



Institute of Capital Markets

Newsletter
Issued for:
August, 2015

Message from the Chief Executive

The last few years have seen a progressive change in size, quality and sophistication of capital markets. The rapid growth has taken place because of modifications in policy and regulatory environment, the entrepreneurial initiatives of individuals and institutions, and availability of trained manpower. The continual growth of capital markets demands for qualified and well-trained professionals.

Institute of Capital Markets (ICM) is Pakistan's first specialized institution dedicated to the professional development, research and well-being of capital markets by educating the professionals about the norms and ethics being practiced. The institute's main activities are (1) Licensing the professionals working in the capital markets by certifications in order to educate and examine knowledge of professionals working in relevant fields; (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, ICM seeks to communicate its ideas to the audience at both, home and overseas.

ICM plays a pioneering role in meeting the demand of the educated manpower required for specialized capital markets. It is devoted to educate and update knowledge of capital markets participants such as investors, brokers, mutual funders, investment bankers and policy makers by following high-quality educational standards.

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

The Institute hopes that, by responding positively to the rapid changes in economy, it can contribute to the dynamic development of the country's capital markets as well as of the economy itself.

Inside:

- ◆ Programs and Certifications
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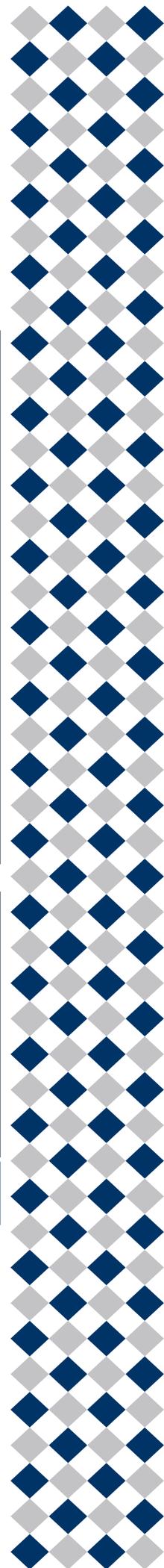
Specials:

- ◆ Non-Banking Financial Companies
- ◆ REITS

Programs and Certifications

The **Institute of Capital Markets** (ICM), offers following certifications:

1. Pakistan Markets and Regulations Certification
2. Fundamentals of Capital Markets Certification
3. Mutual Fund Distributors Certification
4. Stock Brokers' Certification
5. Commodity Brokers' Certification
6. Compliance Officers Certification
7. Islamic Finance Certification
8. Clearing and Settlement Operations Certification
9. Capital Budgeting and Corporate Finance Certification
10. Risk Management Certification
11. Investment Banking and Analysis Certification
12. Financial Advisors Certification
13. Financial Derivative Traders Certification
14. General Takaful Training/Certification
15. Family Takaful Training/Certification
16. Life Insurance Agent's Foundation Course
17. Non-life Insurance Agent's Foundation Course



'Non-Banking Financial Company - NBFC'

Non-banking financial companies, or NBFCs, are financial institutions that provide banking services, but do not hold a banking license. These institutions are not allowed to take deposits from the public. Nonetheless, all operations of these institutions are still covered under banking regulations..

Depending upon their nature of activities, non- banking finance companies can be classified into the following categories:

1. Development finance institutions

Development Finance Institutions (DFIs) are national and international institutions that provide loans, grants and other investments for projects and activities around the world.

2. Leasing companies

The leasing company is the legal owner of the goods, but ownership is effectively conveyed to the lessee, who incurs all benefits, costs, and risks associated with ownership of the assets.

3. Investment companies

Investment companies are business entities, both privately and publicly owned, that manage, sell, and market funds to the public. They typically offer investors a variety of funds and investment services, which include portfolio management, recordkeeping, custodial, legal, accounting and tax

management services.

4. Modaraba companies

Modarba means the business in which some persons participate with their capital and the managers or modarab with their managerial skill. The profit are distributed among both parties according to the agreed ratio. In case of loss it is distributed among the financiers according to their invested capital.

5. House finance companies

A type of seller financing in which a firm extends customers a loan, allowing them to purchase its goods or services. The in-house financing eliminates the firm's reliance on the financial sector for providing the customer with funds to complete a transaction.

6. Venture capital companies

Start up companies with a potential to grow need a certain amount of investment. Wealthy investors like to invest their capital in such businesses with a long-term growth perspective. This capital is known as



'Non-Banking Financial Company - NBFC'

venture capital and the investors are called venture capitalists.

7. Discount & guarantee houses

A discount house is a money dealer that participates in the buying and discounting of bills of exchange and other financial products such as money markets, certain government bonds and banker's acceptances.

8. Corporate development companies

Corporate development refers to the planning and execution of a wide range of strategies to meet specific organizational objectives. The kinds of activities falling under corporate development may include initiatives such as recruitment of a new management team, plans for phasing in or out of certain markets or products, considering a partner for a strategic alliance, establishing relationships with strategic business partners, identifying and acquiring companies, securing financing, divesting of assets or divisions, increasing intellectual property assets and so on.

LIST OF NBFCs IN PAKISTAN

Investment Banks

1. Escorts Investment Bank Limited.
2. First Credit & Investment Bank Limited.
3. First Dawood Investment Bank Limited.
4. IGI Investment Bank Limited. (Formerly Ist. International Investment Bank Limited.).
5. Innovative Investment Bank Limited.
6. Security Investment Bank Limited.
7. Trust Investment Bank Limited.

Leasing Companies

1. Capital Assets Leasing Corporation Limited.
2. Grays Leasing Limited.
3. Invest Capital Investment Co. Limited.
4. Orix Leasing Pakistan Limited.
5. Pak Gulf Leasing Company Limited.
6. Pakistan Industrial & Commercial Leasing Limited.
7. Saudi Pak Leasing Company Limited.
8. Security Leasing Corporation Limited.
9. SME Leasing Limited.
10. Standard Chartered Leasing Limited.
11. Khan Housing and Agriculture Network Limited.
12. NBP Leasing Limited.
13. Sindh Leasing Limited.

Modaraba Companies

1. Allied Rental Modaraba Limited.
2. Al-Noor Modaraba Management (Pvt) Limited.
3. B.F. Modaraba.
4. B.R.R. Guardian Modaraba.
5. Crescent Standard Modaraba.
6. First Elite Capital Modaraba.
7. First Equity Modaraba.
8. First Fidelity Leasing Modaraba.
9. First Habib Bank Modaraba.
10. First Habib Modaraba.
11. First National Bank Modaraba.
12. First Pak Modaraba.
13. First Paramount Modaraba.
14. First Prudential Modaraba.
15. First Punjab Modaraba.
16. First Udl Modaraba.
17. KASB Modaraba.
18. Modaraba Al-Mali.
19. Standard Chartered Modaraba.
20. Trust Modaraba.

Real Estate Investment Trust (REIT) Regulations, 2008 have been replaced by REIT Regulations, 2015

REIT Regulations, 2015 has been notified by SECP after consultations of public to cover risks of the investors and make the regulatory framework more propitious and practicable. REIT regulations, 2008 was concerned with the developmental REIT schemes for construction of properties and the rental REIT schemes for renting out the properties.

The real estate sector is rife with malpractices because it is largely undocumented. There weren't any restrictions on housing schemes so all types of frauds were pervasive. Households who were keen to have their own house but had limited means were easily manipulated. These regulations were also considered a failure due to unattractiveness as only five funds were established under its ambit which include AKD REIT Management Company, Arif Habib Dolmen REIT Management Limited, CCUREIT (Private) Limited, Orange REITS Management Company Limited and STREIT Pakistan (Private) Limited.

Securities and Exchange Commission of Pakistan (SECP) has specifically designed the new regulations to address the concerns of ordinary buyers in the real estate sector. It was also noticed that the landowners showed lack of interest in setting up a Real Estate Investment Trust

(REIT) scheme because the property prices were rising at a higher rate and they did not have any financial incentive to



liquidate real estate assets.

Pursuant to above, SECP has made several changes in the regulations in order to accommodate stakeholders and key players in real estate sector:

1. Capital Requirement

The major reason of failure of REIT regulations, 2008 was cumbersome requirements for establishing a Real Estate Investment Trust company which could not be met by small groups. The capital requirement for a company to start REIT management was Rs.200 Million in 2008 but it has now changed to Rs.50 Million.

2. Fund Size Requirement

The requirement of fund size has been reduced to Rs.2 Billion. The fund size is proposed to be aligned with listing regulations as it will be listed on the stock exchange. The optimum size of this scheme will be decided by the fund manager.

3. Use of Customer Advances

Limit of use of customer advances by a REIT scheme has increased to 70 %

Real Estate Investment Trust (REIT) Regulations, 2008 have been replaced by REIT Regulations, 2015

4. Minimum Stake of RMC

In REIT scheme, the minimum stake of RMC has been reduced to 5%. However, it was 20% in REIT regulations 2008.

5. Fund Raising

SECP has now allowed fund raising from Pre-IPO investors in the name of Trustee after registration of a REIT scheme subject to its sharing of a business plan.

6. Floating of Units

These units can now be floated as shares in the stock markets. The rising of real estate prices through these units will be an advantage for ordinary investors.

7. Incorporation of Strategic Investor Concept

The concept of a strategic investor has been incorporated. The investor will hold a 20% stake in a REIT scheme, enabling RMC to arrange investment anchors in its place.

8. Establishment of REITs

REIT regulations, 2015 allow establishment of REITs in cities other than provincial and federal capitals, considering robust business activities in large cities as well as potential for the real estate market.

9. Simplification of Approval Process

According to REIT regulations, 2015, the process of approval has been made



simpler. SECP has prescribed a criteria for rental track record for all eligible properties of REIT and also allowed a performance fee to REIT managers.

10. Protection of Buyers

People who will buy properties from a developmental REIT Scheme will be adequately protected as all the customer advances will now be received through banking channels and in the name of Trustee only. This could give the confidence to the buyers and boost the development of real estate sector.

These are the huge steps taken by SECP toward enlarging the functioning of real estate investment trust companies. This new set of REIT Regulations is expected to encourage other housing companies to join the list which will promote the real estate market in Pakistan.

Link of complete regulation is as under:

<http://www.secp.gov.pk/corporatelaws/pdf/2015/REIT-Regulations-2015.pdf>

INVESTORS' TERMS OF THE MONTH

Land Flip

A fraudulent practice in the real estate business of selling undeveloped land at highly inflated prices. A land flip occurs when a group of dishonest buyers trades the land among its members, increasing the price with each transaction. The group will then finally unload the property onto an unsuspecting outside buyer at a price that the buyer will likely never be able to recoup from its own sale of the land.

Modaraba

An agreement between two or more parties in which one or more persons bring finance and the other brings management to the business venture with objective to earn profit. When profit, its shared in agreed proportion but when loss, it is only borne by the financiers only in proportion to their share in the total capital.

Real Property

Any property that is attached directly to land, as well as the land itself. Real property not only includes buildings and other structures, but also rights and interests. Real property can be either rental or residential.

Venture Capital Funds

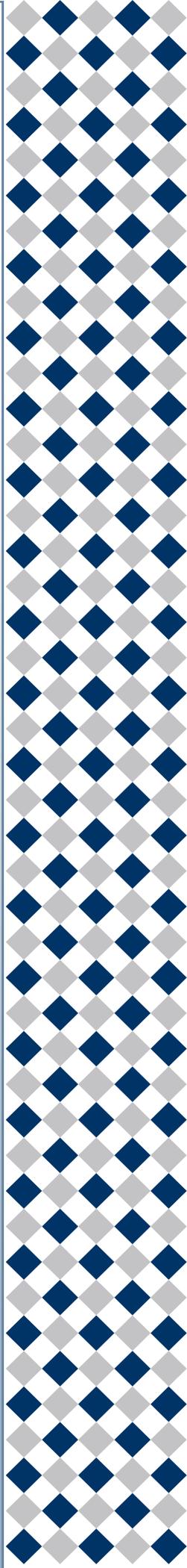
An investment fund that manages money from investors seeking private equity stakes in startup and small- and medium-size enterprises with strong growth potential. These investments are generally characterized as high-risk/high-return opportunities.

Geographical Pricing

Adjusting an item's sale price based on the buyer's location. Sometimes the difference in sale price is based on the cost to ship the item to that location or what the people there are willing to pay.

House Swap

A practice in which the owners of a home allow the use of that property in exchange for the use of another party's home. A house swap does not involve the sale of a home; rather, it allows a homeowner to "borrow" someone else's home. It can be some on a temporary or semi-permanent basis. House swaps typically involve an exchange in property use for the purpose of vacation or homeowners who need to relocate due to a change in job, but are unable to sell their home.



BUSINESS AND ECONOMIC NEWSFLASH

DOMESTIC NEWSFEED

Pakistan economy to grow to 4.5% this year: IMF

The IMF forecasts that Pakistan's economy to increase to 4.5% this fiscal year citing the macroeconomic stability, low global oil prices, planned improvements in the domestic energy supply and investment related to the China-Pak Economic Corridor. "Pakistan's economy continues to improve," said Harald Finger of the Washington DC-based International Monetary Fund (IMF) at the conclusion of the IMF's country review in Dubai from July 29-August 7.

Stock market integration win-win for all

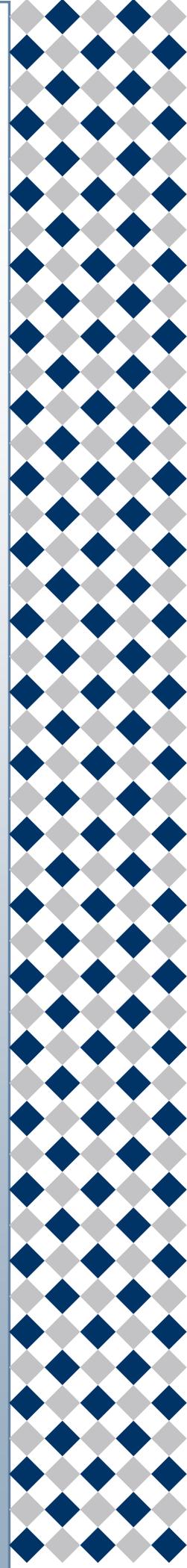
Integration of Pakistan's stock exchanges is "a win-win situation" for all and it would go a long way towards the sustainable development of capital markets, Finance Minister Ishaq Dar said on Thursday. Addressing the Memorandum of Understanding signing ceremony on integration of the Karachi, Lahore and Islamabad bourses to form a single entity — Pakistan Stock Exchange (PSE), Dar said the government was making efforts to improve the outlook of the capital market to attract investments. Appreciating the SECP reforms agenda, he asked the apex regulator of the capital markets to implement a strong enforcement and compliance regime and show zero tolerance for any market manipulation, insider trading, misconduct and abuse.

CPEC- a window of opportunity for Pakistan

The China-Pakistan Economic Corridor (CPEC) is a window of opportunity for Islamabad to boost its economy. Terming the project an uplift package from the Chinese government to boost Pakistan's economy, the executive director said, "China is much committed to launching this project and it is now up to the main stakeholders in Pakistan including the federation, provinces, civilians and military establishment to undertake sincere initiatives in order to make it a success." Former foreign minister Inamul Haq said the CPEC was a historic initiative and Pakistan needed to attract investors to invest along the long route of the corridor, which would create jobs and business opportunities for the locals.

Rupee under heavy pressure

Mounting dollar demand in speculative trading brought the rupee under heavy pressure versus the dollar and the euro last week. The rupee as a result plunged against the dollar and euro to fresh lows in the interbank as well as open market, necessitating the SBP intervention. On the interbank market, the rupee posted the biggest single day loss against the dollar — Rs1.88 on the buying-counter and Rs1.91 on the selling-counter — dollar climbed to its highest level since October 30, 2014 at Rs103.90 and Rs103.95.



BUSINESS AND ECONOMIC NEWSFLASH

INTERNATIONAL NEWSFEED

Markets on roller-coaster ride after China rate cut

Global equity markets went on another rollercoaster ride on Wednesday as China's interest rate cut showed little sign of calming jitters over the country's faltering economy. Europe's main stock markets fell, with London's benchmark FTSE 100 index shedding 1.68 per cent to close at 5,979.20 points. In the eurozone, the CAC 40 in Paris dropped 1.4pc to end at 4,501.05, points, and Frankfurt's DAX 30 fell 1.29pc to 9,997.43 points. But US stocks surged higher as investors tried to snap a six-day losing streak prompted by the turmoil in the Chinese stock market.

Indonesia gains international recognition for resisting global economic turbulence

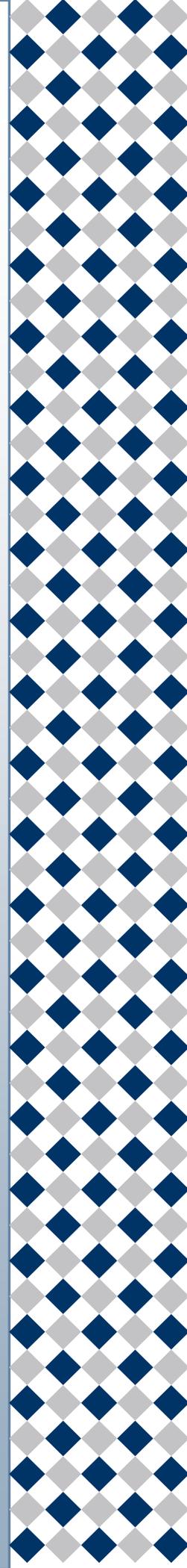
Indonesia has earned the recognition of multinational institutions due to its efforts to improve financial market stability to resist the current global economic turbulence, stated Governor of Bank Indonesia, the nations central bank, Agus Martowardojo. He noted that Bank Indonesias policy to reverse some measures relating to foreign exchange transaction by obligating the business sector to pay in rupiah instead of foreign exchange had yielded positive results towards achieving financial market stability.

Iran and Pakistan: Back to Business

Last Thursday, Iranian Foreign Minister Javad Zarif visited Pakistan as part of a multi-country tour to explore opportunities for greater economic and security cooperation in the region following the landmark nuclear deal with the P5+1. The July nuclear deal likely clears the way for the completion of sanctions-delayed energy projects between Islamabad and Tehran, bringing relief to energy-starved Pakistan. It also creates an opportunity for cooperation between Iran and Pakistan to promote peace in their respective Balochistan regions, creating a virtuous cycle of economic growth and improved security.

Gold futures up 0.6% on three- month high international prices

Gold prices rose Rs 174 to Rs 26,370 per 10 grams in futures trading today as speculators widened positions amid a firming trend overseas. At the Multi Commodity Exchange, gold for delivery in far-month October rose Rs 174, or 0.66%, to Rs 26,370 per 10 grams in a business turnover of 810 lots. Marketmen said a firming trend in the global markets where gold advanced the most in three months as prospects dimmed for a US interest rate increase in September, boosting the metal's allure, influenced gold futures here.



REGULATORY NEWSFLASH

SECP INAUGURATES FACILITATION CENTRE AT SCCI

Islamabad—Securities and Exchange Commission of Pakistan (SECP) on Friday inaugurated its first facilitation center at the Sialkot Chamber of Commerce and Industry (SCCI). According to the Commission, the facilitation center would provide the requisite information and assistance to the promoters of new companies as well as management of existing companies. This includes assistance in company incorporation, submission of applications and returns through eServices, e.g. change of company name, alteration in memorandum and articles of association change of company status etc.

ACTION PLAN TO IMPROVE BUSINESS ENVIRONMENT

The government has developed an Action Plan to improve Pakistan's business environment through designing regulations which are accessible to all and simple in their implementation. The Action Plan, finalized after in-depth consultations with concerned federal and provincial stakeholders, is based on bringing improvement in Pakistan's Doing Business (DB) rankings. The Plan focuses on short and medium term reforms to be implemented for reducing time and procedures as well as costs associated with fulfilling regulatory requirements for business firms.

SECP TO TAKE ACTION AGAINST NON-PERFORMING COMPANIES

The Chairman Securities and Exchange Commission of Pakistan (SECP) Zafar Hijazi said that the Commission has developed a strategy to enhance protection of the rights of the minority shareholders and encouraging a culture of regulatory compliance. Such companies, were either under liquidation or winding-up, neither have not commenced operations within the required time nor held annual general meetings, rather failed to join the Central Depository System after their securities having been declared eligible for electronic form or failed to pay fees, penalties or dues of the

ICCI CALLS ON ISLAMIC BANKS TO FOCUS ON SMES DEVELOPMENT

The Islamabad Chamber of Commerce and Industry in collaboration with FPCCI Standing Committee on Islamic Banking and Takaful organized a seminar on Islamic banking which was attended by a large number of business community. Speaking at the occasion, Islamabad Chamber of Commerce and Industry President Muzzamil Hussain Sabri said that businessmen wanted to get rid of interest-based banking for starting new and expanding existing businesses.

