

4. PRICING POLICY, DEVELOPMENT AND PROMOTION OF DEBT SECURITIES COMMITTEE

(5 meetings held in the period October 1, 2011 - September 30, 2012)

<u>Member</u>	<u>Meetings Attended</u>	<u>Member</u>	<u>Meetings Attended</u>
Yasir Qadri (<i>Chairman</i>)	4 of 5	Imran Azim	3 of 5
Amjad Waheed	4 of 5	Mir Muhammad Ali	1 of 5
Adnan Siddiqui	3 of 5	Mohammad Shoaib	4 of 5
Ahmed Ateeq*	1 of 3	Muhammad Imran	4 of 5

(* Member since April 10, 2012)

ACTIVITIES' REPORT

SECP in consultation with MUFAP introduced the valuation methodology for debt securities and provisioning criteria for non-performing debt securities in January 2009. Since then MUFAP has been involved in pricing the debt securities both listed and privately placed. With the passage of time, the low volumes in trade have caused the valuation model to behave irrationally. The Committee on behalf of MUFAP and the industry has been actively involved in proposing modifications in the methodology so that the valuation model results in a fair price. The Committee and MUFAP have come up with proposed amendments which were submitted to SECP for further discussion.

Presently unlisted Term Finance Certificates (TFCs) are traded privately between the parties through direct negotiation mechanism. Such unlisted TFCs constitute major portion of corporate debt. SECP constituted a joint committee comprising representatives from SECP, Karachi Stock Exchange (KSE), National Clearing Company of Pakistan Limited (NCCPL), MUFAP, and Financial Markets Association (FMA) to facilitate a centralized platform for trading or reporting of trades carried out in unlisted TFCs. The Committee recommended NCCPL as the most suitable reporting platform for the unlisted TFCs due to its centralized position and dealing with almost all Financial Institutions involved in trading of unlisted TFCs. NCCPL developed a concept paper for the Reporting Mechanism for Unlisted TFCs and presented to the MUFAP Office.

Shariah compliant Mutual Funds have recently become really active in the Ijarah Sukuk Market. As this market is still in the nascent stage, MUFAP held discussions with FMA regarding the development of this sector. FMA in conjunction with National Institutional Facilitation Technologies (NIFT) recommended a methodology for the valuation of Ijarah Sukuks. MUFAP in this regard recommended to FMA that although the methodology seemed fine MUFAP needed to test it at its end, as valuation is critical to mutual funds industry considering that AMCs are required to mark-to-market on a daily basis to announce Net Asset Value (NAVs) of funds. The Pricing Policy, Development and Promotion of Debt Securities Committee is in the process of testing the methodology and will soon be able to come up with some conclusion.

Representatives of BMC Pakistan and BPA (Bond Pricing Agency) Malaysia visited MUFAP to explore the idea of having a BPA in Pakistan. Representatives of BPA Malaysia broadly shared the valuation methodology they use for Bonds and MUFAP shared the dynamics of Bond Market in Pakistan and discussed Pakistan's market specific issues. In Malaysia, bond pricing is regulated and the audits are conducted; BPA preserves its independence and credibility. There was a general agreement in technicalities of the bond pricing model BPA Malaysia is using.

TERMS OF REFERENCE

- To review pricing policy, identify shortcomings and suggest revisions;
- To activate trading of debt securities at the floor of the stock exchange;
- To activate trading of privately placed debt securities at the floor of the stock exchange;
- To incorporate provisions for debt securities in the listing regulations as submitted by KSE (on recommendations of MUFAP) to SECP, with or without modifications; and
- To safeguard investor interest from non-performing companies.

