

Press Release

Chairman Sec For Stakeholders' Proactive Role to Foster Debt Market's Development

Islamabad – February 16 2005: Dr. Tariq Hassan, Chairman, Securities and Exchange Commission of Pakistan (SEC) has urged banks, investment advisers, corporates and other market participants to play a more proactive role in fostering efficient development of Pakistan's debt market.

He said this while addressing the closing ceremony of Askari Commercial Bank's Listed Term Finance Certificate Issue in Karachi on Wednesday. Dr. Hassan congratulated ACBL on its first foray into the capital market to raise tier II capital through the issuance of orated and unsecured TFCs amounting to Rs. 1.5 billion.

Highlighting the importance of a well-established debt market, Dr. Hassan said that an active and efficient debt market broadens capital markets; offers savers an option to invest in a wider range of products; and provides risk averse investors an opportunity to partake in capital market activity. "It also provides companies with an alternative source of corporate debt finance and enables them to raise debt from the capital market in addition to the conventional banking channels", he added.

He informed the audience that despite a number of regulatory developments in over the past few years, Pakistan's corporate debt market remained highly illiquid and small in terms of its size. "To address this issue, SEC has taken up the removal of tax irritants such as reduction of stamp duty on commercial papers and other debt instruments with the Ministry of Finance. The issue regarding listing of Pakistan Investment Bonds (PIBs) has also been taken up with the State Bank of Pakistan (SBP). Having the PIBs listed on the exchanges would make the price discovery mechanism more efficient and would help in promoting and adding depth to the debt market. On the administrative front, SEC has also streamlined the procedure for approval of prospectus and has made it more efficient," he said.

These efforts, he said, however, in isolation cannot bring about the much-needed development in the corporate debt market. He also highlighted some of the issues deterring the effective development of the debt market.

Dr. Hassan said the absence of market makers in corporate debt securities has also constrained secondary market activity. "In my view, the concept of market maker needs to be introduced so as to make the debt market more liquid. This will also help in creating efficient pricing mechanism for instruments and result in development of secondary market for TFCs," he maintained.

"When the Pakistan government securities market improves, the corporate bond market will also improve and unlock the pool of liquidity. Corporate bond markets can help borrowers reduce their financing costs in two ways: First, they facilitate bank disintermediation, by allowing direct access to investors and removing the "middleman"

and related costs. Second, by issuing corporate bonds, entities are in a better position to tailor their asset and liability profiles, and reduce the risk of maturity and currency mismatch on their balance sheet. This also helps to reduce their overall cost of capital, the SEC Chairman observed.

He informed that at present, although TFCs are traded on-line on the stock exchanges, due to thin trading volumes, the bid/offer rates quoted by the stock exchanges are not updated on a regular basis.

Enhanced liquidity in the market would ensure efficient pricing of TFCs and result in increasing the investor base of the TFC market, he said.