

27th August, 2005

PRIMARY DEALER SYSTEM RULES REVISED TO ATTRACT MORE PARTICIPATION BY EMPLOYEES PENSION AND RETIREMENT FUNDS

The State Bank of Pakistan today revised the rules governing the Primary Dealer System in order to bring about more flexibility, higher competitiveness and transparency into the auctioning of Government Securities.

Under the revised rules, non-competitive bidders (NCBs), who are primarily employees pension, provident, retirement funds, and other corporates will now be allowed to bid to a maximum of Rs. 25 million or 0.25% in the Government Securities auction target, whichever is higher. This is a significant relaxation over the previous fixed ceiling of Rs. 10 million, which was not linked to auction target. This relaxation is expected to result in higher participation of NCBs and benefit the employees and pension funds and trusts, who have an appetite for longer term Government Securities.

The revised rules will raise the level of competitiveness by the introduction of minimum targets to be met by each Primary Dealer as under:-

1. Meet 5% of the NCB auction target for the year.
2. Underwrite a minimum 3.5% of Pakistan Investment Bond (PIB) auction target.
3. Achieve 5% of overall secondary market turnover in both Market Treasury Bills (MTBs) and Pakistan Investment Bonds (PIBs) during the year.
4. Attain at least 1% of short-selling against “when issued” PIB traded annually.

In future PIB auctions, short selling against “when issued” trading will only be entertained when an auction is accepted. Primary dealers will also be allowed to short sell upto a period of 14 days in case of MTBs and 3 months in case of PIBs.

Brokerage Houses will be able to witness the auction proceedings of Government Securities in future.

The changes in the Primary Dealers rules are expected to generate much needed interest in PIBs by the pensioners/retirees. This will allow them to create a consistent stream of income from risk free securities and adequately match their future liabilities calculated on an actuarial basis or otherwise.

It may be recalled that the State Bank of Pakistan introduced the rules governing the primary dealer system in June 2000, which were subsequently revised to bring these in line with the international market practices and a new set of rules was introduced in July 2003. Based on the feedback from the Primary Dealers, these rules have now been further revised.
