IoBM in Media

Conference on long term debt financing at IoBM

Attachment: Press Coverage: 20 news items attached herewith.

Event also covered by some such TV channels earlier present in my class event in Room No 314 on March 3.....GEO, PTV, EXPRESSNEWS, AAJ. CNBC, ARY.....

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Conference on Long Term Debt Financing: Issues and Challenges for Pakistan to be held today

KARACHI: A Conference on “Long Term Debt Financing: Issues and Challenges for Pakistan” will be organized by the Finance and Accounting Faculty of the Institute of Business Management (IoBM) at its campus in Korangi Creek at 9:30 am today March 05, 2012. Mr Yasin Anwar, Governor, State Bank of Pakistan has been invited as the Chief Guest on the occasion. According to a statement issued by IoBM Public Affairs Section the Conference aims at highlighting the issues and challenges in the development of long term debt financing market in Pakistan from the viewpoint of various stakeholders including commercial banks, Islamic banks, leasing companies, asset management companies, stock exchanges, existing/aspiring DFIs and others. The key objective is to arrive at innovative solutions to tackle these issues through brainstorming by panel discussions as well as through theoretical, applied and empirical papers. Video conferencing facility will be provided for international experts who are unable to make the trip to the conference site. The Keynote speaker on the occasion will be Mr Tariq Hassan, Ex Chairman Securities and Exchange Commission of Pakistan (SECP). Session chairs have been scheduled as Mr Arif Habib, Chairman Arif Habib Group, Mr. Ashraf Janjua, Advisor, IoBM, Mr Muhammad Imran Malik, CEO, First Credit and Investment Bank, Mr. Imtiaz Haider, Commissioner, Securities Market Division, SECP. Mr Talib Karim, Rector of IoBM will present welcome address during which he will mention about IoBM landmarks in over a decade and a half of its establishment. Issue paper to the Conference will be presented by Mr H Jamal Zubair, HoD, Accounting and Finance, IoBM.—RT
Vibrant bond market needed for infrastructure projects: SBP

Karachi: State Bank of Pakistan (SBP) Governor Yaseen Anwar said on Monday that a vibrant bond market was necessary to finance long-term infrastructure projects in the country.

Talking to journalists on the sidelines of the International Conference on Long-Term Debt Financing organized by the Finance Society of the Institute of Business Management (IoBM), Anwar said Term Finance Certificates (TFC) – a corporate debt instrument issued by companies to generate short and medium-term funds – and the National Saving Schemes (NSS) were fairly useful, but the secondary market could not become efficient without making long-term financing alternatives available, especially for infrastructure development projects.

He expected the corporate debt market to take root in the next two years. “A strong corporate debt market will reduce the cost of borrowing, benefit the customer, and make inflation manageable.”

Engro Corporation is one of the few local companies to opt for the retail debt market to raise funds by issuing Term Finance Certificates (TFC). The first issuance in 2010 was so successful that the conglomerate went for another TFC offering a year later. By definition, the bond market includes corporate debt securities and government-issued securities, and facilitates the transfer of capital from savers to the issuers or organizations requiring capital for government projects, business expansions and ongoing operations.

Anwar also called for addressing structural problems that limit the effectiveness of the financial market. “There’s a need to rationalize the NSS, as its terms are too flexible,” he said while referring to its premature encashment option.

As a percentage of the gross domestic product (GDP), the government-issued securities in Pakistan are worth 4.4% while the figure for the private sector is only 0.9%.

Addressing the conference earlier, the SBP governor said capital destruction was taking place worldwide, which hindered the flow of capital into Pakistan. “That means we have to work harder. We have to deepen our capital debt market to finance our infrastructure projects.”

After noting that Pakistan’s fiscal deficit should be reduced, Anwar hastened to add that it was not unmanageable. “Our challenges are hardly insurmountable. I can see the light at the end of the tunnel, and it’s not an oncoming locomotive.”

Asian Development Bank Country Director for Pakistan Dawn Rehm said a structural imbalance with a reliance on bank financing came into being in the absence of a robust bond market. She said people looked towards the government for infrastructure development while tax revenues alone were not the ideal source of financing long-term infrastructure projects.

“The bond market supports appropriate matching between maturity of borrowing and the gestation period of the project,” she said, adding the private-public partnership model should be adopted to support long-term infrastructure projects.

Rehm also underlined the need for a market-determined, as opposed to government-determined, bond market with the maturity of 10 to 20 years as a basis for pricing corporate debt besides effective central bank supervision.

Speaking on the occasion, Arif Habib Group Chairman Arif Habib said there was a dearth of credible borrowers in Pakistan. “There’s actually a lot of liquidity with banks, but there aren’t many borrowers.”

Secondly, he said, banks in Pakistan lend at whim because they lack the ability to evaluate projects. He added that bad regulations and a lack of law enforcement made lenders extra cautious. “Lenders don’t have faith in the legal system of Pakistan.”
SBP, SECP set up joint task force to develop corporate debt market

It is a matter of concern, and indicative of potential, that the size of the listed corporate debt market in Pakistan stands at less than one percent of GDP."

— Yaseen Anwar

Stressing the importance of corporate debt markets, the governor said that not only are they a source of long-term financing, they provide competition to the banking sector and enhance financial stability. In an uncertain macro environment, banks are reluctant to advance long-term loans to the private sector and often resort to short-term lending. Without a vibrant corporate debt market, firms find it difficult to raise funding for long-term investment projects and the short-term nature of bank lending itself can skew capital investment and exacerbate cyclical fluctuations in economic activity. "This will be particularly true in industries such as construction and power generation, where costs are recovered over a much longer-term," he said. For such borrowers, he said, corporate debt markets would allow the channeling of funds directly from savers to the private sector, matching the demand for funds for long-term investments with the supply of long-term savings.

A functional private bond market, he said, serves borrowers by broadening access to funding, lowering borrowing costs and mitigating rollover interest risk as well as savers, by providing them with an alternative to bank deposits. Further, Anwar said, a corporate debt market can improve the allocation of capital, as market-determined rates provide a clearer measure of the opportunity cost of funds. "It is a matter of concern, and indicative of potential, that the size of the listed corporate debt market in Pakistan stands at less than one percent of GDP."

He pointed out that in most countries, the government — as the largest issuer of debt securities — provides the volume required for a liquid secondary market. "In Pakistan, however, Pakistan Investment Bonds (PIBs) are unable to serve this function since the market is not sufficiently liquid and, secondly, there is no benchmark for private bonds that are issued for a tenor of between 5 and 10 years," he said. Anwar said that competition from the government for the same pool of savings also undermines progress towards greater financial deepening. The risk-free nature of investment in various national saving schemes (NSS), their ad hoc rate adjustment, and the ability to redeem prematurely, dominates any corporate bond in the market, he said, adding that the private sector, therefore, has to issue bonds that carry a higher interest rate than NSS rates to compensate for the risk of default that the private sector carries. "This makes the issuance of corporate debt unattractive," he added.

SBP governor said that the appetite for raising debt on the capital markets is also an issue. Corporates are reluctant to approach the bond market because of the disclosure requirements, and their preference to remain undocumented, he said, and added that the corporate culture in the country must change, so that family-owned businesses are not constrained from future growth.
SBP, SECP working on corporate debt market

By Our Staff Reporter

KARACHI, March 5: State Bank Governor Yaseen Anwar said on Monday that a joint task force of SBP and Securities and Exchange Commission of Pakistan (SECP) had been set up to draft a framework for establishing a vibrant corporate debt market.

Delivering his key-note address at a conference on ‘Long-Term Debt Financing Issues and Challenges for Pakistan’, organised by the Institute of Business Management (IoBM), he outlined the tasks of this joint task force.

“I believe that we need to develop an alternative avenue of intermediation: corporate debt market. These markets will allow the channelling of funds directly from savers to the private sector matching the demand for funds for long-term investments with the supply of long term savings,” he said.

He said the existence of a functioning private bond market serves both borrowers by broadening access to funding, and by lowering borrowing costs as well as savers.

“In Pakistan’s case in particular, it would provide savers with an alternative to bank deposits. It has long been recognised that the presence of such markets is a significant source of competition for the banking system,” he added.

“It is a matter of concern, and indicative of potential, that the size of the listed corporate debt market in Pakistan stands at less than one per cent of GDP,” he said, adding that corporate debt market can enhance financial stability by mitigating rollover interest risk for borrowers.

The SBP and SECP would make joint effort to develop guidelines for shelf registration of corporate debt, collaboration with credit rating agencies to streamline the issuer and instrument rating process and coordination with provincial authorities on rationalisation of stamp duty on transfer and issuance of corporate debt instruments.

The joint effort will also collaborate with FBR and GoP to rationalise tax treatment of corporate debt instruments, encourage the development of corporate debt market, it is essential that taxation issues are addressed in an appropriate manner and communicated to the stakeholders and develop standards for valuation of corporate debt instruments.

Mr Anwar said that these initiatives were of utmost importance to be above to move from a purely banking loans market towards a vibrant debt capital markets.

“This will not only facilitate providing diversified investment avenues for various stakeholders, but will also help in improving saving ratios of the country and enable borrowers to raise efficiently price financing for crucial infrastructure projects,” he said.

He pointed out that in most countries, the government as the largest issuer of debt securities provides the volume required for a liquid secondary market.

In Pakistan, however, PIBs are unable to serve this for two reasons. Firstly, the market is not sufficiently liquid, and secondly, there is no benchmark for private bonds that are issued for a tenor of between 5 and 10 years since PIBs are only available in maturities of 5 and 10 years.

He suggested that the process for primary issuance of corporate debt should be simpler one and fast track; so that a corporate could raise funds quickly when conditions are favourable for debt issuance.
Pakistan Press International
Pakistan's Independent News Agency

Monday, March 05, 2012

A Strategy for Reviving Long Term Investment in Pakistan

Karachi: The decline of long term financing in Pakistan has now reached crisis proportions. The investment share of GDP has been declining for the last five years and according to the current State Bank's annual report long term loans of banks declined from Rs. 62.1 billion in 2010 to Rs. 11.0 percent in 2011.

As such, a Conference on “Long term Debt Financing: Issues and Challenges for Pakistan” was organized by the Department of Finance, CBM, Institute of Business Management (IoBM) to develop a strategy for an urgent revival of long term financing, says an announcement of the IoBM Public Affairs Section. This Conference was chaired by Mr. Yasin Anwar, Governor, State Bank of Pakistan SBP and panellists included chief executives and senior officials of Habib Bank, UBL, SECP, Arif Habib Group, Sindh Bank, Topline Securities, First Credit and Investment Bank and the country director Asia Development Bank.

The key note address was delivered by Mr. Tariq Hassan, Ex Chairman, Securities and Exchange Commission of Pakistan(SECP). Twelve research papers focusing on a comparison of long term financing instruments in Pakistan, China, India and Malaysia were presented in two technical sessions.

Panel discussions and papers focused on such areas as Reluctance of Financial Institutions in developing Long Term Assets and Liabilities, Comparison of Pakistan’s debt market with global and regional markets, Issues in developing bond markets, Institutional Redesigning for enhancing Long Term Financing, Formation of Future Strategy to develop Long Term Debt Financing Market in Pakistan.

A working group consisting of SBP and SECP officials, bankers and faculty members of the department of finance, CBM was set up under the chairmanship of Prof M.A Janjua former deputy governor of the SBP to develop a strategy for enhancing long term investment on the basis of the recommendation of the conference and to work out an implementation strategy.

Earlier Mr. Talib Karim, Rector of IoBM gave the welcome address during which mentioned about IoBM landmarks in over a decade and a half of its establishment.

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Tuesday, March 06, 2012

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SBP, SECP set up joint task force

Karachi — Tuesday, March 6, 2012 — Rabi-us-Sani 12, 1432

VIBRANT CORPORATE SECTOR

Anwar said that these initiatives are of utmost importance to be above to move from a purely banking loans market towards a vibrant Corporate Debt Capital Markets. This will not only facilitate providing diversified investment avenues for various stakeholders, but will also help in improving saving ratios of the country and enable borrowers to raise efficiently price finance for corporate and infrastructure projects, he said. Adding that in this regard, the Investment Banks as well as Development Finance Institutions should also play a significant role in the development of a vibrant Corporate Debt Market.

SBP Governor said that corporate debt markets are important for several reasons:

- It is a matter of concern, and indicative of potential, that the size of the listed corporate debt market in Pakistan stands at less than one percent of GDP; he added, adding that corporate debt market can enhance financial stability by mitigating rollover interest risk for borrowers.
- He pointed out that in most countries, the government as the largest issuer of debt securities — provides the volume required for a liquid secondary market. In Pakistan, however, PIBs are unable to serve this purpose for two reasons. He said, and adding ‘firstly, the market is not sufficiently liquid, and secondly, there is no benchmark for private bonds that are issued for a tenor of between 5 and 8 years, since PIBs are only available in maturities of 5 and 10 years.

Anwar said that competition from the government for the same pool of savings undermines progress towards greater financial deepening. The risk-free nature of investment in various NSS schemes, their ad-hoc rate adjustments, and the ability to redeem prematurely, dominate any corporate bond in the market, he said, adding that the private sector, therefore, has to issue bonds that carry a higher interest rate than NSS rates to compensate for the risk of default that the private sector carries.

‘This makes the issuance of corporate sector debt expensive,’ he added.

He suggested that the process for primary issuance of corporate debt should be simpler. He said corporates are reluctant to approach the bond market because of the disclosure requirements, and their preference to remain undocumented, he added and said that the corporate culture in the country must change, so that family-owned enterprises are not constrained from future growth.

Anwar recalled that our fiscal deficit is not manageable, but we need to deepen our financial markets to ensure that any adverse development on the fiscal side of affairs does not negatively impact the pool of credit available to the private sector. ‘There is immense room for improvement when it comes to financial deepening through bond market,’ he added.

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State Bank, SECP joint task force set up to establish vibrant corporate debt market

Karachi, Governor State Bank of Pakistan SBP Yaseen Anwar says a joint task force of SBP and Securities & Exchange Commission of Pakistan (SECP) has been set up to draft a frame work for establishing a vibrant corporate debt market. In key-note address at conference on Long Term Debt Financing – Issues & Challenges for Pakistan organized by Institute of Business Management here Monday, he outlined tasks of joint task force: Develop guidelines for shelf registration of corporate debt, collaboration with credit rating agencies to streamline issuer and instrument rating process, coordination with provincial authorities on rationalization of stamp duty on transfer and issuance of corporate debt instruments, collaboration with FBR & GoP to rationalize tax treatment of corporate debt instruments, to encourage development of corporate debt market, it is essential that taxation issues are addressed in appropriate manner and communicated to stakeholders, develop standards for valuation of corporate debt instruments. A document containing all conventions, standards to streamline approval process of shelf registration with objective to facilitate issuer. Anwar said these initiatives are of utmost importance to be above to move from purely banking loans market towards a vibrant Debt Capital Markets. This will not only facilitate providing diversified investment avenues for various stakeholders, but also help in improving saving ratios of the country and enable borrowers to raise efficiently price financing for crucial infrastructure projects. Investment Banks & DFIs should also play significant role in development of a vibrant Corporate Debt Market. He said corporate debt markets are important for several reasons: as source of long term financing; providing competition to banking sector; and enhancing financial stability. “I believe we need to develop alternative avenues of intermediation: corporate debt market. These markets will allow channelling of funds directly from savers to private sector matching demand for funds for long term investments with supply of long term savings.”

He said existence of a functioning private bond market serves both borrowers by broadening access to funding, and by lowering borrowing costs as well as savers. In Pakistan’s case in particular, it would provide savers with alternative to bank deposits. It has long been recognized that presence of such markets is a significant source of competition for banking system, he added.

“It is matter of concern, and indicative of potential, that size of listed corporate debt market in Pakistan stands at less than one percent of GDP. Corporate debt market can enhance financial stability by mitigating rollover interest risk for borrowers and can improve allocation of capital, as market-determined rates provide clearer measure of opportunity cost of funds.”

SBP Governor said in uncertain macro environment, banks are reluctant to advance long-term loans to private sector, and often resort to short-term lending. This implies that in absence of corporate debt market, firms will find it difficult to raise funding for long-term investment projects. Essentially, short-term nature of bank lending will bias capital investment in general, and may exacerbate cyclical fluctuations in economic activity. This will be particularly true in industries where costs are recovered over a much longer-term. Such industries include construction, power generation, etc, he added. He said in most countries, government as largest issuer of debt securities provides volume required for a liquid secondary market. In Pakistan, however, PIBs are unable to serve this for two reasons. First, market is not sufficiently liquid, and second, there is no benchmark for private bonds that are issued for a tenor of between 5 and 8 years – since PIBs are only available in maturities of 5 and 10 years.

He said competition from government for same pool of savings undermines progress to greater financial deepening. Risk-free nature of investment in various NSS schemes, their ad-hoc rate adjustment, ability to redeem prematurely, dominates any corporate bond in market. Private sector, therefore, has to issue bonds that carry a higher interest rate than NSS rates to compensate for risk of default that private sector carries. This makes issuance of corporate sector debt expensive.

He suggested process for primary issuance of corporate debt should be simpler and fast track; so that a corporate could raise funds quickly when conditions are favorable for debt issuance. Shelf registration is efficient way of issuing debt instruments as it saves cost and time. “Although, in Pakistan we have shelf registration for corporate bonds but it usually takes long time for approval process. Considering persistently thin volumes on BATS developed by KSE, market participants should be encouraged to use Bloomberg EBND, which trades almost 65% of volumes, also trading in corporate debt instruments.”

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6-3-12
SBP-SECP joint taskforce set up

KARACHI - State Bank of Pakistan Governor Yaseen Anwar has disclosed that a joint taskforce of SBP and Securities & Exchange Commission of Pakistan (SECP) has been set up to draft a framework for establishing a vibrant corporate debt market. He was delivering his keynote address at a conference on ‘Long Term Debt Financing - Issues and Challenges for Pakistan’, organized by the Institute of Business Management here on Monday.

Anwar said that these initiatives are of utmost importance to be above to move from a purely banking loans market towards a vibrant debt capital market. This will not only facilitate providing diversified investment avenues for various stakeholders, but will also help in improving saving ratios of the country and enable borrowers to raise efficiently price financing for crucial infrastructure projects, he said, adding that in this regard, the Investment Banks as well as Development Finance Institutions should also play a significant role in the development of a vibrant Corporate Debt Market.

He said that the existence of a functioning private bond market serves both borrowers – by broadening access to funding, and by lowering borrowing costs – as well as savers. ‘In Pakistan’s case in particular, it would provide savers with an alternative to bank deposits. It has long been recognized that the presence of such markets is a significant source of competition for the banking system,’ he added.

SBP Governor said that in an uncertain macro environment, banks are reluctant to advance long-term loans to the private sector, and often resort to short-term lending. He pointed out that in most countries, the government – as the largest issuer of debt securities – provides the volume required for a liquid secondary market. In Pakistan, however, PIBs are unable to serve this for two reasons because the market is not sufficiently liquid, and secondly, there is no benchmark for private bonds that are issued for a tenor of between 5 and 8 years - since PIBs are only available in maturities of 5 and 10 years.

Governor State Bank said that competition from the government for the same pool of savings undermines progress towards greater financial deepening. The risk-free nature of investment in various NSS schemes, their ad-hoc rate adjustment, and the ability to redeem prematurely, dominates any corporate bond in the market, he said, adding that the private sector, therefore, has to issue bonds that carry a higher interest rate than NSS rates to compensate for the risk of default that the private sector carries. ‘This makes the issuance of corporate sector debt expensive,’ he added.

Anwar recalled that our fiscal deficit is not unmanageable, but we need to deepen our financial markets to ensure that any adverse development on the fiscal side of affairs does not negatively impact the pool of credit available to the private sector. ‘There is immense room for improvement when it comes to financial deepening through bond markets,’ he added.
SBP-SECP task force evolving framework

Karachi – A vibrant Corporate Debt Market is being established on the financial scheme for which a joint taskforce of the State Bank of Pakistan and Securities & Exchange Commission of Pakistan has been assigned to evolve the framework. Mr. Yaseen Anwar, Governor, State Bank of Pakistan (SBP) disclosed that a joint task force comprising SBP and Securities & Exchange Commission of Pakistan (SECP) has been set up to draft a framework for establishing a vibrant corporate debt market.

In his keynote address at a conference on ‘Long Term Debt Financing - Issues and Challenges for Pakistan’ organized by the Institute of Business Management (IoBM) today, he outlined the tasks of this joint task force as under:

Develop guidelines for shelf registration of corporate debt, Collaboration with credit rating agencies to streamline the issuer and instrument rating process, Coordination with provincial authorities on rationalization of stamp duty on transfer and issuance of corporate debt instruments, Collaboration with FBR and GoP to rationalize tax treatment of corporate debt instruments, To encourage the development of corporate debt market, it is essential that taxation issues are addressed in an appropriate manner and communicated to the stakeholders, Develop standards for valuation of corporate debt instruments. A document containing all conventions and standards is a need to streamline the approval process of shelf registration with an objective to facilitate the issuer.

These initiatives are of utmost importance to be above to move from a purely banking loans market towards a vibrant Debt Capital Markets. ‘This will not only facilitate providing diversified investment avenues for various stakeholders, but will also help in improving saving ratios of the country and enable borrowers to raise efficiently price financing for crucial infrastructure projects, he said, adding that in this regard, the Investment Banks as well as Development Finance Institutions should also play a significant role in the development of a vibrant Corporate Debt Market.

SBP Governor said that corporate debt markets are important for several reasons: as a source of long term financing; providing competition to the banking sector; and enhancing financial stability. ‘I believe that we need to develop an alternative avenue of intermediation: corporate debt market. These markets will allow the channeling of funds directly from savers to the private sector – matching the demand for funds for long term investments with the supply of long term savings,’ he added.

The existence of a functioning private bond market serves both borrowers – by broadening access to funding, and by lowering borrowing costs – as well as savers. ‘In Pakistan’s case in particular, it would provide savers with an alternative to bank deposits. It has long been recognized that the presence of such markets is a significant source of competition for the banking system,’ he added.

‘It is a matter of concern, and indicative of potential, that the size of the listed corporate debt market in Pakistan stands at less than one percent of GDP,’ he said, adding that corporate debt market can enhance financial stability by mitigating rollover interest risk for borrowers. He said that corporate debt market can improve the allocation of capital, as market-determined rates provide a clearer measure of the opportunity cost of funds.

In an uncertain macro environment, banks are reluctant to advance long-term loans to the private sector, and often resort to short-term lending. This implies that in the absence of corporate debt market, firms will find it difficult to raise funding for long-term investment projects, he said, adding that essentially, the short-term nature of bank lending will bias capital investment in general, and may exacerbate cyclical fluctuations in economic activity. ‘This will be particularly true in industries where costs are recovered over a much longer-term. Such industries include construction, power generation, etc.’

In most countries, the government – as the largest issuer of debt securities – provides the volume required for a liquid secondary market. In Pakistan, however, PIBs are unable to serve this for two reasons, he said, and added ‘firstly, the market is not sufficiently liquid, and secondly, there is no benchmark for private bonds that are issued for a tenor of between 5 and 8 years - since PIBs are only available in maturities of 5 and 10 years.

Mr. Anwar said that competition from the government for the same pool of savings undermines progress towards greater financial deepening. The risk-free nature of investment in various NSS schemes, their ad-hoc rate adjustment, and the ability to redeem prematurely, dominates any corporate bond in the market, he said, adding that the private sector, therefore, has to issue bonds that carry a higher interest rate than NSS rates to compensate for the risk of default that the private sector carries. ‘This makes the issuance of corporate sector debt expensive,’ he added.

He suggested that the process for primary issuance of corporate debt should be simpler one and fast track; so that a corporate could raise funds quickly when conditions are favorable for debt issuance. Shelf registration is an efficient way of issuing the debt instruments as it saves the cost and time.
Vibrant bond market required for infrastructure projects: SBP

KARACHI: State Bank of Pakistan (SBP) Governor Yaseen Anwar stated on Monday that the vibrant bond market was essential to finance lengthy-term infrastructure projects in the United States. Speaking to journalists around the sidelines from the Worldwide Conference on Lengthy-Term Debt Financing, organized through the Finance Society from the Institute of Economic Management (IoBM), Anwar stated Term Finance Certificates (TFC) — a company debt instrument released by companies to create short and medium-term funds — and also the National Saving Schemes (NSS) were fairly helpful, however the secondary market couldn’t become efficient without making lengthy-term financing options available, specifically for infrastructure development projects.

He expected the organization debt sell to take root within the next 2 yrs. “A strong corporate debt market will reduce the price of borrowing, help the customer, making inflation workable.” Engro Corporation is among the couple of local companies to choose the retail debt sell to raise funds by giving Term Finance Certificates (TFC). The very first issuance this year is effective the conglomerate went for an additional TFC offering annually later. Obviously, the text market includes corporate debt investments and government-released investments, and facilitates the change in capital from savers towards the companies or organizations needing capital for government projects, business expansions and continuing procedures.

Anwar also known as for addressing structural issues that limit the potency of the financial market. “There’s a necessity to rationalize the NSS, since its terms are extremely flexible,” he stated while mentioning to the premature encashment option. Like a number of the (GDP), the federal government-released investments in Pakistan count 4.4% as the figure for that private sector is just .9%. Addressing the conference earlier, the SBP governor stated capital destruction was happening worldwide, which impeded the flow of capital into Pakistan. “That means we must continue to work harder. We must deepen our capital debt sell to finance our infrastructure projects.”

After observing that Pakistan’s fiscal deficit ought to be reduced, Anwar hastened to include that it hadn’t been uncontrollable. “Our challenges are hardly impossible. I can tell the sunshine in the finish from the tunnel, and it is no oncoming locomotive.” Asian Development Bank Country Director for Pakistan Beginning Rehm stated a structural discrepancy having a reliance upon bank financing came to exist even without the a strong bond market. She stated people looked for the government for infrastructure development while tax revenues alone weren’t the perfect supply of financing lengthy-term infrastructure projects. “The bond market supports appropriate matching between maturity of borrowing and also the pregnancy duration of the project,” she stated, adding the non-public-public partnership model ought to be adopted to aid lengthy-term infrastructure projects.

Rehm also underlined the requirement for an industry-determined, instead of government-determined, bond market using the maturity of 10-20 years like a grounds for prices corporate debt besides effective central bank supervision. Speaking around the occasion, Arif Habib Group Chairman Arif Habib stated there is a dearth of credible debtors in Pakistan. “There’s really lots of liquidity with banks, but there aren’t many debtors.” Next, he stated, banks in Pakistan lend at whim simply because they lack a chance to evaluate projects. He added that bad rules and deficiencies in police force made loan companies extra careful. “Lenders do not have belief within the legislation of Pakistan.”
SBP, SECP joint task force set up to establish vibrant corporate debt market

Tuesday, March 06, 2012

A joint task force of the State Bank and Securities and Exchange Commission of Pakistan (SECP) has been set up to draft a framework for establishing a vibrant corporate debt market in the country.

This was disclosed by Governor State Bank of Pakistan Yaseen Anwar while delivering his keynote address at a conference on "Long, Term Debt Financing: Issues and Challenges for Pakistan organised by the Institute of Business Management (IoBM) here Monday. According to the SBP governor, the tasks of the joint task force include development of guidelines for a more efficient registration of corporate debt, collaboration with credit rating agencies to streamline the issuance and instrument rating process, coordination with provincial authorities on rationalisation of stamp duty on transfer and issuance of corporate debt instruments, collaboration with the FBR and government of Pakistan to rationalise tax treatment of corporate debt instruments as an encouragement of their use and communicated to the stakeholders, develop standards for valuation of corporate debt instruments.

A document containing all conventions and standards is a need to streamline the approval process of debt registration with an objective to facilitate the issuers, he said.

Anwar said these initiatives are of utmost importance to be able to move from a purely banking loans market towards a vibrant debt capital markets.

This will not only facilitate providing diversified investment avenues for various stakeholders, but would also help in improving saving ratios of the country and enable borrowers to raise efficiently price financing for crucial infrastructure projects, he said, adding that in this regard, the investment banks as well as development finance institutions should also play a significant role in the development of a vibrant corporate debt market.

SBP governor said corporate debt markets are important for several reasons: as a source of long-term financing, providing competition to the banking sector; and enhancing financial stability. "I believe that we need to develop an alternative avenue of intermediation: corporate debt market. These markets will allow the channeling of funds directly from savers to the private sector - matching the demand for funds for long-term investments with the supply of longer-term savings," he added.

He said the existence of a functioning private bond market serves both borrowers - by broadening access to funding, and by lowering borrowing costs - as well as savers. "In Pakistan's case in particular, it would provide savers with an alternative to bank deposits. It has long been recognised that the presence of such markets is a significant source of competition for the banking system," he added.

It is a matter of concern and indicative of potential that the size of the listed corporate debt market in Pakistan stands at less than one per cent of GDP, he said adding that a corporate debt market could enhance financial stability by mitigating rollover interest risk for borrowers. He said corporate debt market can improve the allocation of capital, as market-determined rates provide a clearer measure of the opportunity cost of funds. Governor said in an uncertain macro environment, banks were reluctant to advance long-term loans to the private sector and often resort to short-term lending. "This implies that in the absence of corporate debt market, firms will find it difficult to raise funding for long-term investment projects," he said. Essentially, he said, the short-term nature of bank lending would bias capital investment in general, and may exacerbate cyclical fluctuations in economic activity. "This will be particularly true in industries where costs are recovered over a much longer term. Such industries include construction, power generation, etc.," he added.

He pointed out that in most countries, the government - as the largest issuer of debt securities - provides the volume required for a liquid secondary market. "In Pakistan, however, PBIs are unable to serve this for two reasons; he said, and added: firstly, the market is not sufficiently liquid, and secondly, there is no benchmark for private bonds that are issued for a tenor of between 5 and 8 years - since PBIs are only available in maturities of 5 and 10 years."

Anwar said competition from the government for the same pool of savings undermines progress towards a greater financial deepening. The risk-free nature of investment in various NSS schemes, their ad-hoc rate adjustment, and the ability to redeem prematurely, dominates any corporate bond in the market, he said, adding that the private sector, therefore, has to issue bonds that carry a higher interest rate than NSS rates to compensate for the risk of default that the private sector carries. This makes the issuance of corporate sector debt expensive, he added.

He suggested the process for primary issuance of corporate debt should be simpler one and fast track, so that a corporate could raise funds quickly when conditions are favorable for debt issuance. Shelf registration is an efficient way of issuing the debt instruments as it saves the cost and time. Although, in Pakistan we have shelf registration for corporate bonds but it usually takes long time for the approval process, he said and added that considering the persistently thin volumes on RATS developed by KSE, market participants should be encouraged to use Bloomberg EBND, which trades almost 65 per cent of volumes, also trading in corporate debt instruments. SBP Governor said the appetite for raising debt on the capital markets is also an issue. Corporates are reluctant to approach the bond market because of the disclosure requirements, and their preference to remain undocumented, he said and added that the corporate culture in the country must change, so that family-owned businesses are not constrained from future growth.

Anwar recalled that our fiscal deficit is not unmanageable, but we need to deepen our financial markets to ensure that any adverse development on the fiscal side of affairs does not negatively impact the pool of credit available to the private sector. "There is immense room for improvement when it comes to financial deepening through bond markets," he added.
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Establishment of vibrant corporate debt market
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- Collaboration with credit rating agencies to streamline the issuer and instrument rating process.
- Coordination with provincial authorities on rationalization of stamp duty on transfer and issuance of corporate debt instruments.
- Collaboration with Federal Board of Revenue (FBR) and government of Pakistan to rationalize tax treatment of corporate debt instruments.
- To encourage the development of corporate debt market, it is essential that taxation issues are addressed in an appropriate manner and communicated to the stakeholders.
- Develop standards for valuation of corporate debt instruments. A document containing all conventions and standards is a needed to streamline the approval process of shelf registration with an objective to facilitate the issuer.

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The SBP governor said that corporate debt markets are important for several reasons - as a source of long-term financing; providing competition to the banking sector; and enhancing financial stability. He believes that we need to develop an alternative avenue of intermediation -

He pointed out that in most countries, the government as the largest issuer of debt securities provides the volume required for a liquid secondary market. In Pakistan, however, Pakistan Investment Bonds (PIBs) are unable to serve this for two reasons, he said and added firstly, the market is not sufficiently liquid, and secondly, there is no benchmark for private bonds that are issued for a tenor of between five and eight years, since PIBs are only available in maturities of five and 10 years. Anwar said that competition from the government for the same pool of savings undermines progress towards greater financial deepening. The risk-free nature of investment in various National Saving Schemes (NSS), their ad-hoc rate adjustment, and the ability to redeem prematurely, dominates any corporate bond in the market, he said adding that the private sector, therefore, has to issue bonds that carry a higher interest rate than NSS rates to compensate for the risk of default that the private sector carries. This makes the issuance of corporate sector debt expensive, he added.

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