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Appendix 1: Monetary & Credit Policy Measures During FY01

Liquidity Control Measures

?? The minimum rate of return to be paid by recipients of financing facilities from SBP for temporary liquidity shortages and SBP 3-Day Repo facility against Government of Pakistan Market Treasury Bills and Federal Investment Bonds was enhanced from 11 percent to 12percent on annual basis effective from September 19, 2000. The rate was further enhanced to 13 percent from October 4, 2000 and finally enhanced to 14 percent from June 7, 2001 on an annual basis.

?? Effective from October 7, 2000 State Bank increased Cash Reserve Requirement (CRR) and banks were required to maintain with SBP an average balance of 7percent of their time and demand liabilities in Pakistan, worked out on weekly basis provided that the amount of balance would not at the close of business on any day be less than 6percent of total liabilities.

?? On December 15, 2000 all Scheduled banks were directed to maintain with the State Bank special deposits equivalent to 2percent of their time and demand liabilities as of December 9, 2000. The requirement was to be met latest by December 16, 2000. In order to remunerate these special deposits, scheduled banks were given the option to purchase Market Treasury Bills (MTBs) from SBP on one-month Repo basis at the rate of 10.0 percent per annum. Initially banks were not allowed to count those MTBs towards Statutory Liquidity Requirement (SLR). On December 18, 2000 the banks were allowed to count the MTBs towards SLR.

?? In terms of power conferred under Section 36(1) of SBP Act, 1956, it was decided that with effect from December 16, 2000 every scheduled bank shall maintain with SBP an average balance of 5percent of its time and demand liabilities in Pakistan worked out on weekly basis provided that amount of balance shall not at the close of business on any day be less than 4percent of the total time and demand liabilities in Pakistan.

?? It has been decided that effective from December 30, 2000 and up to January 5, 2001, every scheduled bank shall maintain with SBP an average balance of 5percent of its total Time & Demand Liabilities in Pakistan worked out on weekly basis provided that the amount of balance shall not at the close of business on any day be less than 3percent of the total Time & Demand Liabilities in Pakistan. After January 5, 2001 the said CRR requirement would revert to position stipulated in BSD Circular No. 33 dated December 15, 2000.

Credit Control Measures

?? Minimum cash margins on opening import letters of credit was withdrawn on July 1, 2000

?? The Pakistan Bankers Association imposed a 30 percent cash margin requirement on all import letters of credit (LCs), except for crude oil and POL products on October 5, 2000. However, with the strengthening of Rupee parity against the Dollar, banks reduced the LC margin to 25 percent and exempted edible oils and DAP fertilizers with effect from October 24, 2000. Margin requirements were further reduced to 15 percent on November 6, 2000 and finally removed from November 14, 2000.

?? It was decided on December 13, 2000 that loans granted by the banks/NBFIs under a Government declared policy and specially those recommended by the Committee for Revival of Sick Industrial Units[1] would not constitute a part of the outstanding amount of default. In other words while facilities granted to sick industrial units prior to the revival shall retain their existing classification the fresh facilities granted for the purpose may be kept in separate account and be monitored from the date the new facility was granted to the sick units. These facilities will, however, be subject to the classification of the outstanding under Prudential Regulation-VIII on the strength of their specific terms and conditions.

Money Market Measures

- With a view to bring about operational improvements in money market transactions, strengthen the repurchase market and to ensure transparency, banks/NBFIs were required to enter into a Master Repo agreement with the counter party by January 15, 2000. In respect of Repo transactions, banks/NBFIs are required to ensure the following instructions w.e.f. August 4, 2000:
  - Any transaction involving government securities or other approved securities, either for repurchase or as collateral, will be accompanied by the same day movement of securities through SGLA or physical delivery of a security, as the case may be, along with full movement of funds.
  - To ensure proper monitoring of cash flows and interest rate risk, all REPO transactions will continue to be for a fixed maturity.
  - Banks/NBFIs will also continue to revalue their security holdings (both balance sheet as well as off-balance sheet items) on a weekly basis as advised earlier, and properly reflect days in their books. The rate used for valuation of government securities will be Pakistan Reuters Page V (PKRV) whereas in case of quoted securities, the closing rates of Karachi Stock Exchange will be used. However, in case of unquoted securities, where an active market does not exist, the securities will be shown at cost. Further any surplus/deficit arising on revaluation of securities will not be taken to profit and loss account, except when actually realized. Instead it will be kept in a separate account called “Surplus/ Deficit on Revaluation of Securities”, which will be shown below equity with the following breakup: (i) Govt. Securities (ii) Quoted Shares (iii) Other Securities may be given in notes to the financial statements.
  - Moreover, all securities related transactions having a maturity/ settlement date other than ready e.g. outright forward sale/purchase, forward leg(s) of a Repo agreement (both ready against forward and forward against forward) should also continue to be reflected in bank’s/NBFI’s account on the same date when the transaction was entered into.

Export Finance Scheme

To mitigate genuine hardships of exporters, SBP announced the following revised instructions for the Export Finance Scheme on August 19, 2000:

- Export finance on all types of yarn has been withdrawn with immediate effect. However, the refinance facility against loans already allowed under Part I shall be available till their respective maturities or repatriation, whichever is earlier. The exporters who have availed refinance under Part II of the Scheme, may hold refinance up to December 31, 2000 and submit export performance in respect of the half year to the respective office of the State Bank on or before January 31, 2001.

- The facility of export finance in respect of types of cloth whether bleached or un-bleached shall be allowed to the exporters at 10 percent for a period not exceeding 180 days as covered

[1] Committee for Revival of Sick Industrial Units was constituted under the Ministry of Finance Notification No. F.6(13)BKG(R&S)/2000-230 dated May 3, 2000 for the purpose of reviving a sick industrial unit.

under the scheme. As such, there will be no distinction between bleached or un-bleached (grey) fabrics. Banks shall, however, be entitled to obtain refinance from the State Bank of Pakistan against export of these items at 8 percent on fulfillment of all prescribed conditions of the scheme. This facility will be available until June 30, 2001.

?? All other categories of cloth/fabrics, such as dyed and printed cloth/fabrics shall be admissible for grant of export finance at 8 percent under the provisions of the scheme as amended from time to time.

?? Refinance facility under the Export Finance Scheme was also allowed to "Brown Rice" and "Par boiled Rice" in retail packing of 1 – 25 kg w.e.f. September 15, 2000.

?? With effect from October 20, 2000 it was decided to provide export finance to "Rice Gluten" under the provision of the Export Finance Scheme and delete the commodity from the list of commodities not eligible for export finance circulated along with BSD (formerly BPRD) Circular No.44 dated December 17, 1998.

?? SBP announced the following maximum rates of finance to be charged by the banks from their borrowers:

I. Export Finance Scheme for all eligible commodities (except bleached/ unbleached cloth) and Export Sales Part-B of LMM Scheme

Effective from	Rate of finance	Rate of refinance
January 17, 2001	9 percent	7 percent
April 1, 2001	10.5 percent	9 percent
July 1, 2001	13 percent	11.5 percent

II. Bleached /unbleached

Effective from	Rate of finance	Rate of refinance
January 17, 2001	11 percent	9 percent
April 1, 2001	12.5 percent	11 percent
July 1, 2001	13 percent	11.5 percent

Foreign Currency Export Finance Facility

?? A new Foreign Currency Export Finance (FCEF) facility was announced by the SBP on March 28, 2001 under Asian Development Bank loan. This facility was aimed at providing support to domestic manufacturers requiring foreign inputs for exportable goods and increase access to export financing by small and medium size exporters and contribute towards export growth. Effective from April 1, 2001, market based export finance was made available to Small and Medium sized Direct Exporters (DE) and also their suppliers i.e. Indirect Exporters (IDE) for inputs linked to an export order up to a maximum of US$ 0.5 million per export order. The facility will run parallel to the existing Export Finance Scheme (EFS) of the SBP as an additional and alternate facility. The SBP will make the facility available to participating banks through a special dollar window at mark-up rates notified from time to time. But since the facility is self-liquidating the markup would not apply on the borrowers; they would simply use the facility both on pre and post-shipment basis to finance inputs for exports. The scheme would be effective as from April 2, 2001. On April 21, 2001 the SBP announced markup rate of 5 percent p.a. on pre-shipment and post shipment financing, 7.15 percent p.a. on post shipment financing where post shipment insurance cover has been obtained by the exporter and 5.65 percent p.a. rate of markup for refinance to be charged by SBP from the Banks under the Foreign Currency Export Finance (FCEF) facility. These markup rates shall remain applicable until new rates are notified.

Other Measures

- Banks were permitted on September 9, 2000 to seek prior approval of the State Bank of Pakistan for issuance of open-ended guarantees for purposes other than the followings:
  - Advance payments/bid bond guarantees - guarantees against performance of ongoing Government, Semi Government & Autonomous Bodies Contracts;
  - Guarantees requested by public utility companies such as gas, electricity etc. in respect of their customers to cover the utility supplied during the period of guarantee Court Guarantees;
  - Customs/Shipping guarantees and Revenue related Government Departments' guarantees.

- To facilitate trade and industry, it has been decided to permit banks to issue open-ended guarantees on behalf of their clients by fully securing their interest through easily realizable securities (acceptable to them), instead of cash and liquid securities.

- Private limited companies, owned and controlled by the Government, are exempted from the requirement of obtaining personal guarantee of nominee directors (in addition to normal security) for advances from any banking company w.e.f. July 21, 2000.

- With a view to supplement government's efforts in achieving growth and export targets, SBP on February 15, 2001, put in place a system to ensure credit availability to Small Business Finance Corporation (SBFC) for locally manufactured Auto/Air-jet /Shuttle less looms and accessories thereof. The new arrangement would enable the manufacturers to provide their machinery at a reduced rate to the small, medium and emerging enterprises, presently having limited access to bank credit primarily due to inadequate securities.

- On March 26, 2001, the SBP made certain changes in the relevant regulation regarding limit on Banks' exposure against Unsecured Advances. According to these changes no bank would provide financing facility in any form of a sum exceeding Rs 100,000 and in case of credit cards Rs 500,000 to any one individual or person without obtaining realizable securities of the value not below the outstanding amount. Financing facilities granted without securities including those granted against personal guarantees would be deemed as 'clean' for the purpose of credit regulations. It was further provided that at the time of granting a clean facility, banks would obtain a written declaration to the effect that the borrower in his own name or in the name of his family members, had not availed of such facilities from other banks so as to exceed the prescribed limit of Rs 100,000 and in case of credit cards Rs 500,000 in aggregate;
  - No clean facility would be granted to frustrate the objective of credit restrictions in force for the time being; and
  - The purpose for which a clean facility was sanctioned would be expressly stated in the sanction letter.
  - For the purpose of this regulation the following would be excluded/exempted from per party limit of Rs 100,000 or clean facilities.
    i. Facilities provided to finance the export of commodities eligible under Export Finance Scheme.

ii. Financing covered by the Export Credit Guarantee Insurance Scheme.
iii. Loans/advances given to the employees of a bank in accordance with their entitlement and Loans/advances exempted by the SBP from time to time. The aggregate exposure of a bank against all is clean facilities would not, at any point of time, exceed the amount of the bank's Capital and General Reserves. Failure to comply with the above instructions would render the bank and official concerned liable for fines under Banking Companies Ordinance, 1962.

?? In order to standardize information regarding credit processing, it was decided that effective from April 1, 2001 no financing facility (whether fund based or non-fund based including renewal and enhancement) would be provided by any bank/NBFI unless the Loan Application Form (LAF) was accompanied by a Borrower Basic Fact Sheet prescribed by the SBP.

?? The requirement to obtain prior permission of SBP for opening a new branch has been abolished with effect from April 1, 2001. The banks have been provided an opportunity to take a medium term view of their branch expansion plan based on their own business needs.

Micro -finance Rules

?? On October 4, 2000, in exercise of the powers conferred under the Micro-finance Bank Ordinance, 2000, the SBP announced micro finance rules regarding operation of Microfinance Bank. Some important rules are as follows. These Rules may be called the Microfinance Rules.
    ?? *Per person exposure limit*: While granting any microfinance facilities to poor persons MFB shall ensure that the total exposure of such a person from MFB and Microfinance Institutions does not exceed Rs 50,000 in aggregate.
    ?? *Exposure against liabilities:* Liabilities excluding contingent liabilities of the MFB for the first two years of its operations shall not exceed two times of its equity. In the subsequent years, the liabilities shall not exceed five times of its equity.
    ?? *Exposure against contingent liabilities*: Contingent liabilities of the MFB for the first two years of its operations shall not exceed two times of its equity. By the end of five years, the liabilities shall not exceed five times of its equity, where after the liabilities should not exceed 10 times of its equity.
    ?? *Maintenance of liquidity against certain liabilities:* The MFB shall maintain a cash reserve equivalent to not less than 5percent of its total time and demand liabilities as specified by the State Bank of Pakistan from time to time in a current account with the State Bank of Pakistan as required in Section 27 of the Microfinance Bank Ordinance, 2000. In addition to cash reserve it shall also invest & place 5 percent of its demand and time liabilities in government securities.
    ?? *Creation and building-up of reserves:* MFB shall create a reserve fund to which shall be credited an amount equal to 20percent of its profit after taxes. Not less than 10percent of the profits after taxation shall be credited to a Social Sector Support Fund to meet expenditure on the social mobilization relevant to micro credit activities of the MFB.
    ?? *Depositors' protection fund:* MFB shall contribute toward a Depositors' Protection Fund for the purpose of providing a safety net to small depositors.
    ?? *Restriction on certain types of transactions:* MFB shall not allow financing facility to any of its sponsors, directors or employees including their spouses, parents, and children. Further, MFB shall also not allow microfinance facilities for speculative purposes.
    ?? *Classification/provisioning for non-performing loans:* All non-performing loans should be written-off after two years from the date of default in performance. This shall, however, not extinguish MFB's right of recovery of such written-off loans.

?? *Investment in public limited companies, subsidiaries and associated companies:* MFB may acquire or hold shares of any company, up to a maximum of 30percent of its paid-up capital, objective of which is to provide microfinance services to the poor persons.

?? *Minimum conditions for grant of microfinance facilities/opening of accounts:* While considering proposals for fund based/non-fund based facilities, MFB shall make all reasonable efforts to determine the true identity of every applicant. Towards this end, MFB shall develop effective procedures and methods for obtaining proper identification from new customers/borrowers.

?? *Audit and submission of accounts:* The MFB shall observe an accounting year from January to December and shall submit a copy of its duly audited Annul Accounts to the State Bank of Pakistan within a period of three months after the end of its accounting year and shall comply with the conditions with respect to the appointment of auditors.

?? *Internal audit: MFB shall have an Internal Audit Department.* The Head of this Department will report to the Board of Directors directly or to an Audit Committee of the Board.

?? *Places of business:* MFB shall not open new places of business without prior permission of the State Bank of Pakistan. For opening of new branches MFB should make an application to the State Bank of Pakistan and the State Bank of Pakistan may after due consideration, issue a license in this regard.

?? *Operational policies:* MFB shall prepare and formulate operational policies regarding credit, investments, internal audit rescheduling/write-off of loans/advances etc. within 3 months of commencement of its operations duly approved by the Board of Directors and submit the same for clearance of the State Bank of Pakistan.

?? *Submission of statistical returns:* MFB shall submit to the State Bank, i) Statement Showing Liquidity position, ii) Statement of Affairs, iii) Statement of Conditions on prescribed formats.

?? The scale of penalties as notified by State Bank of Pakistan from time to time in respect of NBFIs will be applicable in respect of various categories of violations of rules and regulations by MFB.

Appendix 2: Banking Regulatory Measures FY01

Finalization of Inspection Reports

- Keeping in view the growing number of appeals for refund/withdrawal of the penalties imposed on irregularities/violations of laws/regulations pointed out in its inspection reports, the SBP decided on August 4, 2000 that henceforth discussions with banks/NBFIs on draft inspection reports will be minimized by the Banking Inspection Departments (BIDs), specifically recording the points contested by the banks/NBFIs and not agreed to by the BIDs along with reasons/justification for such disagreements. Any documentary evidence available with the bank/NBFI in connection with any irregularity/observation noted in the draft inspection report should, therefore, invariably be produced during the discussion. Evidence produced after finalization of the inspection reports will not be entertained.

- While the procedure regarding finalization of Inspection Reports has been streamlined, there was a need to rationalize the tendency of making repeated appeals to the State Bank for withdrawal/refund of penalty. With this objective in view, it has been decided to charge a fee equivalent to 10 percent of the amount contested subject to a minimum of Rs 5,000 and a maximum of Rs 50,000 for processing the request made by a bank/NBFI for withdrawal/refund of penalty. This will be payable up front by the bank/NBFI making the request. However, if any amount of penalty is determined as refundable due to any calculation mistake or other lapse on the part of State Bank the processing fee charged would stand refundable along with the amount of refund so determined to the concerned bank/NBFI. The Banking Supervision Department will decide the appeals of banks and NBFIs independently, on merit of the case, giving due consideration to the views of the aggrieved party and without referring the matter to the inspection team or the Banking Inspection Department.

Regulatory Measures

- In order to facilitate the banks and financial institutions to strengthen their competitive ability, to help them become more cost effectively in upgrading their technology and eliminating avoidable expenses, to build up their equity structure to the levels where the interest of depositors are adequately protected and to encourage the economies of scale and economies of scope, it was decided on December 6, 2000 to revise the minimum capital requirement for banks. In the light of these revision:
  - No banking company shall be permitted to undertake a full range of financial services unless and until it has a minimum paid-up capital, net of losses, of Rupees one billion on or after January 1, 2003,
  - A banking company not meeting the minimum capital requirement as set herein above, shall *ipso fecto* stand de-scheduled, and converted into a non-scheduled bank (NSB) with effect from dates as determined below:
    i. On January 1, 2002 if it does not have a minimum paid-up capital, net of losses, of Rs 750 million.
    ii. On January 1, 2003 if it does not have a minimum paid-up capital, net of losses, of Rupees one billion.
  - Where a banking company so de-scheduled is short in meeting the minimum capital requirement of Rupees one billion by more than 25percent, such Non-scheduled bank (NSB) shall not be eligible to collect deposits from the individuals including partnership/sole proprietors, or provide any financial services to individuals including sole proprietors. Such NSB shall only be permitted to operate in inter-bank market, make

investment in government securities, and finance import/export business within such limits as may be specified by the State Bank, on case to case basis,

- ?? Where a banking company so de-scheduled is short in meeting the minimum capital requirement of Rupee one billion by not more than 25 percent, the State Bank on the request made to it in this behalf, may allow the banking company to continue accepting the deposit from their corporate/institutional depositors only up to the limit of total deposits mobilized by it as on December 31, 2000 or total outstanding as on November 30, 2000, whichever is lower, and provide such other support financial services as may be specifically allowed by the State Bank.
- ?? Where a bank or group of banks which meets the minimum capital requirements set up a subsidiary NSB, with the prior approval of the State Bank, for undertaking any one or set of specialized banking service to a specified segment of the market, the condition of minimum capital requirement shall not apply to such an affiliated non-scheduled bank (NSB).
- ?? New banking licenses specifying the range of banking activities shall be issued to all banking companies on the basis of paid-up capital to be raised by them by the due dates as stipulated above.
- ?? The instruction regarding maintenance of capital and unencumbered general reserves for the purpose of the minimum capital requirements based on risk-weighted assets and other instruction on the subject shall, however, remain unchanged.

Facilitation in Payment

- ?? It has been decided on December 16, 2000 vide BSD circular No 35 that banks/NBFIs may provide insurance products to their depositors provided (i) it is not mandatory and (ii) there is no discrimination in the rate of return to the depositors who may or may not opt for the insurance cover. The banks/NBFIs shall maintain secrecy of information in regard to access to their books of accounts and shall design their own internal control and procedures. The banks/NBFIs shall, however, ensure that no other rules, regulations & instructions issued by State Bank from time to time are violated and the interest of the depositors is fully protected.

- ?? In view of the persistent desire of the business community and the general public for the provision of the facility of evening banking particularly for the payment of utility bills, it has been decided on December 16, 2000 vide BSD Circular No. 36 that the banks may allow the banking services to their clients from 2.30 p.m. to 8.30 p.m. All banking transaction conducted during the said period shall form part of the bank's trial balance for the next working day. The bank's planning to undertake evening banking shall inform the State Bank of their branches where evening banking would be conducted at least 7 working days before the commencement of such business. Any subsequent change shall also be intimated to the State Bank accordingly.

- ?? On February 13, 2001, banks were allowed to install (Automatic Teller Machines) ATMs or share this facility with other banks at places other than authorized one, without prior approval of SBP.

- ?? On March 26, 2001, the SBP issued the following general guidelines with a view to provide adequate safety parameters for the growth of domestic credit card operations:
  - ?? The domestic credit card operations shall be deemed to be a part of bank's lending activity and as such shall be governed by the rules and regulations relating to the grant of loans and advances. Accordingly, banks shall monitor the credit card portfolio regularly

and ensure to institute proper machinery for speedy recovery of dues and effective follow-up of unpaid dues.

- Terms and conditions regarding the issue and use of the credit cards shall be properly documented in the form of a written contract between the bank and the credit card holders. These conditions must clearly highlight the cardholder's liabilities and obligations, eligibility conditions, fees, charges, service fee rate and their method of calculation etc. No charge shall be recoverable from the credit card holders other than agreed to as per the contract.
- Banks shall provide the credit card holders with the statements of account at monthly intervals, unless there has been no transaction or no outstanding balance on the account since last statement.
- Banks shall be liable for all transactions not authorized by the credit card holders after it has been properly served with a notice that the card has been lost/stolen. However, the bank's liability shall be limited to those amounts wrongly charged to the credit card holder's account.
- The banks engaged in domestic credit card business are required to furnish the SBP with a quarterly report on their domestic credit card operations within 15 days of the close of each quarter. The banks shall also report to the SBP cases of frauds/forgeries in credit card operations as and when occurred.

Changes in Prudential Regulations

- A minimum paid up capital of Rs 500 million was fixed for investment bank whereas for housing finance companies and discount houses, this requirement was set at Rs 300 million. Any institution short of the required capital on January 31, 2001 would meet 50 percent of the shortfall latest by January 1, 2002 and the remaining 50 percent by January 1, 2003.

- To safeguard the interest of depositors and promote healthy banking culture, SBP made the following major changes in the relevant prudential regulation with effect from March 17, 2001:
  - All terms and conditions of operation of an account shall be duly made known to the opener of the account at the time of opening of the account.
  - All account opening forms shall be filled in by the account holder in duplicate, one copy of which shall be returned to the account holder duly verified by the authorized officials of the branch under proper acknowledgement.
  - Terms and conditions of maintaining an investment account or other deposits for fixed periods shall be alterable only with the written consent of the depositor. In case the depositor does not consent to the proposed alterations, the bank shall have the right to close the account after giving 7 days notice to the depositor.
  - Non-remunerative deposit accounts and accounts opened on profit & loss-sharing basis shall not be subject to the levy of any service charges in any form what so ever.
  - All sums maintained by the depositors on PLS basis, even if such balances have at any point of time fallen below the prescribed minimum, should be remunerated as per the rates declared by the banks. The banks can realize the penalty for violating prescribed minimum balance provided the depositor is duly notified and the condition is disclosed at the time of the opening of the account.

- In order to further liberalize foreign exchange regime banks/NBFIs were allowed to freely utilize Foreign Currency Deposits mobilized by them under FE-25 for lending/investment /placement in Pakistan and/or abroad with effect from April 2, 2001. Such deposits if maintained abroad would not count towards banks' Nostro Limits. Every bank / NBFI would be required to maintain cash reserves in US$ equivalent to not less than 25 percent of their total deposits on daily basis with SBP (5 percent Cash Reserve and 20 percent Special Cash Reserve). The cash reserve account would be non-remunerative while SBP would remunerate special cash reserve account on daily product basis on rates notified by it at end of each month. For the purpose of determining of reserve requirements, all deposits mobilized under FE-25 in foreign currencies other than US Dollar, would be converted in US Dollar at the closing rates of exchange prevailing on the first day of each month of the respective banks/NBFIs. For any subsequent deposits, the prevailing exchange rates on the date of such deposits would apply.

?? On January 5, 2001 banks/NBFIs intending to initiate any action in respect of imprudent loans, defaulted loans or re-scheduled loans were directed to take approval from SBP for filing a formal reference to NAB or otherwise.

?? Banks and NBFIs were asked to comply with the Sind High Court judgment with regard to treatment of willful defaulters. As per judgment, concerned authorities should first serve a 30 days statutory notice in order to provide opportunity to defaulters to submit an explanation, if any or to re-pay the amount. If the amount or explanation is not submitted with in 30 days, the defaulter will be given one more chance to plead his case with the Governor, State Bank of Pakistan. If the alleged defaulter fails to satisfy the Governor, the accountability Court may resume the proceedings from the stage where it was kept in abeyance.

?? Restriction on banks to pay higher rates of return on deposits of public sector agencies, which was imposed on July 4, 1978, were lifted with effect from May 2, 2001.

?? In 1999 banks were instructed to obtain prior clearance from the State Bank of Pakistan for acquiring/purchasing shares of NBFIs, including Modarabas, Leasing Companies and private banks. Effective from June 1, 2001 banks were allowed to acquire/purchase up to 5 percent of the total paid-up shares of any NBFI without any prior approval from the State Bank of Pakistan. Similarly any NBFI may acquire up to 5 percent of the total paid-up shares of any commercial bank. However, in case of acquisition/purchase above 5percent of the total paid-up shares, banks/NBFIs should seek prior clearance from the State Bank of Pakistan.

Appendix 3: Exchange and Payments Measures During FY01

State Bank of Pakistan took the following measures during FY01 to streamline foreign currency deposits, foreign currency transactions, export earnings and letter of credits:

Foreign Currency Deposits

?? In order to further liberalize foreign exchange regime banks/NBFIs were allowed to freely utilize Foreign Currency Deposits mobilized by them under FE-25 for lending/ investment /placement in Pakistan and/or abroad with effect from April 2, 2001. Such deposits if maintained abroad would not count towards banks' Nostro Limits. Every bank/NBFI would be required to maintain cash reserves in US$ equivalent of not less than 25 percent of their total deposits on daily basis with SBP (5 percent Cash Reserve and 20 percent Special Cash Reserve). The cash reserve account would be non-remunerative while SBP would remunerate special cash reserve account on daily basis on rates notified at end of each month. For the purpose of determining the reserve requirements, all deposits mobilized under FE-25 in foreign currencies other than US Dollar, would be converted in US Dollar at the closing rates of exchange prevailing on the first day of each month of the respective banks/NBFIs. For any subsequent deposits, the prevailing exchange rates on the date of such deposits would apply.

Foreign Currency Transactions

?? Standing permission for outflow of foreign currencies other than US Dollar to the Forex Association for the purpose of exchanging the same into US Dollars was withdrawn with effect from April 18, 2001. Outflow/inflow of foreign currencies by the moneychangers will now be conducted through NBP. Later, NBP was allowed to transfer 25 percent of dollars purchased through the sale of foreign currency notes to the moneychangers.

?? On April 18, 2001, SBP authorized all bank branches throughout the country to purchase or encash foreign currency notes, coins, travellers' cheques and foreign demand drafts, presented by the public. Earlier, only bank branches holding Authorized Dealer's license were allowed to undertake such transactions. The step has been taken to liberalize dealings in foreign currency in the country.

?? The small indenting houses/agents whose income does not exceed Rs 5 million per annum were exempted with effect from October 2, 2000 from submitting half yearly statements of their commission earnings in foreign exchange to the State Bank of Pakistan required under the instructions contained in paragraph 2(i) Chapter XXI of the Foreign Exchange Manual (7th Edition, 1992).

?? Airlines/Shipping Companies/Travel Agents were allowed to sell tickets to Pakistan nationals to travel by Foreign Airlines/Shipping Companies without any annual quota w.e.f. October 13, 2000.

?? Business Travel Exchange Quota was enhanced to US$ 300 per day subject to a maximum of US$ 9,000 with effect from May 9, 2001. Previously, business visits are allowed exchange facility at the rate of US$ 200/- per day subject to a maximum of US$ 6,000/- per person.

Letters of Credits

?? The Pakistan Bankers Association took a self-regulatory measure by imposing a 30 percent cash margin requirement on all import letters of credit (LCs), except for crude oil and POL products on October 5, 2000. However, with the strengthening of rupee/dollar parity, banks reduced the LC margin to 25 percent and exempted edible oils and DAP fertilizers with effect from October 24, 2000. Margin requirements were further reduced to 15 percent on November 6, 2000 and finally removed from November 14, 2000.

?? In conformity of Import Trade and Procedures Order 2000-2001 issued by the Ministry of Commerce vide their Notification No. SRO. 489(1)/2000 dated the July 17, 2000, the requirement of opening Letter of Credit for imports before shipment was removed on November 20, 2000. Thus, shipment of goods before opening of import letter of credit will no more construe to be a violation of the Import Trade and Procedure Order 2000.

Export Earnings

?? Upper limit of retaining 25 percent export earning in Special Foreign Currency Accounts for payment of commission to overseas buyers and to meet other expenses such as promotional publicity, import of hardware/software and foreign consultant's fee etc., allowed earlier to Software Houses/Companies was enhanced to 35 percent with effect from November 17, 2000.

?? Authorized Dealers were allowed on October 24, 2000 to certify form "E" for export of "Hand Knotted Carpets" for a tenure of up to 270 days usance instead of 180 days usance, provided export proceeds are repatriated within a period of 285 days.

Appendix 4: Trade Policy for FY01

The main thrust of trade policy for FY01 is on rewarding efficiency and good performance, reducing anti-export bias through trade and tariff liberalization, and improving the export infrastructure. The trade policy was announced on June 28, 2000 with a view to achieve a sustainable and consistent growth in export earnings. Other notable objectives include diversification of export base and greater value-addition in the goods and services being exported abroad. The export target was set at US$10 billion while no specific import target earmarked for FY01.

To further liberalize the trade environment by reducing the culture of SROs, the Government decided to replace Import Trade Order, Import Policy Order, Import-Export Procedure Order and the Export Policy Order with only two documents, namely Import Trade and Procedures Order and Export Policy and Procedures Order. The Registration (Importers and Exporters) Order 1993 was also amended to simplify procedures. Sector-wise measures, announced in the trade policy for FY01 are as under:

Exports

Textiles:

?? Export of raw cotton was allowed right from the beginning of the season. Excise duty on import of raw cotton was also withdrawn.

?? A ginning research institute was established to improve the cotton quality while customs duty on import of saw gins was also reduced.

?? Effective from July 1, 2000, Pakistan Cotton Standard Institute (PCSI) was required to do grading of cotton at ginneries.

?? To ensure quality and requirement of international market, the Pakistan Standards Institution (PSI) approved the national standard for cotton yarn bleached/dyed to be adopted by all the manufacturers on November 1, 2000.

?? The Government on April 9, 2001 exempted payment of 15 percent sales tax on lint cotton at ginning stage. The textile and commercial exporters were allowed to procure ex-gin cotton without paying sales tax. However, the sales tax will remain effective on domestic consumption of cotton.

?? In order to shift focus towards the higher value added sectors, Government withdrew the export finance facility for yarn and grey cloth and subsequently SBP issued a circular in this respect on August 19, 2000.

?? Ministry of Commerce announced the Textile Quota Management Policy for the period January 1, 2001 to December 31, 2004. The policy envisaged transparent procedures for management and allocation of quotas and their auction. A Textile Board was also set up by the Federal Government in the Ministry of Industries and Production to facilitate implementation of recommendations contained in Textile Vision 2005, which is aimed at preparing the country for a quota-free market.

?? The Quota Supervisory Council (QSC) on May 8, 2001 decided to allow 20 percent over-programming in all quota categories to the textile exporters to ensure maximum shipments.

- The CBR on February 10, 2001 allowed duty drawback facility to the manufacturers of double knit sweaters and cardigans exported by knitting mills. The extent of repayment of custom duty ranges from 5.93- 7.92 percent of the f.o.b. value depending on the types of manufactured product.

- Following a clarification received from the CBR, the Collectorate of Customs (Export) has restored the rebate rate of 7.7 percent on knitted garments with immediate effect. All knitted garment consignments accepted at the lower rate (4.8 percent) of rebate are to be treated at the higher rate.

- CBR on May 10, 2001announced the duty drawback facility to the manufacturers of children garments for the import of raw materials used in the manufacturing of the goods, including children's in-pile socks with anti-slip, babies super stitch socks, covered babies in-pile socks, babies in-pile socks with anti-slip, ladies anklets and babies' sport socks.

- The Collectorate of Customs (Export) announced the reduction in the duty drawback rates on export of bed linen by 2 percent from August 2001. The rates of rebate will be further cut by 2 percent each in October and December 2001 and January 2002 and would be completely withdrawn by March 30, 2002.

Fisheries:

- Fishing/catching stage operators were given the status of indirect exporters to facilitate duty-free import of machinery and equipment like navigational equipment, fish finders, storage and handling of equipment.

- A committee of stakeholders was constituted to pursue commercial plans developed by Export Promotion Bureau, including recommendations for fisheries policy.

- Duty free import of shrimp meal and baby shrimp was allowed.

- To promote export of seafood products (as against 'commodity'), withholding tax on fish and fisheries products packed in retail packs of 500gm to 2kg was reduced to 0.75 percent

- The Government on May 26, 2001 allowed deep sea fishing subject to the submission of undertaking by the vessel operators that there would be no tans-shipment of catch at high-sea, no under-invoicing of the catch and no discard of the by-catch in the sea.

Fruits and Vegetables:

- Export of fruits and vegetables was allowed freely, and on a regular basis, with no minimum export prices or the requirement of registration with Export Promotion Bureau (EPB).

- It was decided to treat the fruits and vegetables processors as indirect exporters in order to allow duty free import of machinery and equipment.

- One-window facility was provided at Karachi airport to facilitate exports of fruits and vegetables.

Rice:

- Import of par boiling plants from India was allowed.

?? It was also decided to make available improved quality of Irri seeds on an emergency basis to improve the yields and quality. Government also decided to encourage brand development.

?? Port handling charges were reduced and Government pledged support for greater market penetration in Indonesia, Iran, Iraq, Philippines, Kenya, Zimbabwe, and South Africa.

?? The Export Promotion Bureau (EPB) on November 29, 2000 decided to withdraw minimum export price (MEP) for Irri-6 rice, with immediate effect.

Gems and Jewellery:

?? The value addition requirement for export of bangles was reduced to 5 percent.

?? Duty on import of diamonds and rough gemstones was reduced. A specific rate of duty, corresponding to around 2 percent ad valorum, was fixed.

?? The government on May 9, 2001 announced new procedures for regulating the import and export of gold jewellery and gemstones in the country. The new procedure envisages the export of jewellery on self-consignment basis, entrustment scheme, import entitlement, sale in international fairs and value addition.

Leather Garments and Products:

?? Import of plastic shoe lasts, shoe adhesives, toe puff material, thermoplastic rubber, shoe reinforcement tapes, and rubber master batch from India was allowed.

?? Leather Products Development Center was put under the operational control of NILT to facilitate better skill development.

Carpets:

?? Authorized Dealers (ADs) were allowed on October 24, 2000 to certify form "E" for export of "Hand Knotted Carpets" for a tenure of up to 270 days usance instead of 180 days usance, provided export proceeds are repatriated within a period of 285 days.

Software:

?? The limit of retaining 25 percent export earning in Special Foreign Currency Accounts for payment of commission to overseas buyers and to meet other expenses such as promotional publicity, import of hardware/software and foreign consultant's fee etc., allowed earlier to Software Houses/Companies was enhanced to 35 percent with effect from November 17, 2000.

?? On June 11, 2001 CBR granted exemption to software exporting companies from income tax on the profits and gains for a period of 15 years. The software exporting companies providing software-related services will also enjoy this exemption.

Petroleum and Petroleum Products:

?? The federal government on May 10, 2001 allowed the private sector to export petroleum and petroleum products (POL) except the High Speed Diesel Oil (HSDO) and furnace oil.

Tax Incentives:

?? A 5 percent cap imposed on the duty drawback allowed under the last year's trade policy was removed and full duty drawbacks were allowed on exports through parcel/courier service.

- On January 25, 2001 the CBR amended the Sales Tax Refund Rules, 2000. In sub-rule (2) of rule 7 of the aforesaid Rules, one-month refund period was reduced to twenty days while the period under clause-ii of sub-rule (2) was lowered to forty days from sixty days.

- On February 10, 2001, the Federal Government exempted the machinery, equipments and materials, either for exclusive use within the limits of Export Processing Zone or for making exports there from, and goods imported for warehousing purpose in Export Processing Zone from payment of sales tax.

- On March 21 2001, CBR announced the Duty and Tax Remission for Export Rules, 2001 for exporters, indirect exporters, and export houses. All exporters were allowed to procure goods imported under the Import Policy Order including banned and restricted items without payment of customs duty, excise duty, sales tax and withholding income tax. They were also permitted to purchase/procure goods/supplies locally without payment of sales tax, excise duty and withholding income tax.

- The CBR amended the duty drawback rules on April 10, 2001. The deduction of income tax and withholding tax at the import stage would now operate in accordance with the Duty and Tax Remission Rules, 2001 and the existing withholding tax system would no longer deal with the No Duty No Drawback Rules of 1988.

- On May 4, 2001 CBR allowed the exporters of 12 products to avail duty drawback facility. Main items on which duty drawback has been allowed include leather shoes and aluminum products.

Miscellaneous Measures:

- Export of non-restricted goods as accompanied baggage was allowed without the requirement of foreign exchange encashment certificates or other conditions. It was also decided to enhance the Permissible limit for (export of) samples to $5,000 and for gift parcels to Rs 10,000.

- In view of the present inefficient systems of quality check at export stage, it was decided to hold in abeyance the requirements of quality certification requirement for export of agricultural products and the Pakistan Standard mark for engineering and electrical goods.

- To increase exports in the international market, the Federal Government on May 28, 2001allowed the private sector inspection companies to issue quality specification and grading certification of cotton, rice, fruits, and wheat.

- ISO certification subsidy scheme (Rs 150,000) was extended to June 2001.

- Ban on export of wheat was removed and Ministry of Food & Agriculture was asked to lay down the export procedures and conditions.

- Requirement of the registration of contracts with EPB in respect of agricultural and livestock products (except cotton, rice, and urea) was removed.

- Requirement of NOC from petroleum ministry for export of lubricants, naphtha was removed.

?? Exports of selected products (i.e. that can not be easily smuggled back and in respect of which adequate safeguards have been built) through land route to and through Afghanistan to Central Asian Republics were allowed with usual refund facilities.

?? The limit for exports of bonafide trade samples free of charge by a registered exporter during a calendar year, which were exempted from the prescribed export procedure, was extended from FOB value of US$2,000 to the FOB value US$5000/- or equivalent per exporter per annum with effect from August 29, 2000.

?? The ECC on November 27, 2000 allowed export of cement, rice, pharmaceutical, glass sheets, G.I. pipes and hardware items via land route of Afghanistan to Central Asian Republics against irrevocable LCs in foreign currency.

?? On April 27, 2001 the government has allowed exports of cement, rice, pharmaceuticals, glass sheets and hardware items with duty drawback and zero sales tax to Central Asians Republics through the land route of Afghanistan.

?? Simplified procedure for export of six items to Afghanistan and through Afghanistan to Central Asian Republics via land route was approved by the ECC on March 29, 2001. The Pakistan Embassy/Consulates in Kabul, Kandhar and Jalalabad would verify arrival of export consignments from Pakistan and packages/retail packing would be clearly marked with the expression "for export only".

?? With effect from December 14, 2000 ADs were allowed to certify 'E' Forms in connection with exports to South America providing for repatriation of export proceeds up to a period of 180 days instead of 120 days in case a letter of credit for 180 days sight/usance is received from South America.

?? A new Foreign Currency Export Finance (FCEF) facility was announced by the SBP on March 28, 2001 under Asian Development Bank loan. This facility was aimed at providing support to domestic manufacturers requiring foreign inputs for exportable goods and increase access to export financing by small and medium size exporters and contribute towards export growth. Effective from April 1, 2001 market based export finance was made available to Small and Medium sized Direct Exporters (DE) and also their suppliers i.e. Indirect Exporters (IDE) for inputs linked to an export order up to a maximum of US$ 0.5 million per export order. The facility will run parallel to the existing Export Finance Scheme (EFS) of the SBP as an additional and alternate facility. The SBP will make the facility available to participating banks through a special dollar window at mark-up rates notified from time to time. But since the facility is self-liquidating the markup would not apply on the borrowers; they would simply use the facility both on pre and post-shipment basis to finance inputs for exports. On April 21, 2001 SBP announced the following rates of markup applicable until new rates are notified on the FCEF facility:
    ?? For Pre-shipment and post shipment financing to the exporters @ 7.65 percent per annum.
    ?? In case of Post shipment financing where post shipment insurance cover has been obtained by the exporter @ 7.15 percent per annum.
    ?? Rate of markup for refinance to be charged by SBP from the Banks @ 5.65 percent per annum.

Imports

?? State Bank of Pakistan withdrew the minimum cash margin requirement on opening of import letters of credit with effect of July 1, 2000.

?? The Pakistan Bankers Association imposed a 30 percent cash margin requirement on all import letters of credit (LCs), except for crude oil and POL products on October 5, 2000. However, with the strengthening of Rupee parity against the Dollar, banks reduced the LC margin to 25 percent and exempted edible oils and DAP fertilizers with effect from October 24, 2000. Margin requirements were further reduced to 15 percent on November 6, 2000 and finally removed from November 14, 2000.

?? In conformity of Import Trade and Procedures Order 2000-01 issued by the Ministry of Commerce dated July 17, 2000, the requirement of opening Letter of Credit for imports before shipment was removed on November 20, 2000. Thus, shipment of goods before opening of import letter of credit will no more construe a violation of the Import Trade and Procedure Order 2000.

?? Advance payment facility was extended to all importable goods up to US$5,000 in the new policy. However, in case of air-freighted spares/machinery, the limit for industrial users was enhanced to US$15,000.

?? The actual users were allowed to import any item up to the limit of US$5,000 per annum without opening of letter of credit.

?? EPZ units were allowed to sell/export to the tariff area (a) 'waste' up to 3 percent of FOB value of exports, (b) vehicles not less than five years old, and (c) imported goods in the same state subject to the provisions of the Import Trade Procedure Order.

?? Procedural requirement for certain restricted goods was simplified so that an importer does not have to obtain NOCs from several government offices.

?? In pursuance of the decision of the Ministry of Commerce, SBP on September 26 2000 set a maximum limit of 500,000 tons for raw sugar imports of a specific grade up to March 2001. The raw sugar can only be imported in the grade above 600 ICUMSA (International Commission for Uniform Method of Sugar Analysis) as part of the government's latest policy to encourage duty free imports of the commodity. LC (letter of credit) registration will be stopped once cumulative total reaches 500,000 tons. The limit was further enhanced by 100,000 metric tons of Raw Sugar on February 15, 2001.

?? ECC of the Cabinet on March 12, 2001 banned the import of sugar from India to discourage dumping of inferior quality sugar in the country and to give protection to local industry.

?? The Anti-Dumping Duties Ordinance, 2000 was promulgated on December 22, 2000 amending and consolidating the laws relating to imposition of anti-dumping duties to offset such dumping. The Ordinance shall extend to the whole of Pakistan, and came into immediate effect.

?? The Federal Government banned the import of 'any edible product not fit for human consumption' on January 11, 2001 through an amendment in the Import Trade and Procedures Order, 2000.

?? On February 23, 2001 the Federal Government extended the period up to March 5, 2001 for which goods may remain in the warehouse. The government also decided to remit penal surcharge in the case of goods removed from the warehouse within the period from February 26, 2001 to the March 5, 2001.

?? CBR on May 30, 2001 withdrew the exemption of duties and taxes on the import of pure terephthalic acid (PTA) and polyester staple fibre allowed under the Duty and Tax Remission for Export Rules, 2001.

?? The Government on June 25, 2001 imposed 5 percent import duty on the raw materials for fertilizer industry effective from July 1, 2001.

?? On June 28, 2001 the CBR had notified the reduction in import duty on 200 items ad valorem by 5 percent to 30 percent effective from July 1, 2001.

Appendix-5: Fiscal Measures Introduced in Federal Budget FY02

The Federal Budget FY02 outlines the tax strategy, consistent with that of last year, to mobilize revenues and to meet its expenditure requirements. The tax strategy is to generate revenue through documentation, broadening of tax base, efficiency in tax administration, and good governance, rather than by imposing new taxes. The specific measures taken by CBR through Finance Ordinance 2001 are discussed below.

Income Tax

Income tax, prime contributor to direct taxes and tax of future, is subject to radical changes, as government is revising the Income Tax Law to promote uniform application of income tax.[2] However, the specific changes made in income tax regime through Finance Ordinance 2001 are discussed below.

- Personal income tax has been rationalized by reducing the number of slabs from 7 to 5 with the minimum rate at 7.5 percent and maximum at 35 percent. Moreover, exemption limit is also raised from Rs 40,000 to Rs 60,000.

- To rationalize the corporate income taxes, government has reduced income tax rate on banking companies from 58 percent to 50 percent with effect from assessment year FY03. In addition, surcharge on corporate and income tax will also be abolished from the next year.

- Five types of withholding taxes have been abolished. These included withholding tax on industrial and gas consumers, income from auction of government properties, bonus shares etc.

- Scope of New Self Assessment Scheme is extended to public limited companies under the umbrella of effective audit of 20 percent returns. Time limit for completion of assessment is also reduced from two to one year.

- Companies listed at stock markets have been exempted from 10 percent tax on excess reserves, provided that these companies are distributing 40 percent of their after tax profits or 50 percent of their paid up capital.

- To encourage construction and housing industry, government has decided to allow tax deductibility on mark-up paid on housing loans up to 25 percent of income with a maximum of Rs 50,000.

- The government has eliminated tax exemptions on income from FEBCs, TFCs, and special purpose relief funds. In addition, 10 percent tax on profit from Investment in NSS shall be deducted at source if such deposit exceeds Rs 300,000.

Sales Tax

The government is moving toward the implementation of a fully effective value added based GST system. Specifically, the following measures have been enacted through Finance Ordinance 2001.

- At the time of activation of mobile phones, Rs 2000 will be collected from service providers as custom duty and sales tax, while withholding income tax has been abolished.

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[2] Income Tax Law has been promulgated on September 15, 2000, which will be enacted in Finance Ordinance 2002.

- ?? As a disincentive to non-registered sellers, the government has increased their sales tax rate from 15 percent to 20 percent on 200 industrial raw materials.

- ?? Sales tax has been extended to all imported edible oils.

- ?? The retail traders having annual turnover between Rs 1 and 5 million have been asked to get enrolled under 2 percent enrollment scheme, while registration for GST has been made mandatory for those with turnover exceeding Rs 5 million.

- ?? Jewelers will pay sales tax @ 15 percent on the prices of jewelry excluding the value of gold and silver used.

Central Excise Duty

Although role of central excise duty has already minimized, but significant changes have been made through Finance Ordinance, which include:

- ?? The system of supervised clearance has been replaced with self-clearance, but units availing self-clearance facility have to declare 10 percent increase in income and will also be subject to audit in line with sales tax.

- ?? Excise duty on cigarettes has been rationalized in such a way that prices of medium category cigarettes will increase.

- ?? Excise duty on imported items, which are produced domestically has been levied.

Custom Duties

Custom duties, an important component of indirect taxes, have been changed on a variety of goods. The specific details are provided below:

- ?? The maximum tariff rate has been reduced from 35 percent to 30 percent, while the number of slabs has been reduced from 5 to 4, i.e., 30percent, 20percent, 10percent and 5 percent.

- ?? To promote transparency, the number of SROs related to custom duty has been declined from 120 to 60.

- ?? Details on item-wise changes in custom duties are reposted in **Table 5.1**.

- ?? In addition to the above changes in duty rates, the government has also abolished regulatory duties on various items, which include calcium carbide, urea fertilizer, steel bars, formic acid, urea formaldehyde moulding compound, BOPP Film, medium intensity fiber board, craft paper sacks and jute bags.

- ?? To attract overseas Pakistanis, the government has allowed them to use their duty free allowance for one video camera, mobile phone and cassette/CD player. Moreover, duty free allowance limit has been raised from $450 to $700 and $1,200 for those Pakistanis who would have remitted $2,500 and $10,000 or more respectively in preceding year.

Table 5.1: Details on item -wise change in Custom Duties

	Related industry	Old rate	New rate
Iron and Steel Scrap (steel bars and sheets)	Construction	25 percent	10 percent
Crane Lorreys	Construction	90 percent	30 percent
Graders and Levelers	Construction	25 percent	10 percent
Scrap from ship-breaking	Ship-breaking	Rs 1000+ 15 percent	10 percent
Stainless steel	Surgical Instruments	25 percent	10 percent
SAN, ABS, Polystyrene, Polycarbonate	Precision Engineering	25 percent	10 percent
Viscose Yarn	Textile Industry	15 percent	10 percent
Woolen Yarn	Textile Industry	35 percent	10 percent
Nylon Yarn	Textile Industry	35 percent	20 percent
Sodium Alginate	Textile Industry	25 percent	10 percent
Dyes	Textile Industry	25 percent	20 percent
Tallow	Soap Manufacturing	15 percent	10 percent
Distillates	Soap Manufacturing	35 percent	20 percent
CKD Kits	Trucks Manufacturing	30 percent	20 percent
Tyres cord Fabric and Bead wire	Tyres and Tube	10 percent	5 percent
Tyres of buses and trucks	Transport	15 percent	10 percent
Ingredients of Pesticides	Pesticides	10 percent to 25 percent	5 percent
Sulphur	Fertilizer	10 percent	5 percent
Zinc Dust	Fertilizer	35 percent	5 percent
Soybean meal	Chicken feed	35 percent	10 percent
Plants and equipments for coal firing units	Cement Industry	15 percent to 25 percent	5 percent
Sodium Format and Orthoxylene	Formic Acid & Phthalic Anhydride	10 percent	5 percent
Photographic Plates, Plate Processors, Film Processors, Image setters, Printing Donwnframe	Newspapers	25 percent to 35 percent	10 percent
ECG, Ultra-sound, Opthelmic	Electro-medical	10 percent	5 percent
CT Scan	Electro-medical	15 percent	10 percent
Gas or smoke analysis apparatus	Laboratory equipments	15 percent	10 percent
Spectacle frames, sewing needles, hand tools and sodium alginate	Miscellaneous		10 percent
Refined Sugar	Sugar	15 percent	10 percent
Cosmetics, Soaps and Tea		25 percent	30 percent
Microwave, Oven, Electric Cattle, Radio, Grinders and Mixers	Electric Goods	25 percent	30 percent
VCR, DVD, LDP	Electronics	25 percent	30 percent
Pigments, Dyes, Additives, Fillers and Raisons	Master Batches	25 percent	10 percent

Appendix 6: Policy Measures for Agriculture Sector During FY01

Micro credit

?? The Agriculture Development Bank of Pakistan (ADBP) launched a micro credit scheme with Rs 500 million specifically for rural areas on July 1, 2000. The scheme has been designed to promote local skills by financing productive activities in the village. Loans of Rs 5,000 to Rs 25,000 would be extended to individuals and homogenous groups of five members.

?? In order to meet the genuine credit needs of farmers, the State Bank of Pakistan on October 12, 2000 enhanced the per acre credit limit for wheat crop from Rs 2,500 to Rs 4,000. Similarly, per acre credit limit for sugarcane was raised from Rs 5000 to Rs 8000 with effect from February 8, 2001.

Cotton

?? The Ministry of Commerce allowed the private sector to export raw cotton without getting a classification and grading certificate. This was done by making an amendment in the export policy and procedure order 2000 on September 14, 2000. The export of cotton can now be made on the basis of types as well as grades during the current crop season 2000-2001. However, exporters will have to mention the equivalent grade on shipping documents if they opt for exporting the cotton on type basis. The requirement of classification and grading certificate in such cases will be dispensed with, if the ginned cotton is packed in export packing at ginning stage. The decision has been taken to avoid unnecessary delays in export of cotton.

?? On June 8, 2001, the ECC approved the support price of cotton (phutti) at Rs 780 per 40-kg for the year 2001-02. The support price of phutti was fixed at Rs 725 per 40-kg last year. TCP was inducted by the government as second buyer. However, the prices in the market generally turned out to be very attractive, ranging from Rs 750 to Rs 1,050 per 40 kg. Most of the farmers received prices between Rs 850 to Rs 950. As per last year, export of raw cotton would be allowed from the start of the season.

Rice

?? On September 21, 2000, the government increased the support prices of paddy, raised the credit line to rice millers and involved Pakistan Agriculture Storage and Supplies Corporation (PASSCO) in buying rice from growers. The three-pronged policy has been adopted to avert a rice crisis. The price of super basmati (paddy per 40 kilograms) has been increased to Rs 460, basmati-385 to Rs 385 and Irri-6 to Rs 205 from Rs 425, Rs 350 and Rs 185, respectively.

Wheat

?? On May 19, 2001, the Economic Co-ordination Committee of the Cabinet (ECC) decided that there would be no restriction on movement of wheat throughout the country. In addition, the private sector has also been allowed to procure, export and store the commodity. However, import of wheat would continue to remain with the public sector.

?? On June 8, 2001, the ECC approved deregulation policy of wheat export and decided that no permission or NOC would be required for export of wheat. However, registration with the Export Promotion Bureau will be necessary for this purpose.

Tobacco

?? Pakistan Tobacco Board (PTB) urged companies to purchase surplus tobacco from growers, after meeting their target purchases. This decision was taken at a PTB meeting held on September 2, 2000, in wake of disposing a surplus stock of 10.0 million kilograms of 'flue-cured' Virginia tobacco with growers in the Frontier province. Companies that have completed their targeted purchase shall buy the allocated surplus tobacco at a price not less than the minimum prices fixed by the Pakistan Tobacco Company for 2000.

?? On November 8, 2000, Pakistan Tobacco Board (PTB) approved tobacco crop policy for 2001 in the backdrop of 47 percent lower requirement of tobacco, by tobacco companies. The policy contains, inter-alia, advice to the grower to enter into agreement with tobacco companies of their own choice before sowing so that problem faced by the farmers in marketing the crop last year could be avoided.

Research and Development

?? In pursuance of agreement reached between USA and Pakistan, the government of Pakistan has established Agricultural Research Endowment Fund (AREF) comprising the sale proceeds of wheat provided by Washington as a refund of F-16 aircraft. Wheat imported under this arrangement from USA will be sold to the provinces on no-profit/no-loss basis and the payments there against will be placed in the fund. Pakistan Agriculture Research Council (PARC) will hold the charge of AREF and will execute Agricultural Linkage Programme (ALP). The ALP is aimed at promoting exchange of agricultural research scientists and technical knowledge and to institute long-term support cooperation between Pakistan and United States in the areas of agricultural sciences.

?? To diversify agriculture research in Pakistan an agreement between Center for International Agricultural Research (CIAR), Australia and Pakistan Agricultural Research Council (PARC) was signed on November 13, 2000. Under the agreement, CIAR will help to explore the ways to increase productivity of crops in saline affected lands and to improve water management. Further, a memorandum of understanding was also reached between CIAR and PARC to control the 'gemini' virus diseases of cotton and tomato in both Australia and Pakistan.

?? A US-based agro-chemical firm and a local sugarcane growers' association have jointly introduced a water conservation chemical, called 'Qemi Soyal' in Pakistan to help farmers to overcome the problem of water shortage. The chemical, cross-linked polymers, has the ability to ensure the sustained release of water to the plants when applied. Every gram of chemical has the capacity to retain half-a-liter of the irrigation water as it blankets the water in the form of a membrane, thus limiting the chances of its evaporation. One time application of the chemical can help ensure optimum use of irrigation water for about five years.

?? Central Cotton Research Institute has evolved three colored varieties of cotton i.e. brown, green and off-white and its commercial production would start depending upon demand of the varieties in the domestic and international market.

?? Pakistan Atomic Energy Commission (PAEC) has introduced radiation and radioisotopes techniques to increase agricultural production and extending the storage life of different food commodities thereby.

?? Ministry of Food, Agriculture and Livestock, Pakistan and the International Atomic Energy Agency (IAEA) have agreed to co-operate on a plan envisaged to cultivate salt tolerant crops, trees and fodder grass on the 5,000 acres saline and waterlogged land in the country. This step will not only go a long way in converting the deserts into green lands but also have a far-reaching impact on the ecological environment of the country.

Tax Exemption

- On January 30, 2001, Central Board of Revenue announced exemption from custom duty in excess of ten percent ad volarem on import of agriculture machinery and equipment not manufactured locally. This exemption would be available on machinery required for:
  - Land development or reclamation of barren, deserted and hilly land for agriculture purpose,
  - Modernization and development of irrigation facilities and water management
  - All livestock farming and breeding activities.

Water Charges

- On July 11, 2000, Wapda revised the flat rate charges applicable on farmers in Balochistan from Rs 4000 to Rs 6,000 per month per tubewell. However, the arrears accumulated till June 30, 2000, will be payable at a rate of Rs 4,000 per month. The low incomes prevalent in rural Balochistan along with a low water table, which requires the installation of high capacity motors, have led Wapda to continue a flat rate policy in the province.

Appendix 7: Policy Measures for Industrial Sector During FY01

The following incentives were provided to promote domestic industry during FY01:

Trade Related Measures

- ?? To arrest deceleration in the production of vegetable ghee, duty drawback facility was allowed to all ghee-manufacturing industries in February 2001. The vegetable ghee producers could enjoy repayment of custom duty on the import of raw materials like RBD palm oil, soybean oil, crude degummed, nickel catalyst for hydration, phosphate acid, vitamin A & D and citric acid. The extent of repayment of customs duty was fixed at Rs 9,681.83 per tonne.

- ?? Raw materials imported for the production of crown cork, used in beverage industry, was exempted from regulatory duty in May 2001.

- ?? In order to encourage the production of value added textile products, duty drawback facility was announced on the import of raw materials used in the manufacturing of children garments in May 2001.

- ?? In order to provide relief to pharmaceutical industry in the wake of rising costs, custom duty on the import of raw materials was reduced from 15 to 10 percent w.e.f. June 17, 2000. Later in August 2000, some raw and packing materials were also exempted from customs duty. However, it was specified that the exemption in excess of 10 percent ad valorem, granted should not apply to the import of raw and packing materials for the purpose of manufacture by repackaging of drugs.

- ?? To boost the export of pharmaceuticals, import of medicinal herbs from Afghanistan for subsequent export was allowed duty free in May 2001.

- ?? To meet the domestic requirements, custom duty on the import of various types of steel bars and rods was reduced from 25 percent to 15 percent ad valorem with effect from March 13, 2001. Regulatory duty of 15 percent on these items was also waived.

- ?? To provide relief to the domestic steel industry, import of four raw materials was allowed (in May 2001) at a concessionary rate of 10 percent. These raw materials include special steel round bars, rods of non-alloyed steel, lubricating anti-rust and anti-corrosion preparation.

- ?? To increase exports and hence production of leather products, the government exempted shoe industry from the payment of custom duties and sales tax on the import of unit soles and heals to be used in the manufacturing of export footwear. Later in May 2001, duty drawback facility was allowed on the export of leather shoes.

- ?? To boost the production of metal containers used for packaging, regulatory duty on the import of tinplate (imported up to February 15, 2001), was waived in May 2001.

- ?? On January 23, 2001, the Central Board of Revenue (CBR) withdrew the regulatory duty on the import of Medium Density Fibre Board (MDF) below 4 mm thickness. The government was charging 10 percent regulatory duty on the import of MDF below 4-mm thickness.

- ?? To boost the export and production of engineering items, duty free import of raw materials and inputs by engineering industry was allowed in July 2000.

?? On June 25, 2001, the government announced 5 percent import duty on the raw materials imported by fertilizer industry from next financial year.

?? In June 2001, duty drawback rates for all the raw materials imported by manufacturers-cum-exporters, were revised downward. This revision is to be implemented in four stages of four months each starting from July 1, 2001.

Import of Machinery

?? To boost investment in petroleum exploring and refining in the country, the imports of machinery and equipment by petroleum companies were exempted from custom duty in excess of 10 percent ad valorem with effect from June 28, 2001.

?? In order to encourage the industrialists to carry out BMR program, textile and leather industries were allowed duty free import of machinery, plant and equipment with effect from June 29, 2001.

?? Duty free import of ring spinning frames was allowed to give boost to the textile production with effect from July 1, 2000.

?? In order to liberalize the import of machinery, the restrictions on the import of more than 5 years old used machinery was withdrawn in August 2000. However, import of used surgical equipment like dialysis machines, reverse osmosis equipment and other electro-medical equipment shall continue to be subject to the condition that the imported items are not more than 5 years old.

?? To help local auto manufacturers and assemblers to start production of factory-fitted CNG vehicles, duty free import of Compressed Natural Gas Kits was allowed on May 4, 2001.

?? The import of plant, machinery and materials for the construction of terminal at Lahore airport was exempted from sales tax and customs duty in January 2001.

Tax Incentives (Sales Tax and Excise Duty)

?? In order to encourage the use of domestically produced oil in the ghee and cooking oil industry, the supplies of local palm and soyabean oil was exempted from sales tax in August 2000.

?? To ensure prompt availability of local oil, the cottonseed oil extracting units were exempted from getting registered and filing sales tax invoices since October 2000.

?? Excise duty on cement was reduced from Rs 1,400 to Rs 1,000 through an SRO issued by CBR on September 6, 2000.

?? The CBR through a circular issued on February 9, 2001, removed additional 1.5 percent sales tax on car sales through leasing business.

?? The CBR through a circular issued on February 10, 2001, exempted from sales tax the import of various types of hides, skins, finished leather, accessories and components to be used for export purpose. The exemption would be admissible with effect from November 24, 1996.

Protection

?? To protect the domestic Industry from any unfair competition, the President of Pakistan promulgated an Anti-Dumping Duties Ordinance on January 2, 2001, which empowers the National Tariff Commission to impose anti-dumping measures on the products that are imported into Pakistan at a price "less than its normal value" or lower than that prevailing in an exporting country.

?? To protect the local industry, the CBR notified the imposition of a regulatory duty on the import of urea fertilizer at the rate of 10 percent ad valorem subject to the condition that the total C&F cost does not exceed US$ 100 per tonne.

?? In attempt to attain self-sufficiency in the production of various edible oils, the government imposed a regulatory duty on the import of edible oil at a rate of 5 paisa per kg w.e.f. July 1, 2000. The Board also levied a regulatory duty on the import of oilseeds for crushing at the rate of 10 percent of the customs duty leviable.

?? In order to protect the domestic steel industry, the CBR imposed regulatory duty on steel bar at the rate of 15 percent ad valorem, calcium carbonate at 30 percent ad valorem, formic acid at 10 percent ad valorem, polyester chip yarn grade at 5 percent ad valorem, self adhesive tape of polypropylene at 5 percent ad valorem, kraft paper sacks at 10 percent ad valorem and jute bags at 20 percent ad valorem.

?? The CBR withdrew the concessionary import facility for self-closing LPG cylinder valves and included this item in the list of locally manufactured items with effect from December 22, 2001.

?? To protect and provide relief to local industries, the government introduced four major changes in the custom tariff by amending two SROs on April 3, 2001. In view of these amendments, import duty on viscose rayon, sanitary grade acrylic sheets, tetanus toxid and face & skin cream lotions has been refixed at 15, 25, 5 and 10 percent ad valorem, respectively.

?? In the wake of increase in the domestic production, Pure Terephthalic Acid (PTA) and Polyester Stable Fiber (PSF) have been excluded from the category of goods temporary imported without payment of custom duty, central excise duty, sales tax and withholding tax.

Credit Facilities

?? To encourage the manufacturers to restore the economy and improve exports, the State Bank of Pakistan issued a circular on February 15, 2001 that put in place a system ensuring credit availability by Small Business and Finance Corporation for locally manufactured Auto, Air-jet and Shuttle-less looms and accessories.

?? To encourage the development of Small and Medium Enterprises (SMEs) in the private sector, the ECC in December 2000, decided to charge a concessionary mark up rate of 12 percent on the loans advanced to SMEs.

?? Pakistan Industrial Credit and Investment Corporation approved on November 21, 2000, a lending plan of over Rs 3 billion for textile and sugar industry. The Corporation will disburse Rs 2 billion for balancing, modernization and reconstruction (BMR) of textile sector and Rs 1.5 billion as short-term capital (working capital). The mark-up for BMR would be around 14 percent for five years for textile sector, while working capital would be sanctioned to sugar and textile factories.

?? After one year of restructuring and institutional capacity building, the Small Business Finance Corporation (SBFC) commenced lending to Small & Medium Enterprises (SMEs) on April 28, 2001.

?? To address the needs of Small & Medium Enterprises (SMEs), the Small Business Finance Corporation Act was amended through an Ordinance issued by the President of Pakistan on May 16, 2001.

Revival and Rehabilitation of Sick Units

?? For the purpose of expediting legal remedies relating to non-performing assets, an ordinance 'Non-performing Assets and Rehabilitation of Industrial Undertakings (Legal Proceedings)' was promulgated on November 18, 2000.

?? The government has revived 96 sick industrial units through Corporate and Industrial Restructuring Corporation, either by introducing structural reforms or helping out the existing management.

Others

?? In order to expedite the sale of Public Sector Enterprises (PSEs), Privatization Ordinance 2000 was promulgated on September 29, 2000.

?? The Federal Government formed a nine-member task force to prepare recommendations to transform industries, especially cement industry to coal, so as to save foreign exchange spent on the import of oil.

?? The Punjab Small Industries Corporation (PSIC) on April 3, 2001 launched an industrial development program 2001, under which the corporation will provide feasibility reports and technical assistance to those desirous for establishing small industries. Later in May 2001, PSIC planned to develop seven new industrial estates this year to expedite the industrialization process in the province.

?? On May 11, 2001 Pakistan Industrial Development Corporation decided to launch four cluster park projects with the participation of the private sector. These parks will consist of textile (garments), light engineering, surgical, sports, hosiery, sanitary fittings and leather goods industries.

Appendix 8: Petroleum Policy 2001

The government has announced offshore and onshore petroleum policy packages, 2001 to provide incentives for exploration of energy and its production activities. These efforts are aimed at reduction in import dependence and promotion of self-reliance. The salient features of policy packages are as follows:

Offshore Petroleum Package, January 2001

?? The contractor can recover 100 percent of the cost up to a limit of 85 percent of the gross revenues.

?? The corporate income tax has been reduced from 50 percent to 40 percent of the profits.

?? Import duties and taxes will be zero percent for exploration and after the first commercial discovery these taxes will be 3 percent.

?? Shallow zone is the offshore area covered by well in shallower than 4000 meters and in less than 200 meters water depth for which the government's profit share varies from 10 percent to 80 percent, based on the accumulated production from a field.

?? Deep zone is the offshore covered by well in deeper than 4000 meters and/or in over 200 meters and less than 1000 meters water depth for which government profit oil/gas share varies from 5 percent to 70 percent based on the accumulated production from a field.

?? Ultra-deep zone is the offshore area covered by over 1000 meters water depth for which government's profit share varies from 5 percent to 60 percent based on the accumulated production from a field.

?? The price will be as per government policy or "Arms Length Sales Value" whichever is less.

?? Exploration period will consist of an initial term of 5 years and two subsequent renewals of two years each, for a total exploration period of 9 years. A maximum retention period of 10 years will be considered to make arrangements for disposal of discovered gas.

?? Total term of the contract will be up to 44 years, which will also cover the retention period and the longer exploration period. The contractor has to return 20 percent of the original contract area prior to the termination of the initial term, 30 percent of the original contract area prior to the termination of the first renewal and another 30 percent of the original contract area prior to the termination of second renewal.

?? Modest acreage rentals of US$ 50,000 plus US$ 10 per square kilometer will be applied.

Onshore Petroleum Package, May 2001

?? Gas producers will be allowed to enter into gas sales agreements for suppliers directly to gas distribution companies, power plants, industrial consumers or third parties other than residential or commercial consumers. They will also have an option to export gas if it is in excess of internal demand.

?? To promote third party gas sales, the government will allow foreign exchange remittance of gas sales proceeds keeping in view the rupee requirements in different zones.

?? Income tax rate will be reduced to a uniform rate of 40 percent from the current rate of 50 percent to 55 percent.

?? Government holdings 'carry' at exploration stage will be abolished. Local companies will be promoted to take 15 percent to 25 percent interest in the foreign joint ventures on full participation basis.

?? Initial term of licenses will be increased to 5 years with two renewals of 2 years each, while retention of significant gas discoveries will be allowed for 5 years.

?? To make marginal discoveries attractive for further development, first production bonus of US$ 0.05 million will not be payable.

?? Expatriates security clearance has been streamlined.

Appendix 9: Merchant Marine Policy-2001

The government announced Merchant Marine Policy-2001 in July 2001 with a view to enhance contribution of merchant marine sector to the national economy. The policy is aimed at augmenting foreign exchange earnings and reducing freight bills through attracting private sector investment in the sector. The main objectives of the policy are:

- To deregulate the sector to provide a free environment to private investors.

- To maximize sea borne trade of the country through the merchant marine fleet flying Pakistan flag and to make the country's merchant marine sector internationally competitive.

- To ensure efficient operation of the country's ports and harbors through availability of harbor crafts etc.

- To make tangible contribution to the national economy by augmenting foreign exchange earnings and reducing freight bills.

- To enhance utilization of trained manpower in the maritime sector by augmenting the country's training facilities so as to enhance productivity and make them internationally marketable.

To achieve the above objectives the following incentives have been provided.

- Ships and all floating crafts including tugs, dredger, survey vessels and other specialized crafts purchased or bare-boat chartered by a Pakistani entity shall be exempt up to 2020 from payment of all import duties and surcharges. The above exemptions shall not apply to vessels acquired for demolition purposes. The exemption will however, be subject to the condition that the ships/crafts so acquired will be used for the purpose for which they were procured and in case such ships/crafts are used for demolition purposes within a period of 5 years of their acquisition, full import duties and other charges applicable to ships purchased for demolition purposes shall be chargeable.

- Ships and all floating crafts etc. purchased or bare-boat chartered by a Pakistani entity and flying Pakistani flag shall be exempt up to 2020 from payment of income tax but in lieu pay tonnage tax at the rate of specified therein. Shipbuilding and ship repairs shall be classified as an industry (Category A) under the investment policy.

- All port and harbor authorities in Pakistan shall allow all ships and floating crafts including tugs, dredgers, survey vessels and other specialized craft 10 percent reduced berthing rates when the same are berthed for purposes of repair and maintenance.

- Pakistan flag vessels shall be entitled to receive freight revenues in any convertible currency subject to State Bank regulations. Pakistani seafarers earning salary on foreign flag vessels shall be exempted from payment of income tax up to the amount repatriated through banking channel.

- Government of Pakistan shall endeavor to secure for ships flying Pakistani flag, a reasonable share of cargo of the country with which the Government of Pakistan concludes a bilateral shipping agreement.

Appendix 10: Capital Market Measures During FY01

Continuing on its policy of reforms, SECP has taken a number of decisions to further improve the operations of Pakistan's capital market during the year. These should go a long way in revamping the overall structure of the bourses and create an investment friendly environment to broaden the investor profile in the equity market. These include the introduction of various laws for the protection of small investors, measures to impose transparency in trade, curbing the practice of insider trading and bringing the operations to international norms. Some of these measures are briefly discussed below:

Governance of Stock Exchanges

- To strengthen investor confidence and improve transparency, SECP ordered some amendments in the Article of Association of the Karachi Stock Exchange. The changes that are binding after December 31, 2000, include the following:

  - Only the Board of Directors of KSE will choose the Chairman, as against the existing procedure whereby the General Body (members of KSE) chooses the Chairman. The office of Vice Chairman was removed.
  - Out of the existing eighteen directors in the Board, the existing system allows SECP and the Board to nominate two each, large institutional investors (NIT, ICP, etc.) can nominate three, and the General Body nominates the remaining members. In the proposed change, SECP would nominate seven outside members to the Board.
  - SECP would have final say on the appointment, removal/termination, and non-renewal of contract of the Managing Director of KSE, and
  - To restrict the Board's authority in operational issues, the bulk of these responsibilities were moved to the Managing Director.

Listed Companies (Prohibition Of Insiders Trading) Guidelines

- To protect small investors against excessive price volatility due to the use of privileged information, SECP issued a draft of the proposed law to solicit public opinion in the first week of October 2000. After due deliberation, SECP implemented the "Listed Companies (Prohibition Of Insiders Trading) Guidelines" on March 27, 2001. This law will increase the degree of transparency in the market and protect small investors from possible losses. These guidelines list the following individuals to be insiders:
  - A person who is a director, chief executive, managing agent, chief accountant, secretary or auditor of a listed company. Also, beneficial ownership (direct or indirect) of more than 10 percent of the shares of a listed company are thereby classified as insiders; or
  - A person who is or was connected with the company, or is deemed to have been connected with the company, and who is expected to have access to unpublished price sensitive information, or who has received or has had access to such unpublished information in the past.

- Such persons are now explicitly prevented from either dealing directly or indirectly in the securities of the said listed company. Moreover, SECP has listed the following as insider information:
  - Unpublished financial results of the company (both half-yearly and annual);
  - Intended declaration of dividends (interim and final);
  - Information on shares issued by way of rights, bonus, etc.;
  - Major expansion plans or execution of new projects;
  - Strategy on amalgamation, mergers and takeovers;
  - Exit strategy for either the entire company or a part thereof;

- ?? Any information that may affect the earnings of the company; and
- ?? Any changes in policies, plans or operations of the company.

?? To implement the above measures, the following new rules have been enforced to authorize the SECP to investigate and inspect the accounts and records of individuals deemed to be insiders and associated members of the stock exchanges.

- ?? Stock Exchanges Members (Inspection of Books and Records) Rules, 2001: These rules were enforced on April 26, 2001. According to these, SECP can order the inspection of books and record of any member of the stock exchanges. These inspections can be conducted any time and for any purpose, giving SECP discretionary powers. These rules will help monitor brokers and strengthen SECP's surveillance capabilities.

- ?? Brokers and Agents Registration Rules, 2001: These rules were notified on May 10, 2001, and should enable SECP to exercise direct control over brokers and agents. It is hoped that this will facilitate smooth operation of exchanges and act as a safeguard for investors. These rules also empower SECP to cancel the registration of a broker, if he:
  - i. is engaged in insider trading;
  - ii. has been found guilty of fraud;
  - iii. has had his membership cancelled by a stock exchange; or
  - iv. has not complied with the directives of the Commission.