October 20, 2008

SBP Governor chairs meeting of bankers / brokers

The Governor, State Bank of Pakistan, Dr Shamshad Akhtar presided over a meeting of bankers and stock brokers at SBP Karachi this afternoon. The meeting discussed a number of proposals regarding financing against shares to brokers and decided that the existing facilities of "Financing against Shares to Members of Stock Exchange" outstanding as on 31st August 2008 will be converted into a Term Finance Facility of one year. Borrowers, during the term of the facility, can repay the amount but no fresh disbursement under this facility will be allowed.

It was also decided in the meeting that in addition to shares, the banks may also accept other types of collateral like residential plots, houses, etc. to secure existing financing against shares to brokers. This additional collateral may be provided by brokers if the value of marketable securities is not sufficient or to create sufficient cushion in the margin in case of further market decline. The objective of this arrangement is to avoid unnecessary margin calls in case of market decline during first few days after the removal of floor on 27th October, 2008.

At present, the exposure against shares is subject to a minimum margin of 30%. Banks are required to give a margin call when the margin breaches this limit. It was decided that while at the start of the facility the minimum margin may continue to be 30%, but banks may not give a margin call until the margin breaches 25% limit.

It was agreed in the meeting that banks may also consider accepting the membership card of brokers as collateral subject to the fulfillment of all requisite legal formalities and necessary approvals.

The banks have been given two limits for exposure against shares:

a. Ready market (20% of the equity for banks; for Islamic banks and for DFIs which are mobilizing deposits, the limit is 35%)
b. An additional 10% against exposures in Futures contract.

The meeting also approved the proposal to combine the two exposures limits, with a proviso that exposure in Futures will not exceed 10% of equity. This will provide some room for banks to increase their ready market exposure provided their Futures contracts exposure is lower than 10%.

The decisions taken in the meeting will save the market from chaos and uncertainty in case of further decline and facilitate the stakeholders to play their due role in the development of capital market. The changes being brought out in the regulatory framework as a result of these decisions will provide necessary flexibility to both lenders and borrowers to adjust their respective positions with ease and comfort.

It may be recalled that State Bank Governor, Dr Shamshad Akhtar, held a series of meetings during the last few days with bankers and brokers in an effort to arrive at an amicable solution of the stock exchange crisis.

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