

# CAPITAL MARKETS IN PAKISTAN



Securities and Exchange Commission of Pakistan

# OUTLINE

- Regulatory Structure
- Overview of the Securities Market
- Non-Banking Finance Companies Sector
- Insurance Sector
- Stock Exchanges- Basic Information
- Financial Indicators
- Major Reforms
- Work In Progress
- Suggestions for Co-operation



# REGULATORY STRUCTURE

- The Securities and Exchange Commission of Pakistan is the apex regulator for the following:
  - Corporate Sector
  - Capital Market (includes Stock and Commodity Exchanges and related depository and clearing institutions)
  - Insurance Sector
  - Non-Banking Financial Sector
  - Private Pensions
- Established under the Securities and Exchange Commission of Pakistan Act, 1997 as a successor to the Corporate Law Authority



# OVERVIEW OF THE SECURITIES MARKET

- **Three Stock Exchanges:** Karachi Stock Exchange, Lahore Stock Exchange and Islamabad Stock Exchange. Have mutualized structures (Guarantee Limited Companies).
- **Pakistan Mercantile Exchange Limited:** Fully automated and demutualised commodity exchange providing physical facilities for trading in commodity futures contracts: Gold, Silver, Crude Oil, Palm Oil, Rice, Sugar and KIBOR
- Both delivery based and cash settled commodity futures contracts have been made available for trading
- **Central Depository Company of Pakistan Limited:** Handling electronic (paperless) settlement/custody of services for transactions carried out at the three stock exchanges.
- **National Clearing Company of Pakistan Limited:** Provides centralized and geographically neutral clearing and settlement services for all book-entry securities

# NON-BANKING FINANCE COMPANIES SECTOR

- **Non-banking Finance (NBF) sector entities include:**
  - ❖ Asset Management Companies
  - ❖ Mutual funds
  - ❖ Investment banks
  - ❖ Leasing companies
  - ❖ Modarabas
  - ❖ Real estate investment trusts
  - ❖ Pension funds
  - ❖ Private equity funds
  - ❖ Venture capital funds
- **Insurance sector entities include:**
  - u 35 Non-Life Companies, including 1 state-owned company
  - u 7 Life Insurance Companies, including 1 state-owned company
  - u 5 Takaful operators
  - u 1 Government-owned Reinsurer

# Stock Exchanges – Basic Information

- **Markets and Products**

- u Ready/Cash Market : trading common and preferred stock,
- u Debt Market : trading corporate bonds (TFCs) and National Savings Bonds
- u Futures Contract Market: Deliverable and Cash Settled Futures Contract, Stock Index Futures Contract (KSE 30 Index, Oil & Gas and Bank Sectoral Indices)
- u Trading in and stock index futures
- u Indices: KSE 100, KSE All Share, KSE 30, KMI 30, LSE 25 and ISE 10
- u Brokers include single member, private and public companies (KSE-147, LSE-83 and ISE-51)

- **Ready Market Settlement : T+2 cycle**

- **Futures Market: 30, 60 and 90 days futures**

- **Governance Structure:**

- u Board of Directors comprise of balance of broker and non broker directors- Chairman of the Board is a Non-member

# FINANCIAL INDICATORS

## Decade wise Progress of Karachi Stock Exchange

	1950	1960	1970	1980	1990	2000	2011 (Till September 08, 2011)
Listed Co.	15	81	291	314	487	762	637
Listed Capital (USD Billions)	0.001	0.012	0.045	0.089	0.326	2.750	11.83
Market Cap. (USD Billions)	NA	0.022	0.066	0.114	0.718	4.450	34.94
Average Daily Turnover – Shares in Millions	NA	NA	NA	NA	NA	NA	108.69

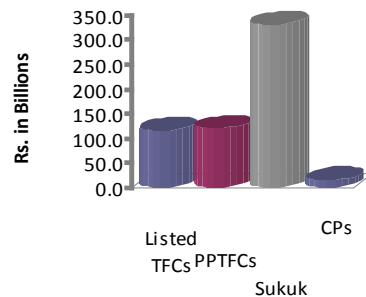
*\*Figures have been taken as of December 31<sup>st</sup> of each year*

# FINANCIAL INDICATORS

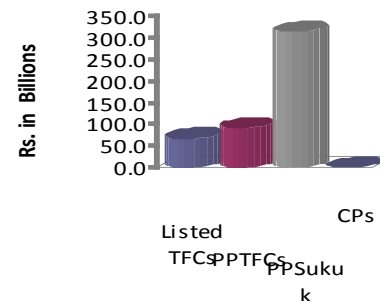
## Structure of Corporate Debt Market

	Listed Term Finance Certificates (TFCs)		Privately Placed TFCs (PPTFCs)		SUKUK		Commercial Papers (CPs)		Total Debt Issues	
	No of Issues.	Rs in billions	No of Issues.	Rs in billions	No of Issues.	Rs in billions	No of Issues.	Rs in billions	No of Issues.	Rs in billions
<b>Total Raised (June 30, 2011)</b>	111	115.841	69	120.814	60	330.969	31	15.162	271	582.786
<b>Total Outstanding (June 30, 2011)</b>	37	67.248	48	91.214	55	313.092	1	0.200	141	471.754

**Amount Raised till June 30, 2011**



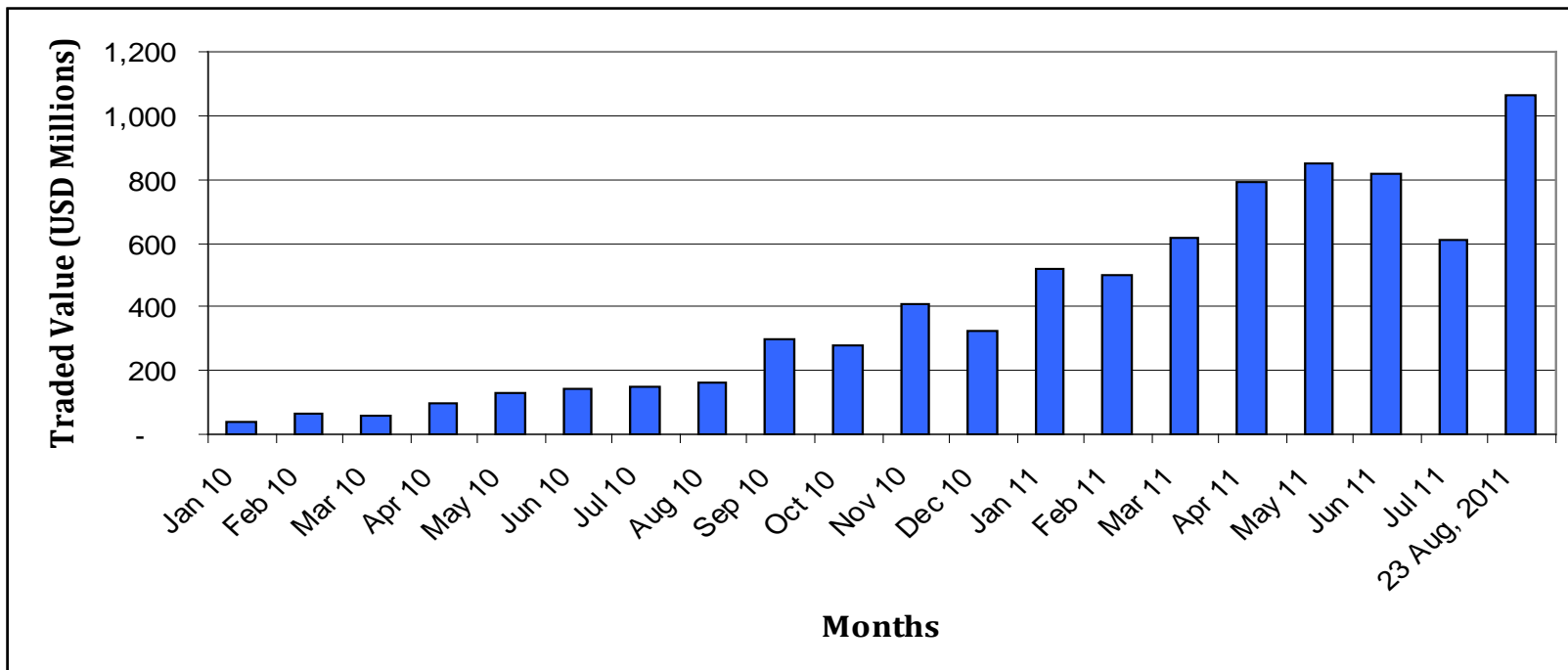
**Amount Outstanding as on June 30, 2011**





# FINANCIAL INDICATORS- PMEX

## Progress of PMEX (2010-2011)



	April-August 2010	April-August 2011	Growth
<b>Number of Contracts Traded</b>	252,888	1,136,366	349%
<b>Traded Value (USD Million)</b>	675	4,130	512%

# FINANCIAL INDICATORS

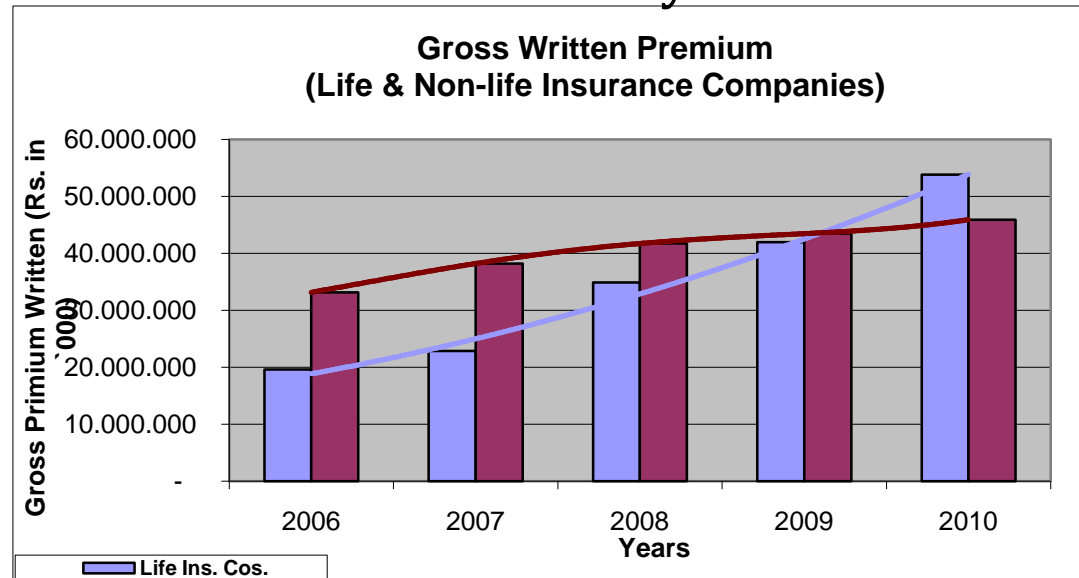
## OVERVIEW OF THE NBFC INDUSTRY AS ON MAY 2011

PKR million

Sector	# of Entities	Total Assets
Mutual Funds	135	289,920
AMC/ IAS	29	44,696
Portfolio Management	103 Clients	34,000
Investment Bank	7	24,983
Leasing Co.	9	34,295
Modarabas	26	26,211
Pension Funds	9	1,495
<b>Total</b>	<b>215</b>	<b>455,600</b>

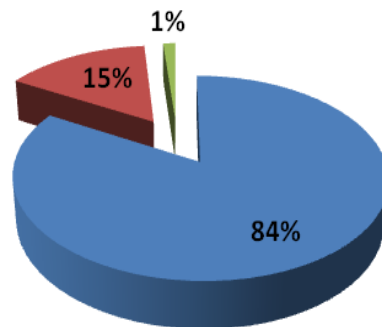
# FINANCIAL INDICATORS

## Insurance Industry Overview



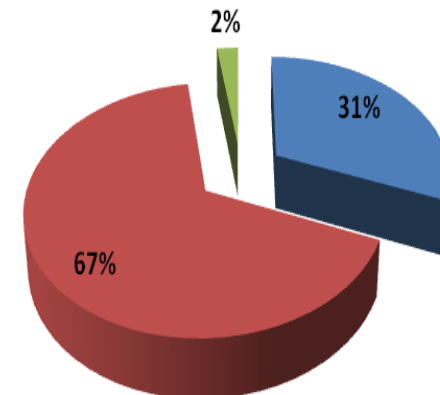
### Non Life Insurance Market Share

- Private Sector (35 Cos.)
- National Insurance Company\*
- General Takaful (3 Cos.)



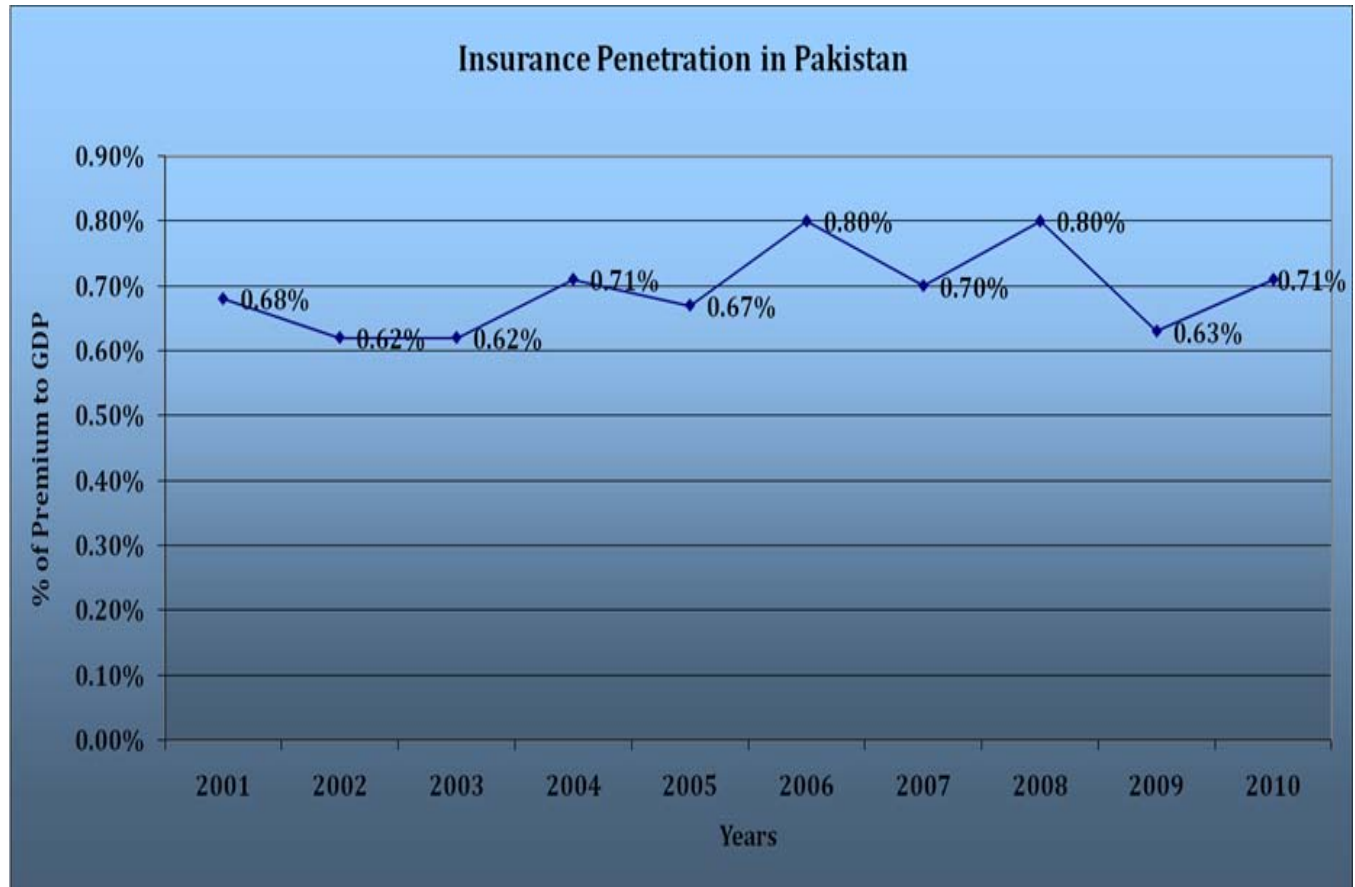
### Life Insurance Market Share

- Private Sector (6 Cos.)
- State Life Insurance
- Family Takaful (2 Cos.)



\*Estimated

# FINANCIAL INDICATORS



# Corporate Sector Portfolio as of September 09, 2011

Type of company	Number of companies
Public listed	648
Public unlisted	2,206
Private companies	54,098
Single-member companies	1,258
Companies limited by guarantee u/s 43	74
Non-profit associations u/s 42	510
Trade organizations	212
Foreign companies	790
Other companies	3
<b>Total</b>	<b>59,799</b>

# MAJOR REFORMS

- **Corporate Sector**

- ❖ E-Services Project for online incorporation/registration of companies & electronic submission of returns/documents
- ❖ Concept of Single Member Companies introduced
- ❖ Holding company structure introduced to improve transparency

- **Capital Market**

- ❖ The Unique Identification Number-helps establish a traceable link between every trade executed on the exchanges.
- ❖ Automation of Securities Settlement Project at CDC (straight through processing curtailing manual intervention)
- ❖ Client Level Margining Regime, Risk Management System based on VaR margins, pre-trade margin verification system, special margins and position limits
- ❖ Blank Sales replaced by regulated Short Selling in Ready Market.
- ❖ Fit and Proper criteria for Directors on the Boards of Exchanges, CDC and NCCPL.

# MAJOR REFORMS

- **Capital Market**

- ❖ Bonds Automated Trading System at the stock exchanges for transparent and efficient price discovery of debt market securities.
- ❖ In order to cater for the financing needs of the market and bring in liquidity Margin Financing, Margin Trading and Securities Lending & Borrowing were introduced.
- ❖ Introduction of the concept of Market Making at the stock exchanges.
- ❖ Mandatory telephonic recording of Orders and use of banking channels
- ❖ Book Building mechanism for issue of capital.
- ❖ Code of Corporate Governance part of Listing Regulations
- ❖ Specialized market surveillance software installed at the SECP for monitoring stock market activities

- **NBFC Sector**

- ❖ Introduction of Real Estate Investment Trusts
- ❖ Introduction of Voluntary Pension Contribution Schemes

# MAJOR REFORMS

- **NBFC Sector**

- ❖ Introduced of Fund Categories for Mutual Funds – to assist investors in making risk averse decisions
- ❖ Introduced Capital Guaranteed / Protected Funds
- ❖ Introduced Customer Due Diligence (CDD) & Know Your Customer (KYC) policy to safeguard involvement in ML / FT activities

- **Insurance Sector**

- ❖ Raised minimum paid-up capital requirements for life and non-life insurance companies (Rs. 500 mln and Rs. 300 mln)
- ❖ Statutory deposit requirement fixed at Rs. 10 mln or 10% of insurers paid up capital, whichever is higher
- ❖ 100 % foreign investment allowed
- ❖ Takaful Rules notified to offer Islamic equivalent of traditional insurance
- ❖ Establishment of Insurance Ombudsman' office



# WORK IN PROGRESS

- Corporatization and Demutualization of the stock exchanges.
- New Legislations in process: Futures Trading Act, Securities Act.
- Measures for Development of Secondary Trading in the Debt Market: Improve effectiveness of bond trading platforms, establishment of Bond Pricing Agency, etc.
- Introduction of new products at the stock exchanges including Options, Exchange Traded Funds and Warrants
- Broad Basing of PMEX shareholding
- Introduction of new futures contract in commodities and currencies

# SUGGESTIONS FOR CO-OPERATION

- u Development/Expansion of commodity currencies market
- u Development of new products including derivatives and developing strategies to stimulate growth in the Financial Sector
- u Islamic products
- u Development of Debt Market
- u Cross listing of companies and indices
- u Risk management reforms
- u Investor education and awareness

**THANK YOU**