



Securities and Exchange Commission of Pakistan

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PRESS RELEASE ***FOR IMMEDIATE RELEASE***

PAKISTAN MARKET RETURNS TO FTSE WATCH LIST

ISLAMABAD – JANUARY 18, 2008: Following high level consultations with the Securities and Exchange Commission of Pakistan, FTSE Group (“FTSE”), the global index provider has deferred its decision to remove Pakistan from the FTSE Global Equity Index Series (“GEIS”) from June 2008. The announcement to the above effect was made by FTSE from its London office on January 17, 2008.

It may be noted that FTSE as part of its annual country classification review, on September 12, 2006 announced that they have placed Pakistan on its Watch List for possible removal from FTSE Global Equity Index Series (GEIS), which is used by institutional investors worldwide.

Consequently FTSE had on September 20, 2007 announced the results of its annual country classification review, whereby, Pakistan was to be removed in June 2008 from the FTSE Global Equity Index Series stating that the stock market fails to meet the minimum entry requirements for quality of markets criteria.

It should be noted that to facilitate market development and regulation, the SECP has in recent years, launched a plethora of reforms in the backdrop of its mission to “develop a fair, efficient and transparent regulatory framework, aimed at fostering growth of a robust corporate sector and broad based capital market in Pakistan.” Substantive reforms in the areas of risk management; governance and transparency; market development; investor protection and investor education have been implemented. These provided due impetus to development of existing buoyant and broad-based capital market in the country. In light of such significant reforms in the Pakistan’s capital market, it came as a surprise that Pakistan was being excluded from the FTSE GEIS.

The Securities and Exchange Commission of Pakistan (SECP) taking immediate action approached FTSE and held a series of dialogue which included personal representation by the Chairman SECP at the London office of FTSE, as well as arranging an international Conference Call with the FTSE Country Classification Committee wherein Key Market Participants of Pakistan Capital Market also participated.

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During above series of dialogues various key initiatives undertaken by the Securities Market Regulator in the Pakistani Capital Market during past two years were highlighted that interalia include:

Governance and Transparency Measures

- KYC Principles in place (e.g. standard specifications for account opening forms).
- Implementation of Unique Identification Number (UIN)
- Segregation between its proprietary and client monies and assets.
- CDC Group Account maintained by brokers abolished.
- Disclosure of open interest of top 15 brokers in Futures market.
- 4 Directors and one independent Managing Director out of 10 on the Board of stock exchanges are from amongst non-members nominated by SECP.
- Appointment and removal of Managing Director of exchanges by SECP.
- Non-member Chairmen on the Boards of the Exchanges
- Reporting of off-market transactions made mandatory.
- Protection of interest of minority shareholders (e.g. fresh election of directors on the request of shareholders owning 12.5% of shares)
- AGMs are now required to be held within 3 months of year end.
- SECP has been empowered to order a special audit of a company.
- Quarterly accounts to be submitted within 30 days and half-yearly accounts within 60 days of period end.
- Daily information of net cumulative foreign portfolio investment.
- Closing price mechanism changed for calculating Mark-to-market losses.
- Measures to prohibit unfair practices such as front-running:
 - all lines into the trading rooms to be taped and orders restricted to recorded lines
 - all orders placed on KATS to be supported by orders received on taped lines prior to placement of orders.
- KSE planning compliance checks from 1st Quarter 2008.
- Mobile phones will not be allowed on trading floors from January 2008.

Regulatory Reforms

- Amendments in Proprietary Trading
- Listing Regulations amended to incorporate Code of Corporate Governance.
 - Inclusion of independent directors on the Board of listed companies
 - Frequency of meetings of Board of Directors
 - Requirement for Audit Committee consisting of majority of independent directors
 - Requirement for internal audit function
 - Qualification criteria for Chief Financial Officer and Company Secretary
- Introduced Free Float Index (KSE-30).
- In NBFI sector, shadow director concept has been introduced.

Risk Management Measures

- Pre-trade margin verification system in place
- VaR based client level margining system with T+2 rolling settlement. One day VaR introduced.
- Introduction of Special margins
- Haircut Regime-Valuation of Securities held as Collateral (based on VaR and impact cost)
- New Netting Regime: No netting allowed across
 - Clients
 - Settlement periods
 - Scrips
 - Different markets
- Position limits have been introduced (for each scrip) based on a percentage of free float. Position limits are at client, broker and market levels.
- Daily mark to market losses collected in all markets.

Additional Reforms

Providing liquidity to market – CFS

- CFS has replaced badla
- Enhancement in CFS Limit from Rs 25 to Rs 55 billion and increase in number of CFS eligible scrips from 30 to 71. This was carried out in November 2006, which significantly improved the liquidity in the market.
- Ban on in-house Badla (financing securities outside the exchange). Actual leveraged position in each scrip is now transparent.
- CFS financed Securities to be held in CDC blocked CFS Account on behalf of financiers to prevent misuse.
- New mechanism for handling corporate actions in place – financee not disadvantaged.
- CFS Financing is now available only against cash market purchases for the day per client.
- Segregation of CFS and Ready Markets for collection and maintenance of margins.
- Margin financing facilities available

Enhancing brokers capacity to do business

- Direct placement of margins to the clearing company by all financial institutions.

New products

- Introduction of 90-days Cash settled single stock futures contracts

SECP intends to hold an extensive awareness campaign for the international capital market participants aimed at informing international investors of enhancements and improvements in the capital market including arranging series of roundtable talks and road shows with various stake holders including international Asset Owners, Fund Managers, Rating Agencies, Index Providers, Exchanges and Regulators in UK and USA and Hong Kong.