

Exclusive Interview



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Akif Saeed

Chairman, Securities and Exchange Commission of Pakistan (SECP)

ICMA: What role do you see SECP playing in supporting the growth of startups in Pakistan?

Akif Saeed: The Securities and Exchange Commission of Pakistan, as the regulator of the corporate sector, firmly believes in creating an enabling business environment that fosters and supports an entrepreneurial culture in the country. Through streamlining registration requirements and simplifying capital formation processes, SECP has brought numerous improvements to the regulatory ecosystem, paving the way for small businesses, including startups, to register as companies. These reforms include inserting the definition of startup company in the Companies Act, 2017, reducing the regulatory burden on startups, allowing private companies to issue capital otherwise than for cash and for consideration other than cash, and allowing private companies to issue shares to their employees through employee stock options and buy back its own shares.

ICMA: What initiatives has SECP taken to facilitate the registration process for startups?

Akif Saeed: In recent years, the company registration process has been greatly simplified and end-to-end digitalized. Applicants around the globe have been provided a complete digital solution to apply for company incorporation with SECP. From name reservation to submitting applications and paying fees, all processes can

be performed at the click of a button without the need to physically visit SECP offices. SECP is acting as one window for business registration, and a combined certificate of incorporation is being issued signifying incorporation with SECP and registration with provincial departments, i.e., Social Security, Labour & Human Resource, Excise & Taxation (Punjab, Sindh, and Baluchistan). Moreover, in order to improve consistency in the company incorporation process and enhance the user experience, a state-of-the-art business center (BC) has been made operational at the head office, and all incorporations are being handled through this centralized setup.

ICMA: How does SECP ensure that startups comply with regulations and laws?

Akif Saeed: SECP ensures that all companies under its regulatory purview comply with the requirements of the law. All local incorporated companies, whether small or large, are required to file returns with the SECP in line with provisions of the Companies Act, 2017.

However, the regulatory burden for small companies, including startups, is lower than for larger companies, which have higher capital and turnover. Moreover, SECP carries out risk-based supervision, and companies engaged in regulated activity, such as insurance, brokerage, asset management, etc., are subjected to higher levels of monitoring compared to private limited companies.

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Therefore, depending on the nature of business activity, startups are subjected to the relevant regulatory requirements, and compliance is ensured across the board.

ICMA: How does SECP plan to attract more foreign investment in Pakistani startups?

Akif Saeed: SECP has introduced various reforms aimed at facilitating foreign investment in Pakistan, from simplifying corporatization to facilitating investments in capital markets. In addition to the digitalization of the company incorporation process, SECP has established a Chinese-foreign investors Help desk at the Business Centre, and promoters' guides in Chinese, Turkish, Arabic, and Spanish have been made available at the Business Centre and on SECP's website as well. WhatsApp and WeChat services are introduced, facilitating live conversations with SECP's trained agents for quick responses to queries and incorporating companies with ease. On the capital market side, there is no limit on foreign ownership, and all listed companies and sectors are open to foreign investors.

Moreover, foreign individuals and institutional investors can invest in the capital market through the Foreign Portfolio Investment Scheme through a Special Convertible Rupee Account. All funds held in these accounts are fully repatriable without any restrictions or constraints, and there is no minimum holding period. There is also no restriction on foreign investors performing regulated securities activities (securities broker, advisor, portfolio manager, Credit Rating Company, etc.). Specifically, on the topic of startups, foreign investors can either invest in these companies directly or route their investments through private equity and venture capital funds on a repatriable basis.

ICMA: How does SECP encourage and support the development of innovative products and services by startups?

Akif Saeed: In line with global best practices, the concept of a Regulatory Sandbox has been introduced by the SECP. First launched in 2020, three cohorts have been held so far. The objective of the sandbox is to assess the viability of new ideas in a controlled environment before a full-scale launch. The sandbox has encouraged innovators to share their

proposals about new products, services, processes, and business models that have not been addressed under existing laws. This had led to numerous new ideas, especially digital solutions concerning the insurance sector, non-banking finance companies, and capital markets. Moreover, this initiative has also paved the way for regulatory amendments aimed at modernizing the regulatory ecosystem in line with the digital age.

ICMA: What steps has SECP taken to promote the culture of entrepreneurship in Pakistan?

Akif Saeed: Promoting ease of doing business is one of the key objectives of SECP, and the reforms I mentioned earlier have played a key role in improving Pakistan's ranking in the World Bank's Doing Business 2020 Report. In the report, Pakistan's overall ranking improved from 136 to 108, and the highest improvement was achieved in the area of starting a business, primarily due to the simplification and digitalization of incorporation and the integration of SECP's services with those of the FBR, EOBI, and provincial departments (i.e., social security, labour and human resources, and excise and taxation). Pakistan was ranked in the top 10 economies that improved most on the ease of doing business indicators after implementing these reforms, as per the Ease of Doing Business Report of the World Bank for 2020. In addition, the launch of the Secured Transactions Registry (STR) in 2020 has facilitated small entrepreneurs' easier access to finance.

The establishment of STR has aided small borrowers from SMEs and the agriculture sector to secure credit from financial institutions against their movable assets.

ICMA: How does SECP collaborate with other organizations to create a favorable climate for startup development?

Akif Saeed: In addition to the regulatory sandbox, SECP has also established an innovation office to create awareness amongst individuals, entities, and startups regarding the regulatory ecosystem and new reforms introduced by SECP. The objective is to encourage entrepreneurs to learn about the regulatory sandbox programme, the benefits of corporatization, and developments in the capital market, thereby promoting financial inclusion in Pakistan. The innovation office, through collaboration with incubation centres and universities, has arranged multiple webinars to target students and startups in the country.

ICMA: What measures has SECP taken to make it easier for startups to access funding?

Akif Saeed: Limited access to affordable and convenient financing has been the biggest hurdle for startups the world over. To enhance access to finance for new and small businesses, various steps have been introduced, including the Secured Transaction Registry (STR), micro- and digital lending by non-banking microfinance companies (NBMFCs), the enablement of peer-to-peer (P2P) lending, revamping Private Equity and Venture Capital regulations, and the launch of the Growth Enterprise Market (GEM) Board at the Pakistan Stock Exchange.

While unincorporated businesses can secure loans from financial institutions through STR or obtain microloans from NBMFCs, the launch of GEM Board is a significant achievement for young companies to access equity funding by listing on the stock exchange. Small and medium enterprises, Greenfield projects, and tech startups can conveniently raise capital through the stock exchange. This allows early-stage investors in startups to conveniently exit whenever they want, after the initial period of three to five years.

In addition, the reforms in the private equity space have led to renewed interest in the past few years in the SECP-regulated private fund industry; however, tax treatment with respect to pass-through status and capital gains tax have hampered the private fund industry's ability to reach its potential in Pakistan. Further, private companies are permitted to raise capital in other ways than through equity and for consideration other than cash and to issue shares to their employees through employee stock options.

ICMA: What are the key hurdles that impede growth of startups ecosystem in Pakistan?

Akif Saeed: The difficulties that startups face in Pakistan are similar to those that they face globally. Due to the uncertainty of returns for new businesses, access to convenient and affordable funding remains the primary hurdle. In Pakistan, the situation is compounded further due to a shortage of specialist financing vehicles, such as venture capitalists and angel investors, and the inability of conventional lenders to invest in risky avenues. Furthermore, considering our population, especially our youth, the entrepreneurial culture in Pakistan is still lagging behind, even in the regional context. The traditional, risk-averse mindset pushes the youth to focus on working regular jobs rather than starting their own businesses. Having said that, the mindset of the policy makers also needs to shift from a traditional brick-and-mortar approach to an agile governance model that can rapidly adapt to changing markets in the wake of the digital revolution. And lastly, a primary challenge for startups in Pakistan has been the limited market opportunities to scale up their operations in view of current economic hardships.

ICMA: How does SECP ensure that startups are able to compete on a level playing field with larger and more established companies?

Akif Saeed: In order to have a modern, efficient, and fair market, SECP firmly believes in creating a conducive environment that nurtures healthy competition. In this regard, our efforts are focused on four key objectives:

- Effective enforcement and governance to ensure uniform applicability of the law by safeguarding that SECP's regulatory processes and actions remain transparent and equitable
- Encouraging innovation and digitalization in our regulated sectors to keep relevant with changing times;
- Promoting ease of doing business by streamlining regulatory processes and requirements, especially for digital businesses such as digital asset management, digital-only insurance, etc.; and

- Enhancing access to finance and capital formation for micro, small, and medium enterprises.

Through these measures, SECP ensures that all market participants are subjected to equal treatment, while at the same time granting enough flexibility to tech companies to venture into new areas through rationalized entry requirements. A classic example of this is the introduction of digital-only insurers who are subject to lower capital and solvency requirements, to offer insurance products in Pakistan through digital web platform.

ICMA: Can you share any success stories of startups that have benefited from SECP's support and initiatives?

Akif Saeed: When we talk about success stories, the regulator sandbox program has to be mentioned. Like I mentioned earlier, so far 3 cohorts have been held under which various new products and services have been live-tested in a controlled environment, and based on successful tests, these have resulted in bringing reforms to the regulatory framework. To name a few:

The first digital Takaful applicant qualified for testing in the first cohort of the sandbox to test the digital-only insurer/takaful model. The business model is based on the digital transformation of policyholders' journeys through a web platform for end-to-end sale, delivery, and claim settlement of takaful products, including health insurance, personal accident insurance, home insurance, and travel insurance. Successful testing of the product led to the development of a regulatory framework for dedicated digital-only insurers and micro-insurers through an amendment to the Insurance Rules of 2017. Thereby allowing dedicated digital-only insurers and micro-insurance companies to operate in Pakistan with lower paid-up capital and solvency requirements.

In the second cohort, an applicant with a business model of fractionalizing real estate assets through a blockchain-based, decentralized electronic platform was selected for testing. During the testing phase, the applicant was allowed to fractionalize real estate assets through its platform to successfully fractionalize a real estate asset, allowing for the issuance, trading, clearing, and settlement of the asset fractions. The successful testing has helped SECP develop a regulatory framework for the fractionalization of tangible and discrete movable real assets, including real estate and commodities, which is currently underway.

The first peer-to-peer (P2P) lending platform was selected under the first cohort, which is an innovative alternative digital method of financing to address the lack of easy access to finance for SMEs, especially at the growth stage of their businesses. Based on successful testing, the applicant was allowed to operate under existing NBFC regulations as a permitted activity until the promulgation of a specific regulatory framework. Subsequent to the notification of the P2P Lending Framework, approval for the same is in process under the dedicated framework.

The Editorial Board thanks Mr. Akif Saeed, Chairman, Securities and Exchange Commission of Pakistan (SECP) for sparing from his precious time to give exclusive interview for Chartered Management Accountant Journal.