



Institute of Capital Markets

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## MESSAGE FROM THE CHIEF EXECUTIVE

The last few years have seen a rapid growth in size, quality and sophistication for capital markets, because of changes in the policy and regulatory environment, the entrepreneurial initiatives of individuals and institutions, and the availability of trained manpower. The continuing growth of capital markets is further adding to the demand for well-trained professionals.

Institute of Capital Markets (ICM) is dedicated to the professional development, research as well as the well being of capital markets by educating the professionals about the norms and ethics being practiced.

The Institute of Capital Markets (ICM) has had a pioneering role in meeting the demand for the educated manpower. It is Pakistan's first specialized institution devoted to the educating and updating of knowledge of manpower for capital markets. It will provide high-quality educational standards for all types of capital market participants; investors, brokers, mutual funds, investment banks and policy makers.

The Institute's main activities are (1) Licensing the professionals working in the capital

markets by certifications. The institute's key responsibility is to educate the professionals working in different capital markets of Pakistan through examining their knowledge in their relevant field of work; (2) studying the latest developments in the capital markets in order to discover whether there is such a thing as an ideal market economy; and (3) contributing to the development of capital markets in Pakistan. By means of these three activities the Institute seeks to communicate its ideas to the audience both at home and overseas.

The Institute's research is intended, first and foremost, to be neutral, professional and practical. Rooted in practice, it aims to contribute to the healthy development of Pakistan's capital markets as well as to related policies by conducting neutral and professional studies of how these markets and the financial system are regulated, organized and how they perform.

The economy is changing all the time. The Institute hopes that, by responding to these changes positively, it can contribute to the dynamic development of the country's capital markets as well as of the economy itself.

## INTRODUCTION TO THE ORGANIZATION

The **Institute of Capital Markets (ICM)**, Pakistan's first securities market institute, has been established as a permanent platform to develop quality human capital, capable to meet the emerging professional knowledge needs of capital markets and create standards among market professionals. The Institute has been envisioned to conduct various licensing examinations leading to certifications for different segments of the capital markets. In addition, ICM will also provide a platform for

research & development, exchange of ideas and consulting services on Capital Markets issues.

All the details regarding programmes/registrations are provided on ICM's website: [www.icm.org.pk](http://www.icm.org.pk) and also on ICM's Facebook page:

[www.facebook.com/instituteofcapitalmarkets](http://www.facebook.com/instituteofcapitalmarkets)

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## BUDGET 2015-16

### Real Estate Investment Trusts (REIT) Development Schemes

Any gain on disposal of immovable property to this scheme is exempt from tax up to June 30, 2015. It is proposed that the period of exemption for selling immovable property to a Developmental REIT Scheme will be extended to June 30, 2020 for development and construction of residential buildings.

Dividend income from this scheme shall be allowed a rebate of 50% for three years from June 30, 2018. The aforesaid concession needs to be extended on such investment trusts which are set-up before the said date. These schemes have also been obliged to collect capital gains tax on redemption of securities at applicable rates.

### One-Time Super Tax Has Been Introduced

One-time super tax has been proposed on banking companies and all other taxpayers who have an income of Rs.500 million or above. 3% is the general rate of

super tax while banking companies will be paying 4% of the income.

This one time super tax shall also be applicable on those companies which are engaged in the extraction and production of petroleum and mineral deposits. One time super tax is payable for the year 2015 which includes all the banking companies, sugar companies, insurance companies, etc. which follow special tax years other than June 30, 2015 that have already ended. All the incomes from profit on debt, dividends and brokerage and commission need to be included separately as well as under the imputable income basis.

### Revised Tax Rates

The tax rate on all companies other than banking companies shall be 32% for the year 2016. The tax rate for companies is to be brought to 30% from 2014 to 2018 and this reduction is in line with the decision made by the Finance Minister in 2013. The tax rate on dividends other than stocks for filers has gone up from 10% to 12.5% and for non-filers,



it has increased from 15% to 17.5%. Dividends received from stock funds are taxable at an increased rate of 15%. The rates for capital gains tax on securities are being fixed as under:

Held up to a period of 12 months: 15%

Held up to a period from 12 months to 24 months: 12.5%

Held up to a period from 2 years to 4 years: 7.5%

Tax rate on capital gains of insurance companies for the year 2016 has been prescribed in line with similar income in the hands of other taxpayers as laid down for income covered under section 37A. On internet services, an adjustable withholding

## BUDGET 2015-16

tax of 14% has been introduced. Tax slabs for salary income have also been revised. The maximum rate of 30% has been retained, however, the slabs that have been amended resulted in some relief for lower brackets. For non-salaried income group, similar amendments have been made. It is proposed that minimum tax on income of distributors and dealers shall be increased from 0.2% to 0.5%.

### Tax on Undistributed Reserves

Undistributed reserves shall be taxed at the rate of 10% if:

- A company doesn't pay dividends to its shareholders within six months of the end of tax year
- A company pays dividends but its reserves are in excess of 100% of its paid-up capital after the distribution of dividends

### Tax Credit for New Investment In Shares & Life Insurance Premium

In order to encourage saving and investment in new companies quoted on stock exchange, the monetary threshold for individual investors for claiming tax credit in shares of public company and life insurance premium has been enhanced from Rs.1 Million to Rs.1.5 Million.

### Tax Credit on Enlistment of Companies

At present, a 15% tax credit is available to a company, if it opts for enlistment in any registered stock exchange in Pakistan. To encourage enlisting of com-

panies on stock exchange, the tax credit is proposed to be enhanced to 20% of tax payable.

### Exemption of Taxes

Following sectors and activities have been provided with tax exemptions:

- (a) Manufacture of plant and machinery for renewable energy resources;
- (b) Operation of warehousing and cold chain facilities for agricultural produce;
- (c) Operating Halal meat production;
- (d) Any manufacturing unit set up in the Province of Khyber Pakhtunkhwa;
- (e) Transmission line project; and
- (f) LNG Terminal owner and operators

### Filing of Revised Returns

If the revised return is filed within sixty days of filing the original return then there won't be any requirement of getting prior approval from the Commissioner for filing a revised return.



## COMMODITY MARKET

Commodity market is a physical marketplace where trading of primary products takes place. There are two types of commodities:

- Soft commodities which include agricultural products such as sugar, coffee, cocoa and wheat whereas,
- Hard commodities are mined, such as gold, rubber and oil.



Commodity market includes physical trading and derivatives trading using spot prices, forwards, futures, and options.

### Stakeholders in Commodity Market

- Speculator

A risk-taking trader who anticipates the changes in price and buys and sells the contracts to make profits.

- Hedger

A trader who enters the market to reduce the risk of an investment in order to protect against loss.

- Broker

An individual or firm who acts as an intermediary by conveying customers' trade instructions, usually charging a commission.

### How to trade in Commodities?

There are different routes to the commodity market which make it easy for the investors to participate in the market.

- Commodity Futures

A standardized agreement to buy and sell in the future at an agreed price.

- Commodity Exchange Traded Funds

These are traded like stocks, in which investors participate in commodity price fluctuations without investing directly in futures contracts.

- Commodity Stocks

Stocks are easy to buy, hold and trade. They belong to commodity related sectors such as Agriculture, Energy, Metals, etc.

- Commodity Mutual Funds

A pool of funds which is collected from different investors in order to invest in different securities. It cannot be invested directly in commodities but in the stocks of companies which are involved in commodity-related industries.

### Commodity Exchange in Pakistan

PMEX provides a commodity futures trading platform where market participants can trade in a variety of commodity derivatives. It has a 100 % Institutional shareholding.

## COMMODITY MARKET

It is the first and only commodity exchange in Pakistan. It is regulated and licensed by the Securities and Exchange Commission of Pakistan (SECP).

Gold, Silver and Other Commodity Futures can be bought, sold or traded at PMEX.



### Trading Activity

Pakistan Mercantile Exchange (PMEX) is mainly concentrating on futures contracts of gold, silver, cotton and crude oil.



### Regulations Governing PMEX

On 15<sup>th</sup> March, 2005, The Federal Government made rules which are called as the Commodity Exchange and Futures Contracts Rules, 2005, in exercise of the powers conferred by Section 33 of the Securities and Exchange Ordinance, 1969. Investors, in order to start trading, have to contact a brokerage house which should be registered with the Securities and Exchange Commission of Pakistan (SECP) under Commodity Exchange and Futures Contracts Rules, 2005. As of today, 189 PMEX brokers are registered with SECP. Pakistan Mercantile Exchange (PMEX) has its own regulations which are approved by SECP under which the Exchange functions.

### Development of Commodity Market

Securities and Exchange Commission of Pakistan (SECP) has embarked upon designing a strategy for the growth of commodity markets in Pakistan.

PMEX is planning to launch some products which are contracts based on energy products and Euro denominated gold futures contracts for further diversification of the portfolio of products in commodity market.

SECP is also looking forward to provide warehousing facilities for commodities to farmers in order to give them the access to market to aid in price discovery and risk-hedging. This facility will provide traders a standardized storage and smooth delivery of all agricultural products such as wheat, rice, sugar, etc.

Receipts will be issued by warehouses which can be used to convert inventories held by producers or farmers into a tradable item at the commodity exchange. This receipt can also be used as a collateral to support borrowing against a futures contract.

## AN OVERVIEW OF SECURITIES ACT, 2015

The Securities and Exchange Ordinance, 1969 has been replaced with the newly promulgated Securities Act, 2015 which was passed after the presidential assent. Securities and Exchange Commission of Pakistan (SECP) took this step to remove the deficiencies found in the earlier law, regulate the securities sector and improve the efficiency, probity and reliability of the market. It will also improve integrity, credibility and effectiveness of the market by establishing and enforcing principles, which ensure fairness and promote investor confidence.

Senate Standing Committee on Finance and Revenue finalized a report on Securities Act, 2015 which mentions that the Securities and Exchange Commission of Pakistan (SECP) perceived that the existing law lacks proper framework and suffers from instability and numerous gaps. Securities and Exchange Ordinance, 1969 did not have adequate provisions for clearing houses, investors' protection, audit of stock exchanges, etc.

There are fifteen fundamental parts in the Securities Act, 2015 which are related to security and safety of the interests of investors to enhance the confidence of the shareholders and stakeholders. The act carries some of the special measures which include increased powers of the Commission in relation to licensed persons, supervision and investigation into the market abuses in insider trading, capital requirements, accounts and audit of the companies which intend to



invest and perform in the securities market.

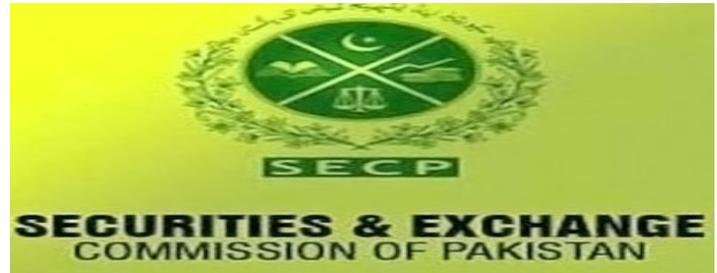
The new act has brought the Central Depository Company (CDC) and National Clearing Company of Pakistan Limited (NCCPL) formally under the category of SECP. SECP formulated this act after consulting all the key stakeholders and incorporated feedback from Senate Standing Committee. Global benchmarks such as IOSCO principles of securities' regulation and investor protection are also incorporated in the act.

The new act allows implementation of advanced reforms for preventing market abuses and manipulation practices, incorporation of electronic mail, transactions and video for investigations and imprisonment for the involvement in insider trading or other frauds.

## AN OVERVIEW OF SECURITIES ACT, 2015

Some clauses of Section 2 and some other sections of Securities and Exchange Ordinance, 1969 have been repealed. Sections 52 to 66 related to prospectus, allotment, issue and transfer of shares, debentures, deposits, etc. and Sections 220 to 224 related to the registration, duties of directors and submission of statements of beneficial ownership of listed companies, of the Companies Ordinance, 1984 have also been revoked. The whole Listed Companies (Substantial Acquisition of Voting Shares and Take-Overs) Ordinance, 2002 has been omitted. The promulgation of Securities Act, 2015 will incorporate advancements in technology, give more authority to investigate on the basis of pattern of trading and help to remove malpractices. It is expected to ensure impartiality and promote the confidence of investors through the mechanism of risk management.

The Act has detailed provisions dealing with regulated securities activities, conduct of regulated securities activities, account and audit; market intermediaries; eligibility; licensing, representatives and accreditation; power of the commission to impose conditions; register of regulated persons; standard of conduct; business conduct regulations; issuance of contract note; financial resource regulations, public offer of securities, take-overs, insider trading; publication and contents of prospectus; independence of expert statement; criminal liability and compensation; reporting by listed companies; price sensitive information; powers of the commission to issue directions;



takeovers; insider trading, market offences, supervision and investigation, powers of intervention by the commission; false trading; market manipulation; fraudulently inducing trading in securities; employment of fraudulent or deceptive devices; liability to pay damages; power to call for information; inspection; investigation and powers of the investigator.

The Act has detailed provisions dealing with discipline of licensed persons, miscellaneous; disciplinary action against licensed person; fit and proper criteria; rights of applicants and holders of licence; penalties to be imposed by the Commission; appeal; recovery of penalties; cognisance of offences; prosecution of offences by the commission; liability of licensed persons for acts of representatives; power of the commission to issue directions to securities exchange(s), central depository(ies), clearing house(s) and futures exchange(s) for the enhance protection of investor and public in general; regulation making power; rule making power; removal of difficulty; repeals; savings; consequential amendments and schedule.

Detailed copy of the Act is provided on the SECP's website: [www.secp.gov.pk](http://www.secp.gov.pk)

## INVESTORS' TERMS OF THE MONTH

### Treasury Securities

These are government-issued debt securities which are considered the safest option for bond investors since they are backed by full faith and credit of the government. The interest rates on treasury securities are lower than other bonds with the same duration. These are divided into three categories by maturity dates: Treasury bill matures in 1 year or less, Treasury bond matures in ten or more years and Treasury notes mature between one and ten years.

### Junk bonds

Junk bonds carry a higher default risk that's why they are rated BB or lower. They are called as high yield bonds because these bonds tend to pay investors more in exchange for the additional risk. Junk bonds can be lucrative for investors if the issuing corporation has recently changed its strategy or management and shown potential to substantially improve its credit.

### Exchange-Traded Funds

ETFs are low-cost funds that generally track an index, which can be broad or narrow. ETFs trade on exchanges like stocks and fluctuate in price during the day. They are becoming a popular way to invest because of their low cost and ease of trading.

### Forward Contract

It is a customized contract between two parties to buy or sell an asset at a specified price on a future date. A forward contract can be used for hedging or speculation, although its non-standardized nature makes it particularly apt for hedging. A forward contract can be customized to any commodity, amount and delivery date. These contracts do not trade on a centralized exchange therefore, they are not as easily available to the retail investor as futures contracts.



### Investment Quotes

*“There’s a virtuous cycle when people have to defend challenges to their ideas. Any gaps in thinking or analysis become clear pretty quickly when smart people ask good, logical questions. You can’t be a good value investor without being an independent thinker – you’re seeing valuations that the market is not appreciating. But it’s critical that you understand why the market isn’t seeing the value you do. The back and forth that goes on in the investment process helps you get at that.”*

**Joel Greenblatt**— Founder of the New York Securities Auction Corporation and Director at Pzena Investment Management

*“The individual investor should act consistently as an investor and not as a speculator. This means that he should be able to justify every purchase he makes and each price he pays by impersonal, objective reasoning that satisfies him that he is getting more than his money’s worth for his purchase.”*

**Ben Graham**—American Economist and Professional Investor

## BUSINESS AND ECONOMIC NEWS FLASH

### Domestic News Feed

#### Government planned to borrow Rs1.35 trillion in July-September

The government gashed the selling of Pakistan Investment Bonds by limiting them to Rs.200 billion. The auction calendar of SBP indicates that the government will borrow Rs.1.15 trillion by selling Treasury Bills during this quarter. It will raise 100 billion in the mid of July and 50 billion in August and September through PIBs. This plan shows that the government would continue to borrow money from other sources like it did in the last two years.

#### IPOs will be transparent -SECP

The process of book-building had been completed in which Al Shaheer Corporation Ltd offered 18.75 million shares to the institutions and individuals with high net worth. In the second stage of public offering, the company will offer shares to common investors. SECP reviewed the bidding pattern during the book-building phase to make sure that nobody violates the framework. It also ensured that the trading practices will be fair and

transparent.

#### Inflation halved to 4.53% in FY15

The average annual inflation of Pakistan was 4.53% in the fiscal year 2015 which is the lowest in over a decade. It was 8.62% in 2013-14 and 7.36% in 2012-13. In 2014-15, crude oil prices plunged by 45%, followed by wheat 31% and palm oil 27%. The main reasons behind this low inflation were:

- A stable Pakistani rupee along with controlled global commodity prices and,
- Downward trend in oil prices

#### Brokerage firms advised to maintain websites

SECP advised all three stock exchanges to make sure that all brokerage firms which are registered with the commission maintain functional websites latest by Dec 31. It has also made it mandatory to place the web-link of its investor education programme "Jamapunji" on the homepage of the firms in order to provide investors with accurate and easy access to information.

#### Listed Companies can buy back own shares

SECP proposed certain amendments to Section 95-A of the Companies Ordinance, 1984 which have been approved by the Senate Standing Committee. All the listed firms can now buy back their own shares and hold them as treasury shares if they think that the shares are being traded below par value in the market. This step has been taken to bring stability in the market and to improve the earnings per share (EPS) of the firm's stock.

#### Addition of 11,200 MW Electricity by December, 2017

The government would add 11,200 Megawatts electricity through the completion of the China-Pakistan Economic Corridor energy projects, decided in the meeting at Planning Commission of Pakistan. It has been planned to strengthen the mechanism of monitoring for the construction of power plants. Adequate steps will be taken to enhance the distribution and transmission of electricity.

## BUSINESS AND ECONOMIC NEWS FLASH

### International News Feed

#### Gold slumped to the lowest point in five years

Gold fell to \$1,072.35 in Asian deals, striking the lowest point since February 2010. According to the analysts, the reason for this price slide was the high selling volumes on the gold exchange in Shanghai and the continued strength of the dollar. It also sank because of the news that the gold reserves of China rose 60% over past six years.

#### Ringgit hit 16-year low

Ringgit fell 0.8% to 3.8088 against the dollar which is the lowest level since May 1999 due to the political uncertainty. According to the report of Wall Street Journal, nearly \$700 million was moved to state controlled investment fund through Government agencies, companies and banks and the funds ended up in the accounts of Najib Razak, who is the Prime Minister of Malaysia and also the chairman of advisory board of 1Malaysia Development Berhad which was launched by him in 2009.

#### Greece needs bigger debt relief—IMF

According to the latest study of IMF, bigger debt relief will be needed than the Euro zone partners have predicted so far due to the devastation of Greece economy. It also mentions that Greece debt will be almost 200% of the economic output in the next two years. Athens and its 18 partners agreed to bail out up to 86 billion euros after which an updated DSA was sent to Euro zone governments. Report says that Greece would need a 30-year grace period on servicing all its debt given by European countries. Some members of Berlin government believed that it would have been better if Greece takes ‘timeout’ from Euro zone rather than receiving another bailout.

#### China suffers its biggest one-day stock plunge

Chinese shares tumbled around 8.5% which is the biggest one-day stock plunge since 2007. China’s market movement has brought fears among global investors about the health of the world’s second

biggest economy. The price of growth-sensitive commodities such as copper was also hit which fell from a 6-year low. China Securities Financial Corporation (CSFC) borrowed money from commercial banks to buy shares in order to stabilize the stock market which made it easier for the indexes to jump around 20% from their recent low.

#### Iran will raise oil output to 750,000 bpd by 2016

Oil analysts forecasted that Iran will be able to raise output by 250,000 to 500,000 barrels per day by the end of 2015 and up to 750,000 by mid of 2016. The impact of the Iran nuclear deal will be bearish on crude markets. Oil flow from Iran won’t hit the market but it will definitely reduce global oil prices for a period of time, said US National Security Adviser. According to the Paris-based International Energy Agency, Iran can raise production by between 600,000 and 800,000 barrels a day, within months of sanctions being lifted.

## REGULATORY NEWS FLASH

### SECP Proposed Reforms in NBFC Sector

SECP in order to provide a more conducive regulatory environment to the investors and develop a robust Non-Banking Financial Sector, proposed certain considerable amendments to Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 which are:

- NBFCs have been classified into three major types which are lending, advisory and fund management.
- Asset Management Companies have been allowed to take on other activities such as management of private pool of funds, management of Real Estate Investment Trust (REIT) services, etc.

For more details, please visit: [http://www.secp.gov.pk/notification/pdf/2015/SRO\\_565\\_NBFC.pdf](http://www.secp.gov.pk/notification/pdf/2015/SRO_565_NBFC.pdf)

### Approval of Book-Building Regulations

The policy board of SECP approved the Book-Building Regulations on Monday, June 29<sup>th</sup> 2015.

The board decided to amend and upgrade the previous regulations due to following reasons:

- To bring about efficiency and transparency in the book-building process,
- To promote the primary market and,
- To extend maximum facilitation to Initial Public Offerings (IPOs) in Pakistan

The new regulations entail that the total offer size should not be less than 25 million shares while the maximum bid size by a single bidder should be 10% of the book building portion. Under the new regulation, a person should be registered as a book runner with the SECP. Restrictions have also been imposed on withdrawal and downward revision of bids after 4:00 pm on last day of the bidding period. Refusal or failure to comply with the regulations would be punishable with a fine up to Rs.10 million.

For further details, please visit: [http://www.secp.gov.pk/DraftAmendments/2015/DraftBookBuildingRegulations\\_2015.pdf](http://www.secp.gov.pk/DraftAmendments/2015/DraftBookBuildingRegulations_2015.pdf)

### Issuance of Research Analyst Regulations, 2015

Securities and Exchange Commission of Pakistan (SECP) has promulgated Research Analyst Regulations, 2015, under the newly passed Securities Act, 2015. SECP intends to regulate the area of research and investment recommendation in securities market in order to provide an environment for development and growth which will help to implement efficient market practices. The commission has formulated these regulations after consulting the public and stakeholders. These regulations will address the potential conflict of interest faced by research analysts and help to improve the governance standards in line with the rules set out by International Organization of Securities Commissions (IOSCO). SECP has provided provisions related to conduct of business and compensation of research analysts in order to circumvent the conflicts. It has also provided comprehensive guidance in respect of contents of research report for the purpose of quality assurance.