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Joint Press Release of State Bank of Pakistan and Pakistan Stock Exchange

Governor SBP announces important measures for deepening the debt and capital markets at the Gong Ceremony held by PSX

Pakistan Stock Exchange (PSX) hosted Governor State Bank of Pakistan (SBP), Dr Reza Baqir at its Gong Ceremony to mark the beginning of a new chapter of cooperation between SBP and PSX on multiple initiatives. SBP and PSX have recently been working closely to improve and widen the access of capital market participants to government debt securities; facilitate investments by non-residents in the stock exchange; remove bottlenecks hindering companies from leveraging against shares of their group companies; and, developing information sharing arrangements between banks and capital markets.

Speaking on the occasion, Governor SBP, Dr. Reza Baqir said he was pleased to visit PSX for this Gong ceremony as it marked the commitment of SBP and PSX to work together for the deepening of debt and capital markets in Pakistan and improving financial intermediation. He made three important announcements in this regard.

First, he said that SBP has revised the Rules governing appointment of primary dealers for the Government's debt securities. This will expand the list of institutions eligible to work as primary dealers, including Security Depositories and Clearing institutions. This measure is aimed at widening the investor base of government securities, improving liquidity, enhancing transparency and promoting market development. In addition, SBP has relaxed the selection and performance criteria for development finance institutions (DFIs), investment banks and brokerage houses to encourage them to become part of the primary dealer system, which is currently dominated by banks. Hence, among other privileges offered to primary dealers, a larger and more diverse group of institutions will now have direct access to primary auctions.

He said that while the government debt market in Pakistan is well developed and liquid, participation of capital market clients has historically been limited and SBP wants to encourage wider ownership of Government securities among retail investors. The Governor SBP noted that the revised primary dealer Rules will cater to the needs of a diverse group of investors, including capital market clients, corporates and individuals, and will attract a new clientele to the government securities market. Governor Baqir shared that this measure has been taken after detailed discussions with stakeholders and a comprehensive review of international best practices.

Second, Governor Baqir said that SBP has made changes in its prudential regulations to facilitate the sponsors, shareholders and companies in raising more financing against the security of shares of their group companies. He highlighted that this amendment will help sponsors and companies in raising liquidity for further investment in new business opportunities and ventures, in turn leading to greater

economic activity. This regulatory change would also benefit the capital markets by encouraging sponsors of companies to consider listing on the stock exchanges. As a result, it will also promote documentation of the economy, transparency, and good corporate governance practices.

Third, Dr. Baqir, apprised the audience that SBP and PSX are jointly working on expanding the scope of KYC information sharing arrangements between banks and Central Depository Company of Pakistan (CDC) or National Clearing Company of Pakistan Limited (NCCPL) for existing bank account holders. He was delighted to reveal that the tangible progress has been made and was hopeful that this important initiative will be successfully rolled out by the end of the next month. He further added that such arrangements will facilitate capital market players in mobilizing domestic resources and channeling them effectively to productive uses.

The Governor SBP was warmly welcomed by the Chairman of the Board, PSX, Mr. Sulaiman S. Mehdi; Board Members of PSX; MD & CEO of PSX, Mr. Farrukh Khan; and senior management of PSX. Also present at the Gong Ceremony were senior members of the Market, Bank Presidents and Treasury Heads, along with senior management of SBP.

Welcoming the SBP Governor to PSX, the MD PSX, Mr Farrukh Khan, said that he was confident that the visit of Governor Reza Baqir to Pakistan Stock Exchange will mark the beginning of a new collaborative journey dedicated to greater coordination between PSX as the frontline regulator of the capital market and SBP as the regulator for the banking industry in the country. This greater coordination would help to promote and foster an environment of increased activity in terms of online initiatives, the recently launched Roshan Digital Accounts for Overseas Pakistanis, and Government Debt Securities, amongst other segments. He further stated that the journey of added cooperation and between PSX and SBP will benefit all stakeholders of the capital market, the banking industry and the economy of Pakistan. He expressed confidence that SBP and PSX will together be able to lay a pathway for facilitating greater online participation in terms of account opening and activity by brokers and investors, as well as for increasing the number of investors investing in different asset classes in the capital market of Pakistan.

The relevant Circular regarding Primary Dealers is available at the following link:

<https://www.sbp.org.pk/dmmd/2021/C7.htm>
