INSTITUTE OF CAPITAL MARKETS

NEWSLETTER

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INSIDE:

Message From The CEO

Mr. Muhammad Ali Khan

The last few years have seen a rapid growth in size, quality and sophistication of capital markets, because of changes in the policy and regulatory environment, the entrepreneurial initiatives of individuals and institutions, and the availability of trained manpower. The continuing growth of capital markets is further adding to the demand for well-trained professionals.

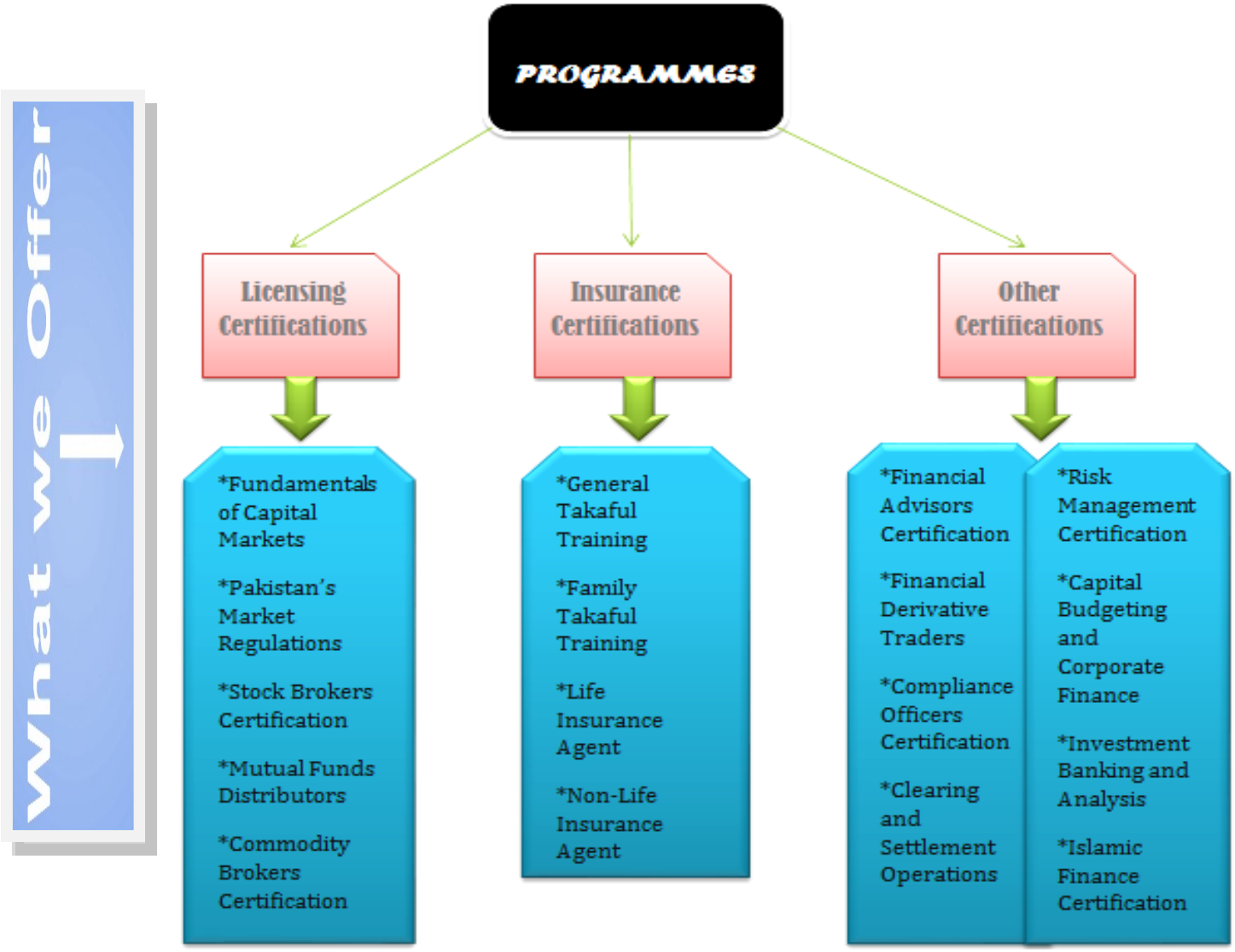
Institute of Capital Markets (ICM) is dedicated to the professional development of capital markets and research on capital markets as well as the well being of capital markets by educating the professionals about the norms and ethics being practiced in the markets. ICM has had a pioneering role in meeting the demand for educated manpower. It is Pakistan's first specialized institution devoted to the education and updating of knowledge of manpower for capital markets. It will provided high-quality educational standards for all types of capital market participants; investors, brokers, mutual funds, investment banks and policy makers.

The Institute's main activities are (1) Licensing the professionals working in the capital markets by certifications. The institute's key responsibility is to educate the professionals working in different capital markets of Pakistan through examining their knowledge in their relevant field of work; (2) Studying the latest developments in the capital markets in order to discover whether there is such a thing as an ideal market economy; and (3) Contributing to the development of capital markets in Pakistan. By means of these three activities the Institute seeks to communicate its ideas to the audience both at home and overseas. The Institute's research is intended, first and foremost, to be neutral, professional and practical. Rooted in practice, it aims to contribute to the healthy development of Pakistani capital markets as well as to related policies by conducting neutral and professional studies of how these markets and the financial system are regulated and organized and how they perform.

The economy is changing all the time. The Institute hopes that, by responding to these changes positively, it can contribute to the dynamic development of the country's capital markets as well as of the economy itself.

Introduction to the Organization

The **Institute of Capital Markets** (ICM), Pakistan's first securities market institute, has been established as a permanent platform to develop quality human capital, capable to meet the emerging professional knowledge needs of capital markets and create standards among market professionals. The Institute has been envisioned to conduct various licensing examinations leading to certifications for different segments of the capital markets. In addition, ICM will also provide a platform for research & development, exchange of ideas and consulting services on Capital Markets issues.



Currency Futures

What are Currency Futures?

Currency futures are transferable future contracts that specify the price at which a currency can be bought or sold at a future date. Every country has a currency which is designated as the legal tender for money transactions and trade purposes. In Pakistan, the rupee is the legal tender for all kinds of transactions. However, there are some countries which use the currency of another nation as their legal tender.

There are different forms of currency such as bronze or silver coins, paper bills, etc. which are used in various countries. Every currency has been assigned a value which depends upon the economic growth, trade position and financial condition of the country.

Currency futures are the derivative instruments that help investors to do away with the risk related to exchange rate. These instruments derive their value from the underlying exchange rate. As the exchange rate fluctuates, the currency futures also change in value.

Investing in Currency Futures

One can plough money into currency derivatives by investing in exchange-traded currency derivatives or in OTC currency derivatives like swaps, forwards, etc. There are various contracts available which differ in exchange rates and expiry so it is recommended to choose them carefully. Investors who are willing to enter currency futures markets must understand the types of products they offer, their characteristic features, their risk and return profile and their need to invest in this market.

These contracts provide greater amount of exposure to the underlying asset i.e., exchange rate, by investing in smaller amount of capital. Forex markets, being the most volatile markets, have the potential to impact the contract value. Hence, any fluctuation in the price will have an impact on the portfolio greatly, resulting in huge profits or losses. Businesses like importers, corporates, exporters, etc. are exposed to currency risk and in order to hedge their currency risk, they invest in currency futures contracts.

Currency Futures

Intermediaries in Currency Markets

It is a platform where various intermediaries interact with each other and help in completing the transactions. It is 24-hour market so it is very important that intermediaries work together to assure smooth processing and trading. Following are the intermediaries in the market:

Regulatory Authorities

Regulatory authorities supervise the trading activities and regulate the currency marketplace. They issue guidelines for the market players and also conduct irregular inspection to maintain discipline in the market.

Exchanges

Exchanges provide trading platforms for investors to trade in different financial instruments. These institutions help the traders to place their trades faster as these are well-equipped with modern infrastructure facilities, trading systems, efficient risk management and surveillance systems. Exchanges also ensure the safety of the investments.

Broking Firms

These firms provide brokerage, consultancy, portfolio management and advisory services for its clients. The firms charge brokerage fee for the services offered. They have trained personnel who have technical expertise in handling investor's funds.

Depository

It is an institution that holds securities of investors in electronic form through a registered depository participant. It also offers services related to transactions in securities.

Clearing Corporations

These corporations oversee and help in the clearing and settlement of exchange-based transactions. These are also known as clearing houses. These houses minimize chances of default risk

and ensure completion of trades.

Currency as an Asset Class

Foreign exchange or currency markets are one of the largest markets as compared to asset class. Financial institutions, corporates, manufacturers, importers and exporters trade in currencies to support their financial operations. All of these market players are exposed to currency risk on entering into a trade with a foreign entity and they have been helped by the currency derivatives to hedge their forex risk.

Forex markets are categorized by a huge variety of products and participation by the market players. The huge participation creates trading relations between the countries which help in the growth of the economy. These markets have huge number of transactions and round-the-clock trading which make it the most liquid market. As a result, it is easy for a buyer to find a seller and vice versa. By investing in currencies, investors can benefit in a number of ways.

Incentive to Invest

Currency futures contracts offer leverage which gives investors an incentive to invest in these markets. In this way, the investor gains greater exposure to the underlying asset by investing smaller amount of capital. The market follows well-established trend which makes it more favorable for the investors. Investors have an easy access to these markets due to the trading process which is less complicated and more investor friendly. Lower costs associated with the transactions have made it easier for the investors to trade in these markets. New currency products have allowed the small investors to participate and benefit unlike few years back when forex markets were limited to OTC platforms where financial institutions, corporates and banks were the only major market players.

Investment Strategies By Age

An investment strategy is a plan to guide an investor's selection based on the goals, risk tolerance and future needs for capital. It seems like everyone receives a piece of paycheck when they reach their 20s. In 20's, investors have the ability to take high risk because they are in the accumulating phase and are able to accumulate the net worth to satisfy short-term needs. The individuals don't have a number of responsibilities in their 20's so they should consider moderately high-risk investments because of their pretty long investment horizon and earnings ability. A 25-year-old individual who contributes 10 percent of his/her salary to an investment plan annually will accumulate a lump some amount by the time he/she retires. Those people who learn to pay themselves first and invest for growth to supersize their future paychecks are far more likely to have a comfortable retirement.

A 30-year old individual and 40-year old individual differ in terms of time horizon. Each must have a substantial proportion of his/her portfolio invested in equities. The 30-year old person should have more equity investments as he/she can tolerate greater portfolio risk. These investors could also differ in current liquidity needs such as children and education expenses, tax concerns and other unique needs/ preferences. The investors are in the consolidating phase so they must have paid off many outstanding debts and typically have earnings that exceed expenses. The investors in this age become more concerned with long-term needs of retirement or estate planning although they are willing to accept moderate portfolio risk.

When the investors reach their 50s, there are plenty of financial responsibilities that could dent their savings. They might be providing costly care to aging parents while still supporting their children. It is their spending phase when the investors are semi-retired. In this phase, investors wish to

Investment Strategies By Age

protect the nominal value of their savings, but at the same time must make some investments for inflation protection.

When the individuals reach their 60's, they are ready to retire and may need some current income from the retirement portfolio to meet daily expenses. The individual reaches to gifting phase in which he/she believes that the portfolio will provide sufficient income to meet living expenses, plus a reserve for uncertainties. As it is the time when the individual cannot take high risk so he/she should remove all the money from the risky investment plan and invest it in money market funds which contain low risk and would satisfy the investor's short-term current income needs. An individual can also invest the money in other investment options like Government certificates, fixed income accounts, etc. If there are excess amounts available in the portfolio, he/she may decide to give it to family or friends as gift or establish trusts to minimize estate taxes.

> *"In the long run, it's not just how much money you make that will determine your future prosperity. It's how much of that money you put to work by saving it and investing it."*
>
> **– Peter Lynch**

Investment strategies change during an individual's lifetime but it is extremely important for a person to make correct investment decisions when he/she is young and ready to take high risks. At that time, he will be able to work longer and adopt a more aggressive stance with his/her investment portfolio. Making investment strategy will help them to protect their savings which they would need after their retirement or in any unexpected emergency.

Investors' terms of the month

AGENT

A person appointed by a member of a Stock Exchange to act on his behalf for the purpose recognized by a stock exchange and includes a sub-broker or head of a branch office.

DEALERS

Investment Finance Companies, Registered Corporate Brokers or Banking Companies who buy commercial paper and resell to investors.

BALLOTER

A person who provides services to an issuer for selecting the required number of applicants of public issue through a computer draw.

CERTIFICATE

A certificate of definite denomination issued by the Modaraba to the contributory acknowledging the receipt of money contributed by him under the guidelines on the basis of arrangement described.

Glossary

Absolute Privilege	قطعی استحقاق
Bad Debt	ڈوبا ہوا قرضہ
Capital Expenditure	مصارف اصلی
Daily Collection Statement	یومیہ گوشوارہ وصولی
Eligibility Criteria	اہلیت کا معیار
Face Value	قدر عرفی، قیمت اسمیہ
GDP	مجموعی ملکی پیداوار
Handling Charges	دستگیری کے اخراجات

Regulatory Newsflash

SECP exempted mutual funds from IFRS-10

SECP decided to exempt mutual funds from International Financial Reporting Standards-10. The commission has directed that the requirements of consolidation under section 237 of the 1984 Companies Ordinance and IFRS-10 will not be applied to investment by companies in mutual funds established under trust structure. With the help of IFRS-10, consolidated financial statements of holding companies and subsidiaries are prepared. There were applicability issues of IFRS-10 in preparing consolidated financial statements for Asset Management Companies. By consolidating the mutual funds, the user's ability could be hindered to assess the true and fair position of the management. It is said by SECP that section 237 will remain applicable to the holding company mainly related to its asset management company but it won't be applicable to the trust or fund as it does not fall within the meaning of subsidiary.

SECP published draft `Access to Inside Information Regulations 2016`

Securities and Exchange Commission of Pakistan has distributed draft "Access to Inside Information Regulations 2016" in order to track allegations of insider trading. The regulations have been placed on the website of SECP to seek public opinion and stakeholders' comments within 14 days. These regulations have been formulated under the Section 131 of the Securities Act,2015 according to which the listed companies have to maintain record of persons who have admittance to inside data. The listed companies will be required to maintain a register of details including the names and dates of persons who have entry to sensitive information that could lead to fluctuation in the share price of that organization. The data are primarily related to takeovers, mergers, investments, restructuring, etc. These regulations will be helpful in tracking procedure during any inquiry related to insider trading.

SECP approved the Companies (Compliance with Licensing Conditions) General Order, 2016

SECP notified the firms to comply with licensing conditions in exercise of the powers conferred on it by Section 246 (1) of the Companies Ordinance, 1984. The order will facilitate investors and stakeholders who are interested in doing business with a specific company which is subject to a licensing regime. The status of compliance can be verified on the basis of maintenance of corporate record with the office of the registrar concerned. The order requires all such classes of licensed companies to annex with their annual returns required to be filed with the registrar concerned under section 156 of the Companies Ordinance. The order comprises of two schedules which include a list of companies required to comply with the order as well as a compliance report with the licensing conditions required to be signed by the CEO/Directors and countersigned by the external auditors of the organization.

Business and Economic Newsflash

Domestic Newsfeed

Digital Financial Services can overcome hurdles

Digital financial services have the ability to overcome hurdles caused by conventional business models. This channel is largely used by low income persons as the branchless banking is both convenient and affordable in a highly cost-efficient manner for the people who have inadequate facilities. Queen Maxima of the Netherlands said that Pakistan has one of the best regulatory frameworks which provide strong foundations for taking financial inclusion to its next level. She further added that the industry should cooperate to remove at least some of the key stoppages to realize the potential of digital financial services. The queen also made some suggestions including availability of smart cell phone for women, discouraging use of excess cash and rationalizing cost of branchless banking services. SBP Deputy Governor urged the industry players to collaborate for integrated solutions to remove bottlenecks.

TDRO draft to be introduced in parliament this year

The government will propose a draft of Trade Dispute Resolution Organization (TDRO) in parliament this year. The law is designed to provide administrative and adjudicating powers to TDRO for effective resolution of international import and export complaints and disputes. This proposed law is expected to bridge the trust deficit between local and foreign businessmen and create a linkage with the international trade dispute resolution organizations. The regime would efficiently investigate and resolve trade disputes to promote trade, protect trading interests and improve Pakistan`s standing internationally. Several structural and regulatory changes had been brought by Ministry of Commerce to help boost trade and cut the number of disputes. The act establishes a functionally autonomous body called the TDRO which will provide services for capacity-building, training and consultation to promote best practices in international trade.

Cut-off yields on treasury bills slightly slashed

The government raised Rs.198 billion which is much less than the auction target of Rs.250 billion. The cut-off yield on the three-month T-bills was cut to 6.21% from 6.25%, six-month to 6.22% from 6.26% and 12-months to 6.24% from 6.27%. The banks invested the highest amount of Rs.169 billion in the 12-month papers. They offered bids of Rs.325 billion in view of the stable interest rate scenario. The government is still relying heavily on borrowings from the scheduled banks which have created a liquidity gap of about Rs.1.3 trillion. SBP said that banks have invested 85% of their liquidity in the government papers. It also stated that the amount of loans to private sector increased but most of the loans were given for working capital. Banks have been avoiding extending long-term project loans to the private sector.

Business and Economic Newsflash

International Newsfeed

Supervision of Rating Agencies

The European Court of Auditors stated that the rating agencies which came under the fire during the financial crisis still need to be better supervised. The European Securities and Markets Authority's supervision was not fully effective and there is still room for improvement in the supervision of credit ratings agencies. Cumbersome registration procedures and central bank hurdles are making it harder for smaller credit ratings agencies to compete as the Euro system only accept ratings issued by four of the 23 agencies. This has created a two-tier market structure due to which small agencies are in an unfavorable situation.

Light in US Financial Markets

After the flash crash, SEC proposed a solution to record all the activity in the stock and options markets, and have the data available for analysis. The project is complex, but not mainly because it requires the processing of 58 billion records per day but because of the number of different organizations with a stake in the outcome. The SEC appears to be moving in the right direction. The final plan will be approved this year after which the actual building of the system can begin. By the most optimistic timeline, the system won`t be up and running until late 2019. Even when complete, it won`t cover futures and government bonds, which will require the cooperation of the Commodity Futures Trading Commission and the Treasury Department.

EU proposals give UK more autonomy on financial rules

European Council President presented several proposals ahead of a referendum in Britain on its membership of the EU. The politically sensitive issue of financial rulemaking was addressed in one of the proposals. According to the proposal, the substantive EU law, including capital requirements for banks and other rules for ensuring financial stability may need to be formulated in a more uniform manner by the ECB than by regulators outside the banking union. The proposal also included that UK could gold-plate its capital adequacy standards by adopting higher capital requirements for UK banks. The proposal formally prohibited discrimination against firms based on currency. It supported the Bank of England when it comes to dealing with collapsing lenders or introducing extra capital requirements to cool credit supply.

Markets in Review

Monthly Review	Crude Oil	KIBOR (6 Months)		Foreign Exchange Rates			PSX	Gold
	(WTI)	Bid %	Offer %	GBP(£)	EURO(€)	USD($)	100 Index	10 Grams (PKR)
Beginning	31.70	6.10	6.35	Rs.149	Rs.114	Rs.104	31,290	Rs.39,171
Ending	32.70	6.11	6.36	Rs.145.04	Rs.114.09	Rs.104.67	31,369.51	Rs.41,228
Change	+1.00	+0.01	+0.01	-3.96	+0.09	+0.67	+79.51	+2,057