

PRESS RELEASE

Leading Commercial Banks Offer Support for Margin Financing Mechanism

ISLAMABAD – 17 June 2004: Leading commercial banks and financial institutions in Pakistan have extended their full support for the development of a margin trading mechanism in the country. This was conveyed during a meeting Dr. Tariq Hassan, Chairman, Securities and Exchange Commission of Pakistan (SEC) held at the State Bank of Pakistan office in Karachi which was attended by most leading banks and financial institutions.

In Pakistan, financing against shares is not easily available to small investors through banks and financial institutions, which has resulted in the development of the COT/badla market. While the system of COT/badla financing has been partly useful in adding liquidity to the market, it is viewed as being the root cause behind market crises experienced during the last few years. In a major move to strengthen market integrity and reduce the incidence of systemic risk, the SEC and the SBP shall soon be announcing Margin Trading Rules and Regulations for Margin Financing by Banks/DFIs to Brokers.

During the meeting, Chairman explained that the SEC and SBP would soon be introducing a margin mechanism in the country and asked banks and financial institutions to provide institutional support for margin financing for share trading in the stock market. He said that the Rules would be in line with international standards and would promote retail investment by increasing purchasing power of investors and significantly reducing the systemic risk associated with COT/badla financing.

The meeting also discussed that the introduction of margin financing by Commercial Banks and DFIs would also help in minimizing systemic risk. Under the present system of COT financing, investor first takes a position and subsequently arranges the funds. In case he fails to acquire financing, there are chances of market crises. However, with introduction of margin financing the investor would first arrange the funds and then undertake trading. Further, banks/DFIs extending margin financing to brokers will also conduct due diligence of the brokers who are financed by them.