, Council Member emphasized need for continuous capacity building efforts and way forward towards adopting and implementing sustainability standards in Pakistan. Private sector representatives presented their sustainability related disclosure practices and feedback for improving reporting mechanism. IFRS Foundation provided an overview of the sustainability disclosure standards. The fireside chat on draft action plan garnered great interest with panellist including Mr. Farrukh Rehman (ICAP), Mr. Farrukh Khan (Pakistan Stock Exchange), Mr. Andrew C. McCartney (Asian Development Bank), Mr. Ephyro Luis B. Amatong (International Finance Corporation), Mr. Memosh Khawaja (Pakistan Institute of Corporate Governance), Ms. Nazish Shekha (Pakistan Business Council), Mr. Shahzad Ashraf (UN Women, Pakistan) and Mr. Muhammad Kamran (UNDP). The panellist discussed the critical role of their institutions, tangible timelines and key areas of collaboration under action plan. Chief guest, Mr. Amjad Saqib (Founder and Chairman Akhuwat Foundation) appreciated SECP and ICAP, emphasized the significance of inclusive socioeconomic development. Chairman SECP welcomed interest of stakeholders and reaffirmed resolve of working as a facilitator for cohesive, inclusive and tangible national ESG action plan.

The series of capacity building on sustainability reporting was extended for officers of SECP, Central Depository Company and Pakistan Stock Exchange in partnership with ICAP. Ms. Musarat Jabeen emphasized that need for professionals and industry expert in context of ISSB standards and resolved to continue advocacy and capacity building sessions. ICAP provided a detailed overview of sustainability standards and highlighted role of ICAP in capacity building among key stakeholders of ESG ecosystem.

Stakeholder Mapping for ESG Action plan

Stakeholders mapping based on strategic role of stakeholders for an integrated ESG ecosystem:



Engagements

Philanthropy Awards Ceremony

Pakistan Centre for Philanthropy organized Philanthropy Awards Ceremony on 7th March 2023 in Karachi. The event also included launch of PCP's two Corporate Philanthropy Survey (CPS) reports of 2021 and 2022. SECP Chairman Akif Saeed chaired the event and distributed awards among the leading corporate givers.

"Through long-term strategies focusing on outcomes, with better employee engagement and better synergies, the corporate sector can increase its contribution to the social and economic development of Pakistan", said SECP Chairman Akif Saeed while speaking at the ceremony. He said that the contribution of the listed companies to corporate donations is approaching the globally accepted level of 1% of profit after taxes.



SECP for continuous engagement with market participants

SECP team visits PSX and NCCPL

The Chairman, SECP Akif Saeed, visited Karachi, January 4, to meet with the management and Board of Directors of PSX and NCCPL, as well as the Executive Committee of the Pakistan Stock Brokers Association. The objective of the meeting was to identify areas where focused efforts and mutual cooperation between PSX, the front-line regulator, and SECP, the apex regulator, would be required. The senior officials of SECP and PSX discussed measures for growth of the capital market, encouraging new listings, enhancing the efficiency of the digital onboarding mechanism for investors, and benefiting from emerging financial technology. Proposals for reforms in taxation and pension plans, product development, exchange-traded funds, derivatives markets, and fixed income products were also discussed. The Executive Committee of PSBA welcomed the new Chairman of SECP and proposed proposals to facilitate the brokerage industry in Pakistan.

It was emphasized to use shared KYC mechanisms and digital onboarding facilities to increase the investor base. The Chairman, SECP, also stressed the importance of continuous engagement with market participants and providing necessary support to capital market infrastructure institutions and relevant stakeholders for the progress and development of the capital market in Pakistan.

SECP aims to improve insurance industry standards

SECP Chairman Akif Saeed emphasized upon improving the corporate image of the insurance industry by introducing new products with greater value to policyholders, upgrading service standards and timely disclosure of customers and claims data. He was meeting the representatives of Insurance Association of Pakistan (IAP) and the Chief Executive Officers of major insurance companies, in Karachi on January 6. The SECP encouraged industry representatives to share their suggestions and feedback on the way forward for sound and orderly development of the insurance sector.

SECP to reform PMEX for creating linkages with rural economies

Meeting with the CDC and PMEX officials

The SECP team, led by Chairman Akif Saeed, met with the Board of Directors and senior management of the Pakistan Mercantile Exchange (PMEX) and the Central Depository Company (CDC) to discuss new contracts on electronic warehouse receipts (EWR) and measures to promote trading activity at the PMEX. In a separate meeting with the CDC, on January 5 in Karachi, the Chairman reviewed digital solutions for investors in the capital market and the availability of National Savings Scheme certificates in book-entry form. Later, the SECP team met with members of the Board of Directors of the Mutual Funds Association of Pakistan (MUFAP), NBF, and Modaraba Association to discuss the progress and timelines on the conversion of MUFAP into an SRO and the digitalization of the AML/KYC requirements.

Team ADQ's visit to SECP

Team ADQ (the sovereign wealth fund from Abu Dhabi) visited SECP Head Office on June 14, 2023 and met with senior officials, and deliberated on the environment for investment potential, especially Fintech and other Digital Assets in Pakistan. SECP Commissioners Aamir Khan, Abdul Rehman Warraich, Mujtaba Ahmad Lodhi, and Executive Director Musarat Jabeen were in attendance.



Thematic workshop on digitalization program held

The SECP held a workshop to demonstrate the prototype of re-designed digital regulatory processes for Limited Liability Partnership (LLP), company registration and filing, and compliance, on February 24 in Lahore. Uzma Khan, the LEAP program manager from the SECP, discussed the impact of digital developments and integration of systems on the customer experience. Experts from EYFR Pakistan proposed a redesigned payment mechanism to reduce high error rate and provide multiple modes of payments to end users.

Techlogix Pakistan representative explained the prototype and included user registration, process filing method, availability of company/user profile, documents access, payment options, and acknowledgement of decision. The workshop was attended by a large number of stakeholders from the business/legal community, information technology experts, and SECP officials.



Town Hall Meeting

Town hall meetings allow the management to meet and connect with the staff across all centers. SECP organized a town hall meeting which was attended by the employees at the Head Office, while the staff at all CROs attended via online conference.

During the meeting findings of a survey were presented that was conducted within SECP to seek comments and suggestions from the staff for the improvement of work environment. An interactive discussion and Q&A session was also held whereby SECP staff communicated their ideas and posed queries.



SECP's financial reporting workshop

The SECP organized a financial reporting workshop on Non-Banking Microfinance (NBMF) sector, in light of new regulatory requirements outlined under Circular 15, on May 18 in Islamabad. SECP Executive Director Khalida Habib gave a presentation on the circular that explains the digital lending standards applicable on Non-Banking Finance Companies (NBFCs) undertaking lending activities through digital channels/mobile applications (Apps). SECP has stipulated minimum mandatory disclosures for the digital lenders before loan disbursement to the borrower, such as loan amount

approved, annual percentage rates, tenor of loan, installments/lumpsum payment amounts with date(s), and all fee and charges, as well as Key Fact Statement (KFS).

SECP has also liaised with the local regulators concerned (i.e., PTA, FIA, NTISB and SBP), as well as with Google and Apple for the removal of unauthorized apps. From January 2022 to November 2022, NBFCs undertaking digital lending disbursed 2,402,301 loans of Rs. 63.589 billion, to 2.4 million borrowers in 3,738,719 loans.



SECP organises workshop on Islamic Finance

The SECP held a capacity building workshop for journalists, on May 25 at its Head Office, to discuss its efforts on promoting Islamic finance and encouraging innovation. Ms. Musarat Jabeen, Executive Director and Spokesperson of the SECP, informed the participants about various reforms initiated by the SECP to improve the business climate in Pakistan. Mr. Tariq Naseem, Head of Islamic Finance Department, gave an overview of Islamic Finance and highlighted the recent diagnostic report on Islamic finance, which identified various impediments in the growth of Islamic Finance and policy recommendations needed for its development in the country.



Commissioner SECP met with Special Secretary Finance GoKPK

SECP team, led by Commissioner Mujtaba Ahmad Lodhi, visited Special Secretary Finance, Government of Khyber Pakhtunkhwa (GoKPK), Mr. Asif Rasheed, in Peshawar on June 12. Mr. Rasheed provided an update on the recently introduced voluntary pension scheme for Government employees and discussed amendments proposed in the VPS Rules, 2005. SECP also gave its NOC for trust deeds to 3 pension Fund Managers, and the Special Secretary Finance extended his gratitude to SECP for its time and support in facilitating the development of KP Contributory Pension Fund.



SECP commemorates CDC's Silver Jubilee with commemorative stamp

SECP Chairman Akif Saeed officiated the Silver Jubilee celebrations of CDC Pakistan and unveiled a commemorative postage stamp. He praised CDC's efforts and perseverance throughout the years and said that CDC has served as the pride of Pakistan's capital market. The unveiling ceremony, held on May 30 at SECP Head Office, marked CDC's landmark achievement of 25 years of successful operations. CDC operates one of the largest public interest databases in the country's economy in a safe and secure manner, with the highest standards of information security, data integrity, and service quality. The SECP Commissioner for Securities Market, Abdul Rehman Warraich, Executive Director Musarat Jabeen, CEO Pakistan Stock Exchange (PSX), Mr. Farrukh H Khan, Additional Director General Pakistan Post, Mr. Shahid Malik, and other officials were also present.



Delegation of Sovereign wealth fund from Abu Dhabi visits SECP

Team ADQ (the sovereign wealth fund from Abu Dhabi) visited SECP Head Office, on June 14, and met with senior officials to deliberate on the environment for investment potential, especially Fintech and other Digital Assets in Pakistan.



AAOIFI Delegation calls on SECP Chairman Akif Saeed

A delegation of AAOIFI led by Chairman Board of Trustees AAOIFI H.E. Shaikh Ebrahim Bin Khalifa Al-Khalifa called on SECP Chairman Akif Saeed, on May 30 at SECP Head Office. SECP and AAOIFI agreed to enhance mutual cooperation in light of MoU signed at the first Islamic Capital Market Conference.

Women's Day Celebrations

SECP to promote gender diversity in the corporate sector

The SECP celebrated International Women's Day, on March 8, with a pledge to improve female representation in the corporate sector. Former SECP Commissioner Sadia Khan highlighted three things that working women need to adapt to succeed in the professional landscape.



SECP Chairman Akif Saeed said that women are ready for change and that SECP is spearheading that change with women accounting for 38% of senior management and 51% of new recruitments.

Female representation ensured in all management/executive committees	Females in senior management positions now account for 38%	51% of all new recruitments in the last year have been females
a well-equipped day care facility has been operational for the past 20 years.	Maternity leave has been extended from 90 days to 180 days.	Formal "Policy for a Respectful Workplace" in place



As a result of SECP's measures, 6,295 companies registered since January 2015 are headed by Pakistani women as chief executive officers; 87% of listed companies now have women directors on board; 2,364 women-owned businesses have availed financial facilities through the Secured Transaction Registry and 72% customers of non-banking microfinance companies are women. SECP also announced to resume women's entrepreneurship support programs and the revival of the investor education department.

Events & Activities



An awareness session on "embedding dignified work environment" was organized for SECP employees. Ms. Maliha Husain, Ex. Director of MEHERGARH provided an overview of relevant laws & reporting mechanism w.r.t workplace harassment & appreciated SECP's Code for respectable workplace. (Islamabad, May 18, 2023)



President of Pakistan, Dr Arif Alvi conferred Pakistan civil award Tamgha-e-Imtiaz on SECP Director Shazhad Afzal Khan in recognition of his commendable services towards removal of Pakistan from Financial Action Task Force (FATF)'s Grey List. (Islamabad, March 23, 2023)



SECP organized a farewell lunch in honor of former Commissioner Sadia Khan at Islamabad Club. She served as Commissioner from March 2020 to March 2023. Chairman Akif Saeed presented her with a souvenir shield. SECP's senior management attended the occasion. (Islamabad, May 2023)



Insurance Division organized an offsite tour themed, "Regulator Unplugged: Engaging, Envisioning and Evolving". Stakeholder consultations were held with insurance industry experts and their feedback was sought on SECP's strategic vision for the insurance industry. (Karachi, June 2023)



SECP organized a workshop for lawyers at the request of Islamabad Bar Association, focusing on important regulatory aspects of SECP's role as a regulator. The session covered the scope and mandate of SECP, administered legislation, company registration and filings, etc. (Islamabad, June 2, 2023)



SECP participated in "HR Summit & Job Fair 2023 Exhibition" along with ICMA, organized at Pak-China Friendship Centre. (Islamabad, June 7, 2023)



SECP's CRO Islamabad organized a seminar on "Role of SECP, Registration of a Company & Post incorporation Compliances" at ARID Agriculture University. Participants from BBA and IT departments of the university attended the seminar. (Islamabad, January 19, 2023)



SECP's CRO Karachi gave a presentation on registering companies online to Federation of Pakistan Chambers of Commerce & Industry's (FPCCI) Standing Committee on Women Education. The event was focused on SECP's reforms and initiatives to facilitate women in the corporate sector, including fully automated company registration process. (Karachi, April 14, 2023)



SECP's CRO Lahore organized a seminar on "Proposed Companies Regulations, 2022 & Company Registration" in collaboration with Lahore Tax Bar Association and briefed the participants about SECP's initiatives for Ease of Doing Business. (Lahore, January 17, 2023)

Cricket tournament



13th SECP Cricket Tournament was held from May 29 till June 20, 2023, in Islamabad. Ten inter-department teams competed with each other, with Gladiators bagging the trophy.

Hiking trip



SECP team members took a hiking trip to Ayubia National Park, Ayubia, Murree on Saturday, June 17, 2023

Board Games



10th SECP Board Games were held in SECP Head Office on Monday, February 20, 2023

Editorial Board:

Ms. Musarat Jabeen
Mr. Sajid Gondal
Ms. Syeda Raza-e-Masooma