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(Karachi, June 24, 2013): The Karachi Stock Exchange 'soft launched' trading of Government Debt Securities on its Bond Automated Trading System (BATS) today. The Government Debt Securities Market (GDS Market) of KSE will allow secondary market trading of Government Securities in the Stock Exchange. The soft launch will test the IT platform and post execution settlement processes so that the formal official launch by the Finance Minister in a few weeks' time is smooth and without hitches.

The trade executed and settled today had five participants, i.e., AKD Securities, Arif Habib Securities, Bank Alfalah, JS Global and KASB Securities.

Mr. Nadeem Naqvi, Managing Director KSE, speaking on the occasion of the soft launch stated that this was a major milestone in the development of Capital Market in Pakistan. He praised the Finance Minister Mr. Ishaq Dar for providing strong support for this project which helped in making it a reality. He said that the average saver and investors could now invest directly in Government Securities, such as Treasury Bills, Pakistan Investment Bonds and Islamic Sukuk Ijara Securities through their broker. This would encourage greater savings in the country as the return on Government Securities was typically higher than bank deposits of similar maturities while the secondary market would provide liquidity, enabling easy entry and exit for investors. In terms of investment risk, he highlighted that if Government Securities were held till maturity they provided guaranteed return with no risk of capital loss. Thus investors would create investment portfolios having a combination of government securities and shares whereby downside risk could be reduced by the former while enabling capture of upside return from the latter.

The M.D. KSE explained that all efforts had been made to make the investment process relatively easy for retail investors. If an investor wanted to invest in Government Securities all he/she had to do was, first open a brokerage account (with a stock broker) and an IPS account with CDC. Once the accounts were operational, the investor would need to deposit funds in CDC's designated bank account one day before trade (purchase) and instruct the designated broker to purchase the type and Rupee amount of T-Bills, PIB's or Sukuks. The designated broker, on the trade date, would execute the transaction after confirmation that funds were available at CDC. After execution of the trade, CDC would transfer the respective Government Securities to investors' IPS account held at the CDC. The Broker, in the meanwhile, would also provide the investor with confirmation of the transaction. At no stage in the transaction, would the investors' money or securities be in custody of the broker and these would be directly settled at the CDC. This method removes the intermediation risk for the investor.



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Mr. Nadeem Naqvi said that the State Bank of Pakistan has now allowed Primary Dealer (PD) banks to participate in KSE's GDS Market and act as market makers if they so wished. This will enable these banks to make two-way quotes (bid & offer) to buy and sell Government Securities so that investors could both enter and exit the GDS market easily. In fact, the presence of market makers was essential to create liquidity in this market. Besides the banks which have SBP permission to participate in GDS market, brokers and other financial institutions could also act as market makers if they fulfilled the Exchanges' criteria and requirement upon applying for permission to become market maker.

The MD KSE emphasized that the burden of making GDS market a success and useful for investors now fell on the stock brokerage industry. Brokers have the largest distribution/relationship network with people and institutions that invest in the capital market. It was now upto the brokers to leverage their network of relationships and provide their investing clients a choice of a new, safe and liquid asset class to invest their savings in. As far as the role of the exchanges was concerned, Mr. Naqvi stated that a comprehensive investor awareness generation programme was already underway by Karachi, Lahore and Islamabad stock exchanges. Now the Exchanges would weave the government security investing aspect into this programme and expand the reach and frequency of the programme itself so that the largest number of savers is made aware of this new facility for investment.

While concluding his remarks, the MD KSE especially highlighted the proactive role of the Ministry of Finance, especially the Finance Minister himself who personally guided and supported this project. Mr. Naqvi also thanked the SBP and SECP for their timely support in helping design and approving the regulatory framework for the GDS Market. He pointed out that without the active involvement of the Regulatory Affairs Committee of KSE the regulatory framework could not have been developed so quickly. Mr. Naqvi thanked the Board of CDC and Mr. Hanif Jhakura, CEO of CDC for their tireless efforts to make the project successful. He also lauded the efforts made by members of the committee constituted to develop and implement this project and role of KSE and CDC teams. the Government Securities market in the Stock Exchange and noted that this developmental role of banks in helping evolve the financial system in the country should not be ignored. A well-developed financial system helps reduce systemic risk and benefits all participants including banks.

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