“INVESTMENT BANKING ISSUES IN PAKISTAN”

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EXECUTIVE SUMMARY

Investment banks help in the development of strong economy in any country by helping its corporate sector through different services, by trading in capital market and money market products etc. In Pakistan investment banks start working in 1987 after the issuance of a notification named SRO 585(1) 87. After the commencement of these banks they are struggling hard for their growth and for the economic betterment of the country. Since their commencement these non-banking financial companies are facing different problems that are affecting their performance and creating hurdles in their smooth progress. That results in mergers and winding up of investment banks.

Major problems faced by investment banks are less public awareness, high cost of funds, small network of branches and stiff competition among different financial institutions. The problems investment banks have, are affecting the expansion and performance of investment banks. These problems are identified as a great hindrance in the development of these financial institutions in Pakistan.

This research aims at presenting highlighting these problems. For that purpose I have made different sessions of discussion with directors and employees of Securities and

Exchange Commission. A questionnaire has also been designed to know the viewpoints of employees of investment banks regarding these problems.

If investment banks cope up with these problems through different strategies and steps, they can develop further very rapidly and will contribute dynamically in the economic and financial system of the country.

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CHAPTER I

Introduction To SECP

CHAPTER 1. INTRODUCTION OF SECP

1.1 ESTABLISHMENT OF SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

[1]The Securities and Exchange Commission of Pakistan (SEC) has succeeded the Corporate Law Authority (CLA), which had been administering the corporate laws in the country since 1981. The Authority was a government department attached to the Ministry of Finance and therefore lacked the financial and administrative autonomy required to build a regulatory structure conducive to the growth of the financial sector.

Due to its typical bureaucratic structure, it was difficult for the CLA to effectively pursue transparency, disclosure and authenticity, and establish an upright financial sector. The rapid expansion of the market during the early 1990's further highlighted the need for the establishment of an independent regulatory body with full operational and administrative autonomy.

The process of restructuring the Authority was initiated in 1997 under the Capital Market Development Plan of the Asian Development Bank (ADB). A Securities and Exchange Commission Act was passed by the parliament and promulgated in December 1997. In pursuance of this Act, the Securities and Exchange Commission of Pakistan, having autonomous status, became operational from January 1st 1999.

[1] SECP Website www.secp.gov.pk

The establishment of the SEC is an important milestone in the evolution of the regulatory framework for the capital market in Pakistan. The policy decisions regarding the constitution and structure of the Commission were incorporated in the 1997 Act. Powers of the Commission have been delegated to the individual Commissioners and Appellate Benches, as envisaged in the Act.

A Corporate Plan for the Commission was prepared with the assistance of ADB consultants, which covers organizational structure, reporting relationships and functional profiles, information systems strategy, plans to upgrade facilities like premises etc., skills development and financial plans.

1.2 MISSION OF SECP

To develop a fair, efficient and transparent regulatory framework, based on international legal standards and best practices, for the protection of investors and mitigation of systemic risk aimed at fostering growth of a robust corporate sector and broad based capital market in Pakistan.

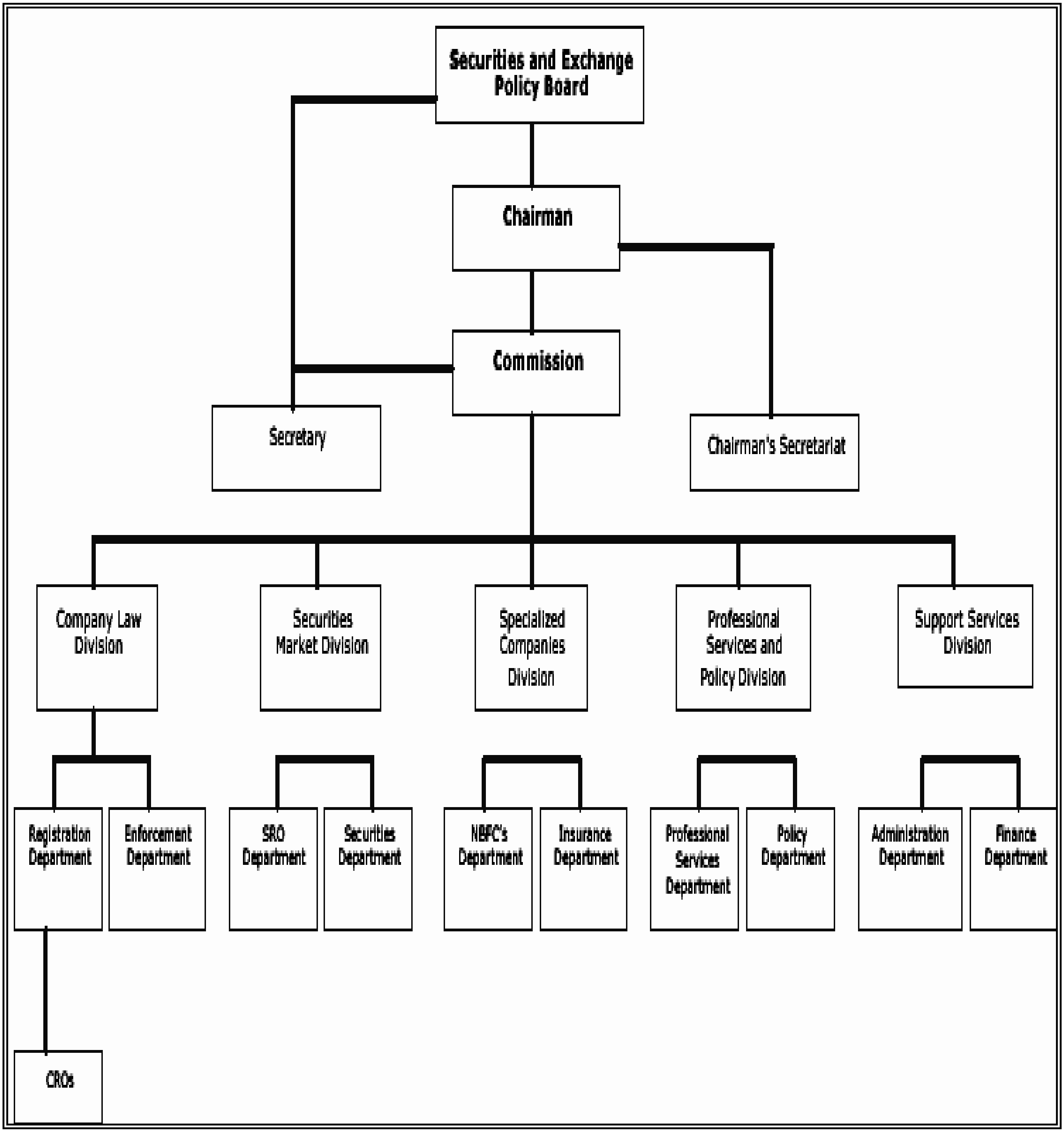
1.3 VISION OF SECP

The development of modern and efficient corporate sector and capital market, based on sound regulatory principles, that provides impetus for high economic growth and foster social harmony in the Country.

1.4 STRATEGY OF SECP

To develop an efficient and dynamic regulatory body that fosters principles of good governance in the corporate sector, ensures proper risk management procedures in the capital market, and protects investors through responsive policy measures and effective enforcement practices.

1.5 HIERARCHY[2]



[2] 2 SECP website; www.secp.gov.pk

1.6 THE DIVISIONS

[3]In accordance with the approved plan, the work of the Commission has been distributed amongst its five divisions, each of which is headed by the Commissioner and divided into Departments and Wings for effective administration. The Divisions are:

1. Securities Market Division
2. Specialized Companies Division
3. Company Law Division
4. Support Services Division
5. Professional Services & Policy Division

1.6.1. Securities Market Division

The Securities Market Division (SMD) is responsible for the regulation of all aspects of the securities market including licensing and coordination, regulation of secondary market, public offerings, market intermediaries and market surveillance. Mr. Shahid Ghaffar, Commissioner, heads the SMD. The Division is divided into the following Departments and Wings:

a. Capital Issues and Beneficial Ownership Wing
b. Legal, Complaints, Broker Registration and Inspection Wing
c. Stock Exchanges, Depository & Clearing and Policy & Regulation Wing
d. Monitoring and Surveillance Wing

[3] SECP Website www.secp.gov.pk

1.6.2. Specialized Companies Division

The Specialized Companies Division (SCD) is primarily responsible for regulating and monitoring insurance companies, NBFCs, modarabas and private pensions. Salman Sheikh is the Commissioner overseeing the SCD. The core objective of the Division is to provide a conducive regulatory environment to foster growth in the non-banking financial sector, safeguard the financial system and protect the interests of shareholders, depositors and policyholders under the relevant laws. SCD has been divided into following two Departments:

a. Non-Banking Financial Companies Department
b. Insurance Department

1.6.2.a. Non-Banking Financial Companies Department

Non-Banking financial Companies Department, headed by Executive Director, is responsible for regulating and monitoring the activities of Specialized Companies engaged in leasing, investment finance services, discounting services, housing finance services, venture capital investment, asset management services and investment advisory. In addition, Non-Banking financial Companies Department is regulating and monitoring the operations of modarabas and modaraba management companies, venture capital funds and mutual funds. Basic functions of the division comprise licensing, regulatory compliance and enforcement of all applicable laws. In order to discharge the assigned responsibilities in a more efficient and effective manner, Non-Banking financial Companies Department has been divided into following four Wings:

1. NBFC-I: Responsible for the regulation and enforcement actions pertaining to NBFCs carrying out the business of leasing, investment finance services, discounting services and housing finance services.

2. NBFC-II: Responsible for the regulation and enforcement actions pertaining to NBFCs engaged in venture capital investment, asset management services and investment advisory. Moreover, its responsibilities include the regulation and enforcement actions regarding Venture Capital Funds, Open-end and Closed-end Mutual Funds.

3. Modaraba: Responsible for the regulation and enforcement actions pertaining to modarabas and modaraba management companies.

4. Monitoring and Inspection: Entrusted with prime responsibility of ensuring compliance with existing regulatory framework pertaining to NBFCs, mutual funds, Modarabas and venture capital funds and assessing their financial position through effective off-site surveillance and on-site monitoring

1.6.2.b. Insurance Department

The Insurance Department (ID) is responsible for regulating the insurance sector. It administers the law of insurance that covers licensing and supervision of insurers and other entities regulated under these laws. Mr. Shafaat Ahmad, Executive Director, heads this Department. The ID is divided into the following Wings.

i. Actuarial Services

ii. Life Insurance Prudential Supervision

iii. Non-life Insurance Prudential Supervision

iv. Market Conduct Supervision

v. Enforcement and Prosecution

1.6. 3. Company Law Division

The Company Law Division (CLD) is entrusted with wide array of responsibilities that encompass regulation, monitoring and enforcement of laws pertinent to the corporate sector. Dr. Sajid Qureshi, Executive Director while Rashid I. Malik is the concerned Commissioner, heads it. In recent years, the CLD has brought about necessary amendments in existing laws as well as enacted new laws to cater to the changing business needs and scenarios. It also undertakes strict monitoring and vigilance of the corporate sector with a view to promoting transparency, accountability and good corporate governance practices, thereby protecting the interests of investors.

CLD has been divided into following two Departments:

a. Registration Department

b. Enforcement and Monitoring Department

1.6.3.a. Registration Department

Registration Department is charged with the responsibility of administering and enforcing the Companies Ordinance 1984 as well as laws, rules and regulations. The RD is also responsible for supervision of the Commission's field offices in various cities i.e. the Company Registration Offices (CROs). This division is headed by Executive Director. The Department consists of the following Wings:

i. Coordination and Liaison
ii. Regulation and Compliance
iii. Enforcement, Investigation and Prosecution
iv. Licensing, Approvals and Appeals

1.6.3.b. Enforcement and Monitoring Department

Enforcement and Monitoring Department (EMD) is responsible for review of published accounts of listed companies, investigation, compliance with relevant laws and regulations by listed companies and prosecution (except in relation to specialized companies and insurance companies. Executive Director, heads the EMD. The EMD comprises the following Wings:

i. Accounts Wing
ii. Investigation wing
iii. Compliance and Prosecution Wing

1.6.4. Support Services Division

The Support Services Division (SSD) is responsible for providing efficient support services to the entire Commission. These services include financial management and maintenance of accounts, development and administration of human resources, and maintenance of communication and management information systems through automation and introduction of new information technology. Support Services Division, is headed by the Commissioner, **Mr. Rashid I Malik**. Support Services Division has been divided into following Departments:

a. Information Systems and Technology Department
b. Administration Department

c. Human Resources Department

d. Finance Department

1.6.4.a. Information Systems Technology Department

The Information Systems and Technology Department provides efficient support to the Commission regarding all aspects of Information Systems & Technology. It is responsible for organizing and implementing an integrated system designed to support the workings of the Commission and its communication with the Company Registration Offices (CROs) throughout Pakistan. IS & T is headed by Mr. Arshad Javed Minhas, Director (IS & T).

1.6.5. Professional Services and Policies Division

The professional services and policy division was established by the SEC in September 2003, created with a viewpoint of streamlining the policy function of the Commission and to bring improvement and enhance the efficiency of the professional services function of the Commission. Professional Services and Polices Division, is headed by the Commissioner, Mr. Etrat H. Rizvi. The Division is entrusted with a broad range of responsibilities with respect to professional services, regulatory policies, capital market development, education and training in relation to all corporate laws administered by the Commission. It shall also be responsible for updating these laws and rules. Functionally, the division is divided into two departments namely:

a. Professional Services Department

b. Policy Department

CHAPTER II

Research Topic

CHAPTER 2. INTRODUCTION OF PROJECT

2.1 RESEARCH TOPIC

"PROBLEM OF INVESTMENT BANKS IN PAKISTAN"

Investment banks start working in Pakistan in 1987 after the issuance of a notification named SRO 585(1) 87. In this notification private sector was allowed to establish investment banks and investment finance companies in Pakistan. After the commencement of these banks they are struggling hard for their growth and for the economic betterment of the country. Besides playing their role in economic development of country they are also facing some problems that are affecting their performance and creating hurdles in successful contribution towards economic development of country.

2.2 REASONS FOR PICKING THE TOPIC

Investment banks help in the development of strong economy in any country by helping its corporate sector through different services, by trading in capital market and money market products etc. In Pakistan these non banking financial companies are facing different problems. It is important to know how these companies are working in the country, what kind of problems these companies are facing and how to cope up with these hurdles for their development.

2.3 METHODS OF RESEARCH

To achieve the research goals and to conduct the reliable and fruitful research it necessary to have complete knowledge regarding the topic, for this purpose I have visited different websites, and different search engines on Internet to find articles and information related to investment banking industry.

Along with Internet search I have also visited SECP to gather relevant material and reports from them. I have also taken the consultation of the directors and other professionals of NBFC wing and discussed the issues related with this industry. General data and percentages are also taken from available research papers, annual reports of banks, reports and publications of State Bank of Pakistan and given information from SECP's reports.

To gather data from these banks I have taken five different investment banks. These banks are Escort Investment Bank, Security Investment Bank, First International Investment Bank and Orix Investment Bank, First Crescent Investment Bank. To know the views of employees of these banks I spread questionnaires in branches of these banks.

2.4 PROBLEM STATEMENT

The concept of investment banks is relatively new in Pakistan and is unfamiliar for general public. The first bank started its operations in 1987. But the growth of this financial institution is not that much as expected in Pakistan as investment banks are facing several problems as a Non Banking Financial Company. It is important to know what kind of problems investment banks are facing and how they are fighting with all the hurdles they, how they are struggling for their growth and prosperity and how they are contributing in the financial growth of our country.

The problems that investment banks have, are affecting the expansion and performance of investment banks. These problems are identified as a great hindrance in the development of these financial institutions in Pakistan. If investment banks cope up with these problems through different strategies and steps, they can develop further very rapidly and will contribute dynamically in the economic and financial system of the country.

CHAPTER III

Preliminary Information

CHAPTER 3. FINDING PRELIMINARY INFORMATION

3.1 LITERATURE SURVEY

3.1.1 INVESTMENT BANKS

Investment banking is the term used to describe the business of raising capital for companies. We can define investment banks in a way that:

"Investment Bank is a financial intermediary that performs a variety of services which includes underwriting, acting as an intermediary between an issuer of securities and the investing public, facilitating mergers and other corporate reorganizations, and also acting as a broker for institutional clients".

According to SECP an investment bank is

"Investment company means a company registered with the Commission under rule 38 to engage principally or wholly in buying and selling securities of other companies and includes a company, not being a holding company, the investment of which in the share capital of other companies at any one time is of an amount equivalent to eighty per cent of the aggregate of its own paid up capital and free reserves but does not include a bank or an insurance company or a corporation which is a member of a stock exchange"

A broader and better definition of investment banking is to think of investment banking as

"An industry, which either trades directly in capital market products or uses the underlying capital markets, to construct different financial products" (Capital Markets Consulting Group, 2002).

Moreover investment banking can be defined to encompass many activities, examples may include

- *Underwriting and distributing new security issues*
- *Offering equity & money market brokerage services to public & institutional investors*
- *Providing financial advice to corporate clients, especially on security*
- *Issues, M&A deals*
- *Providing financial research to investors, corporate customers*
- *Market-making in particular securities*
- *Financial advisory to governments*

    Privatization

    Debt Raising, both offshore & onshore

3.1.2 SERVICES COVERED UNDER INVESTMENT BANKING

Investment banks acts as an intermediary between corporations in need of funds and those investors having funds. Investment bank charge a fee to the corporation selling securities and the fee is based on the size of the offering, the risk associated with the company.

There is practically no limit to the kinds of services provided by the Investment Banks. As I-banks try to outwit their competitors in coming up with ingenious schemes to provide their clients highly personalized service. Typical suite of services offered by investment banks is as follows:

DEBT CAPITAL MARKETS

- Syndicated Bank Loans
- Private Placements of
- Debt
- Public Debt
- Structured Leasing
- Asset Securitization
- Commercial Paper
- Municipal Finance
- Debt Sales & Trading
- Financial Risk Management

EQUITY CAPITAL MARKETS

- Public Offerings of Equity
- Mergers, Acquisitions & Divestitures
- Private Placements of Equity
- Financial Advisory Services
- Management Buyouts
- Equity Sales & Trading
- Private Equity
- Privatisation

MONEY MARKETS

- Repurchase Agreement
- Outright Sale/Purchase
- Structured Transactions
- Buy Spot/Sell forward
- Market making in TFC's
- Interbank $/Rs in forward & spot
- SWAPS
- Government Securities placements
- Arbitrage

3.1.3 INVESTMENT BANKING IN PAKISTAN

History of Investment Banks

Investment banking in Pakistan is a relatively new concept, which was introduced, in the 1987-88 federal budget. On July 13,1987 the government of Pakistan issued a notification, SRO 585(1) 87 under which the private sector could establish investment banks and investment finance companies. After that notification the first bank came up in 1989. The scope of activities of investment banks includes money market operations, capital market activities, project financing and corporate financial services along with multifarious activities. In start the State Bank of Pakistan regulated investment banks but in 2002 they came under the regulations of SECP.

Scope of Investment Banks as Per SRO 585(1) 87

- Money market activities, including the issuance of short term COIs or own paper of not less than 30 days maturity;
- Capital market activities, including trading in equity and non-equity instruments, underwriting floating and managing mutual funds, providing margin loans and offering cash management accounts;
- Project financing through investments in projects and the provision of guarantees; and
- Corporate financial services, such as advisorship, placement of debt and equity locally and abroad.
- Equity & Money Market Brokerage

Current Status of Investment Banks

The federal government allowed the private sector to set up investment banks in pursuance of the Finance Division's notification no. SRO 585(1)/87 dated July 13,1987. The scope of activities of investment banks includes money market operations, capital market activities, project financing and corporate financial services along with multifarious activities. Currently 12 investment banks are working in Pakistan their names are listed in the table given below. Out of 12 investment banks 3 are in the process of winding up. The banks that are in the process of winding up are Prudential Investment Bank, Islamic Investment Bank and Asset Investment Bank.

Table 3.1 List of Investment Banks in Pakistan

1	Asset Investment Bank Limited
2	Atlas Investment Bank Limited
3	Crescent Standard Investment Bank Limited
4	Escort Investment Bank Limited
5	Al-Towfeek Investment Bank Limited
6	First Dawood Investment Bank Limited
7	First International Investment Bank Limited
8	Islamic Investment Bank Limited
9	Jehangir Siddiqui Investment Bank
10	Orix Investment Bank Limited
11	Prudential Investment Bank Limited
12	Security Investment Bank Limited

3.1.4 INDUSTRY ANALYSIS

Investment Banks, which in their initial phase served to provide corporate finance and project financing facilities for infrastructural development and long-term projects in the industrial sector, have gradually moved away from this *core* function. The core function of Investment Banks, which are now classified as Non-Banking Finance Companies has been redefined by the NBFC framework, which allows companies to undertake different types of business activities by fulfilling the minimum paid-up laid out for each type of business. This in a way is a commercially viable option for Investment Banks to expand their business activities in line with the current emphasis on 'universal banking'. However in striving to become multi-business entities, providing facilities related to project financing should also constitute a part of their total business activities, given that these organizations are actually classified as 'Investment Finance Companies. Having said that, a major impediment in providing long-term finance is the ability to mobilize long term resources to fund such business activities, which, unfortunately, has been one of the weak areas of this industry.

The size of the industry, in terms of number of organizations, continues to shrink given that a few Investment banks have either merged into commercial banks, or have opted for voluntary liquidation. However, whereas previous years were characterized by the absence of fresh capital injection, a positive recent development is the establishment of Dawood Investment Bank, formed by the merger of First General Leasing Modaraba and Dawood Leasing in May 2004.

With a strong concentration on leasing business, most of these institutions are now competing with leasing companies, modarabas and commercial banks, with only a few organizations focusing on providing investment finance services. One of the leading Investment Banks has acquired equity brokerage license, the operations of which are expected to contribute to the non-fund based revenues of the bank. A few banks are targeting expansion of operations in niche markets such as SME

Financing. Very few banks in the industry are focused on promoting genuine Investment Banking activities, and in doing so are looking to expand their capacity for providing advisory services and other fee based activities. One of the banks for instance has opened up fully equipped investment finance services centers (brokerage business) in 3 major cities of the country, due to which its share of fee-based income in total revenues is increasing steadily.

3.1.5 PROBLEMS FACED BY INVESTMENT BANKS

In the light of literature survey, unstructured interviews and discussions with the directors of SECP it can be stated that investment banks are constantly facing some problems that are main hurdles in the development and growth of these banks. In the beginning these companies grew sharply, particularly, in late 1980s and early 1990s, and benefited from wide ranging financial liberalization measures and boom in stock markets. However, many small investment banks also emerged with small capital to take advantage of favorable business environment.

Most of the investment banks started facing problems in the second half of 1990s, mainly due to overall slowdown in the economy and relatively weak performance of capital markets. The situation was further exaggerated, as these banks were unable to absorb any significant shock due to their small capital bases. This weaker financial health called for a major restructuring and reorganization of business. Financial consolidation drive that led to Mergers/acquisition of the investment banks was a natural consequence of breakup with poor financial health. This drive was primarily brought about by regulatory increase in Minimum capital requirements. Other than that, major problems that investment banks are having in current scenario can be classified as:

1. PUBLIC AWARENESS

In Pakistan most of the people are not aware about investment banks, their functions and operations and those who have some information about it, most of them do not trust on these banks. Those who have money and want to invest prefer to go for commercial banks or other means of investment rather than investment banks, as they are not much familiar with such institutions. Lack of public awareness and confidence on investment banks are major problems of investment banks affecting the development of this financial institution and it is the base of other many problems in operating investment banks. Such as limited ability to absorb significant shocks due to its small capital bases.

2. COST OF FUNDS

Cost of funds is another problem. Lack of public awareness results in hesitant behavior of investors in such institutions. To grab the attention of investors investment banks needs to offer higher rate of return, which increases their cost of investment and to meat this cost they charge higher interest on lended money to their clients. This significant difference in lending rate results in lower concern of public and other corporate clients.

3. NETWORK OF BRANCHES

Small network of branches is another issue that must be resolved. Investment banks do not have wide network of branches due to lack of capital. On the other hand commercial banks are widely increasing their branch network in result they are more access able for general public so they prefer commercial banks for any kind of dealing and / or investment that results in limited capacity to expand outreach for these institutions.

4. STIFF COMPETITION WITH FINANCIAL INSTITUTIONS

Another hurdle in the success and rapid development of investment banks is competition among different Non Banking Financial Companies and commercial banks. The major area of business for investment banks is leasing. Formation of separate leasing houses creates an environment of strong competition. At the same time investment banks have to compete with different brokerage houses and commercial banks working in the country. The investor has a wide range of opportunities with competitive rates.

5. **STRICT REGULATIONS**

Other then these problems investment banks are also facing the problem of strict regulations of the regulatory bodies that are hindering in the growth of this sector. On the other hand economic and political changes in the country are also considered as hurdles in the expansion of investment banks.

3.1.6 MERGERS AND ACQUISITIONS OF INVESTMENT BANKS

Since their commencement these banks are in the process of restructuring, mergers, acquisitions and liquidation and hence controlling their business activities according to their business reorganization plans**.** In connection with the drive for financial consolidation Al-Faysal Investment Bank Limited, first investment banks of private sector in Pakistan, was the first bank in this queue. It was also the investment bank in Pakistan, which was merged with Faysal Commercial Bank with effect from January 1, 2002 as the management realized that they are competing with their own commercial bank.

Later on Al-Meezan Investment Bank Limited acquired a foreign commercial bank 'Societe Generale, The French and International Bank' operating in Pakistan, and merged its functions to form Meezan Bank Limited with effect from April 30, 2002.

Crescent Investment Bank has acquired Mashreq Bank, another foreign bank, and reorganized its business activities under the name of Mashreq Bank Pakistan Limited. The amalgamation scheme has become effective from July 9, 2003. In the year 2003, Trust Investment Bank and Fidelity Investment Bank merged to form Trust Commercial Bank Limited.

Three companies, namely, Paramount Leasing Limited, First Leasing Corporation Limited and Pacific Leasing Company Limited merged into First Standard Investment Bank Limited and the new entity was named Crescent Standard Investment Bank Limited. Moreover, Dawood Leasing Company Limited changed to First Dawood Investment Bank Limited

Moreover NOC has been given for the merger of Jehangir Siddiqui Investment Bank with the branches of American Express Bank Limited to form a new company "NEWCO".

NOC has been given to Atlas Investment Bank Limited to merge with and into Atlas Bank Limited and the case of merger of Invest Capital with Asset Investment Bank Limited is under consideration of the Securities and Exchange Commission of Pakistan.

More mergers/acquisition are expected due to increasing competition from strong financial institutions and consequent increasing need to reorganization of the businesses. Moreover, there are few banks, which are serious to continue their functions as investment finance companies and trying to strengthen their capital base and business activities. While others are planning to have mergers with commercial banks or to opt for voluntary liquidation. Presently Banks in process of liquidation are (i) Prudential Investment Bank Limited (ii) Asset Investment bank limited (iii) Franklin investment bank limited and (iv) Islamic investment bank limited

3.1.7 SWOT ANALYSIS OF INDUSTRY IN PAKISTAN

Strengths

- Established market presence of investment banks in Pakistan.
- A full service investment bank – can provide a complete range of banking products and services.

Weaknesses

- Lack of ability to underwrite deals by virtue of being under-capitalized in comparison to larger player especially commercial banks.
- Potential government intervention as abrupt regulatory shifts in policy by SECP can have irritant effect and down time for implementation.

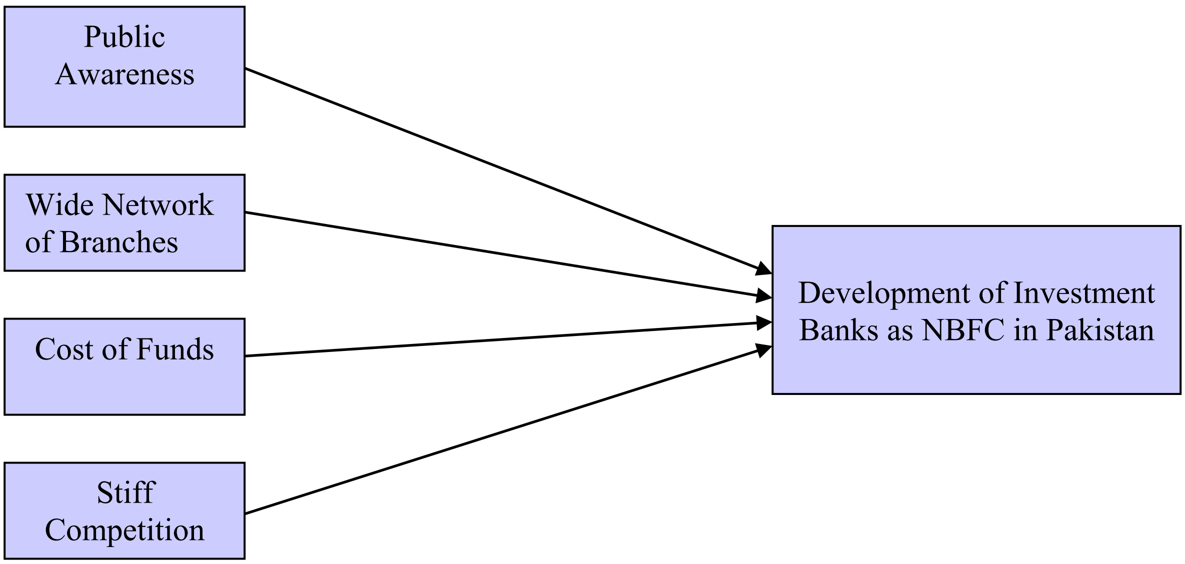
Opportunities

- Huge untapped market potential in corporate advisory market, asset management, consumer banking.
- Opportunity for developing value added services combined with corporate banking relationships with large and medium sized corporate clients.
- Services such as cross border financing for corporate customers can be enhanced.
- Further reduction in intermediation costs possible, with improving technology and better asset/liability matching.
- Latent potential still to be tapped for active fee based services.

Threats

- Consolidation in the banking sector resulting in increased competition, primarily from larger players i.e. commercial banks.
- Concept of universal banking leaving investment banks in highly leveraged and undetermined market mechanics.

3.2 THEORETICAL FRAMEWORK



Independent Variables Dependent Variable

Independent Variables:

The independent variables according to the preliminary information gathered are:

- **Public awareness**
- **Wide network of branches**
- **Cost of funds**
- **Stiff competition**

Dependent variable:

The only dependent variable studied is "Growth of investment banks".

3.3 HYPOTHESIS

Based on the literature review and problem statement, following hypothesis is made to prove or disprove by statistical hypothesis testing and graphical representations.

Hypothesis: "*Increased public awareness, wide network of branches, low cost of funds and less competition with financial institutions will result in the development of investment banks in Pakistan"*.

Where Investment Banks means non banking financial company that provides different money market, capital market other financial services to its clients.

Public awareness refers to the information about investment banks that general public and/or investors have.

Cost of funds means the cost investment banks bear while generating funds.

3.4 SCOPE OF STUDY

For specific research scope of study is limited to Islamabad because of time and reach constraints. Investment banks and financial institutions in Islamabad are selected for this purpose.

CHAPTER IV

Research

CHAPTER 4. RESEARCH

4.1 METHODOLOGY

To achieve the objective of research a questionnaire developed for the employees of investment banks based on the problems faced by investment banks in Pakistan. Four investment banks were selected that are Escort Investment Bank, Security Investment Bank, First International Investment Bank and First Crescent Investment Bank. The questionnaire was over checked by Mr. Omer Hayat Khan and Mansoor Khan.

4.2 INTERPRETATION OF QUESTIONNAIRE

Questionnaire Layout

The questionnaire started with the introducing statement about the researcher, and then name, organization name & type and designation of the respondent are asked, where Name of the respondent is optional.

The questionnaire contains two types of questions, open – ended and closed – ended. The scale used for the closed – ended questions is “3 – point”, ranging “Yes” and “No” with the middle point “To Some Extend”. The scale is as follows:

Yes	To some extend	No
+1	0	-1

Question No. 1

Question 1 is related to awareness of general public/investors with investment banks. Question 1 had seven statements from a to g. the questions is asked from employees of investment banks regarding knowledge of general public/investors about investment banks.

Interpretation of Responses

If the respondent responds from “0 to +1” (To Some Extend to Yes) of the statements a,c,d and e it shows that, the respondent public have not much awareness about investment banking. If any respondent responds from “0 to –1” (To Some Extend to No) for these statements it shows that public is familiar with investment banking.

On the other hand if the respondent responds from “0 to +1” (To Some Extend to Yes) for the statements b, f and g, it shows according to the respondent’s point of view, public have awareness about investment banking. However if any respondent responds from “0 to –1” (To Some Extend to Yes), it shows that according to respondent’s point of view, public have not aware with investment banking.

Question No. 2

Question 2 is related to problems, high cost of funds, stiff competition with other financial institutions and small network of branches of investment banks (m & n).

Interpretation of Question

Statements from h to j are related to high cost of funds, statements k and l are related to stiff competition with other financial institutions and statements m and n are related to network of branches.

Interpretation of Responses

If the respondent responds from "0 to +1" (To Some Extend to Yes) of the statements h, i and j it shows the respondent point of view, investment banks are facing the problem high cost of funds and it is affecting its growth.. If any respondent responds from "0 to –1" (To Some Extend to No) for these statements it shows it shows the respondent point of view, investment banks are not facing the problem high cost of funds.

If the respondent responds from "0 to +1" (To Some Extend to Yes) of the statements k and l it shows the respondent point of view, investment banks are facing the stiff competition with financial institutions. If any respondent responds from "0 to –1" (To Some Extend to No) for these statements it shows it shows the respondent point of view are not facing the stiff competition with financial institutions.

On the other hand if the respondent responds from “0 to +1” (To Some Extend to Yes) for the statements m and n, it shows that according to the respondent’s point of view, small network of branches is great hurdle in the development of investment banks. However if any respondent responds from “0 to –1” (To Some Extend to Yes), it shows that according to respondent’s point of view, small network of branches is not effecting development of investment banks and so is not a problematic area for them.

Question No. 3

Question 3 is open-ended question inviting respondents to give some comments and/or additional information regarding investment banks, regarding their problems, regarding this questionnaire or regarding anything else related to this topic.

At the end, there is word of thanks to the respondent, to make further communication easy and open with the respondent for any further information.

4.3 SAMPLING AND DATA COLLECTION

Sampling

As this research is limited to the investment banks in Islamabad four investment banks are selected for the research purpose. These are Escort Investment Bank, Security Investment Bank, First International Investment Bank and First Crescent Investment Bank.

Target Market: Upper Class, Upper Middle Class & Middle Class.

Market Demographics:

Age	**28-60**
Gender	**Male/Female**
Income Level	**25,000 and above**
Social Class	**Upper class, Upper-middle class, and middle class.**
Occupation	**Professional**

Region/ City	**Twin Cities.**
Population	**805,235 (ISB), 262,0353 (Rwp)**
Urban/Rural	**Urban (90% from twin cities.)**
Climate	**Summer, spring, winter, Autumn**

Data Collection

30 questionnaires were being spread in the staff members of above-mentioned four investment banks. From 30 questionnaires 27 were analyzed, as they were correct and useful.

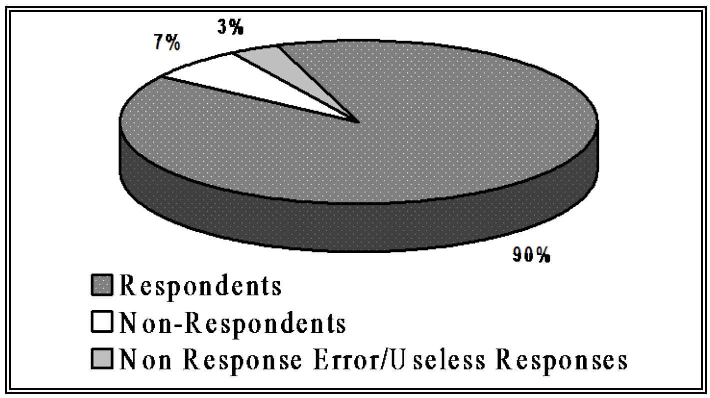
CHAPTER V

Data Analysis

CHAPTER 5. DATA ANALYSIS

5.1 GRAPHICAL ANALYSIS

Of those 30 questionnaires filled by respondents 27 questionnaires were usable, the rest 1 questionnaires were partially filled and having non – response errors and 2 questionnaires were not returned back. Therefore, for the analysis, only usable 27 questionnaires used and analyzed.



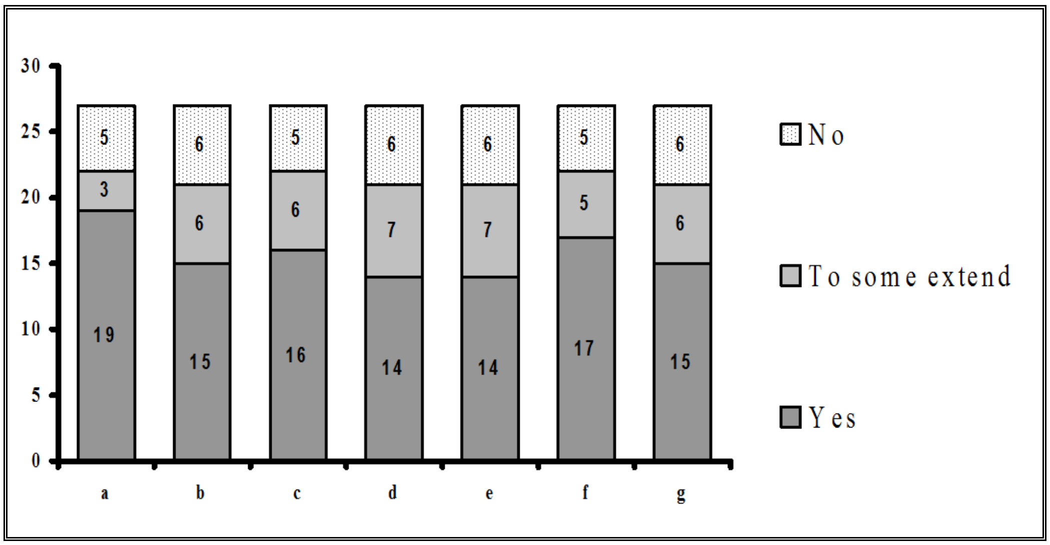
Total Population divided into Respondents and Non – Respondents

Responses of Question 1:

Question 1 having seven statements from a to g demonstrates the ratio of public awareness about investment banks. The overall response for these statements is as follows.

Statement/Scale	Yes	To Some Extend	No
a.	19	3	5
b.	15	6	6
c.	16	6	5
d.	14	7	6
e.	14	7	6
f.	17	5	5
g.	15	6	6

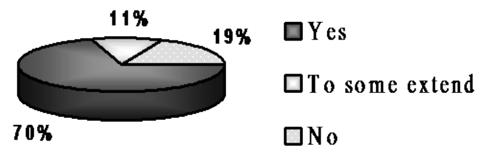
Responses of the Statements related to public awareness



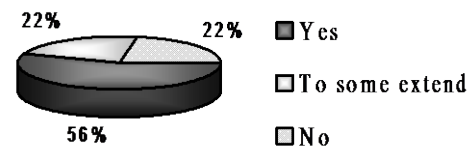
Bar – Chart of the Responses of the Statements related to public awareness

Pie – Charts for each statement: Following are the pie – charts for each the statement related to public awareness. Pie – Charts for the responses of these statements shows the response of the employees of investment banks about public awareness.

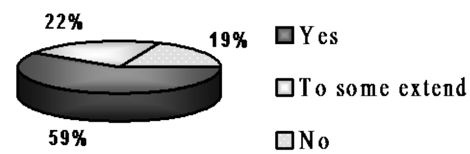
a. Investment banks and commercial banks are same.



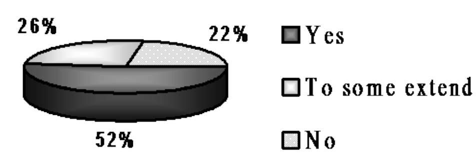
b. Investment banks acts as a broker to invest in stock market.



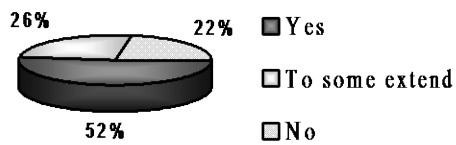
c. Investment banks offer long-term investment opportunities to general public.



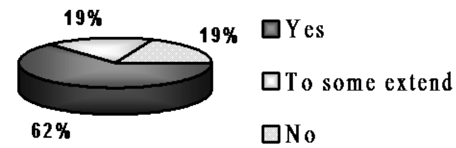
d. Investment banks offer current accounts to general public.



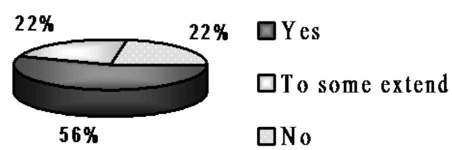
e. Investment banks are interested in creating investment products targeting the common man.



f. Investment banks help in Mergers and Acquisitions.

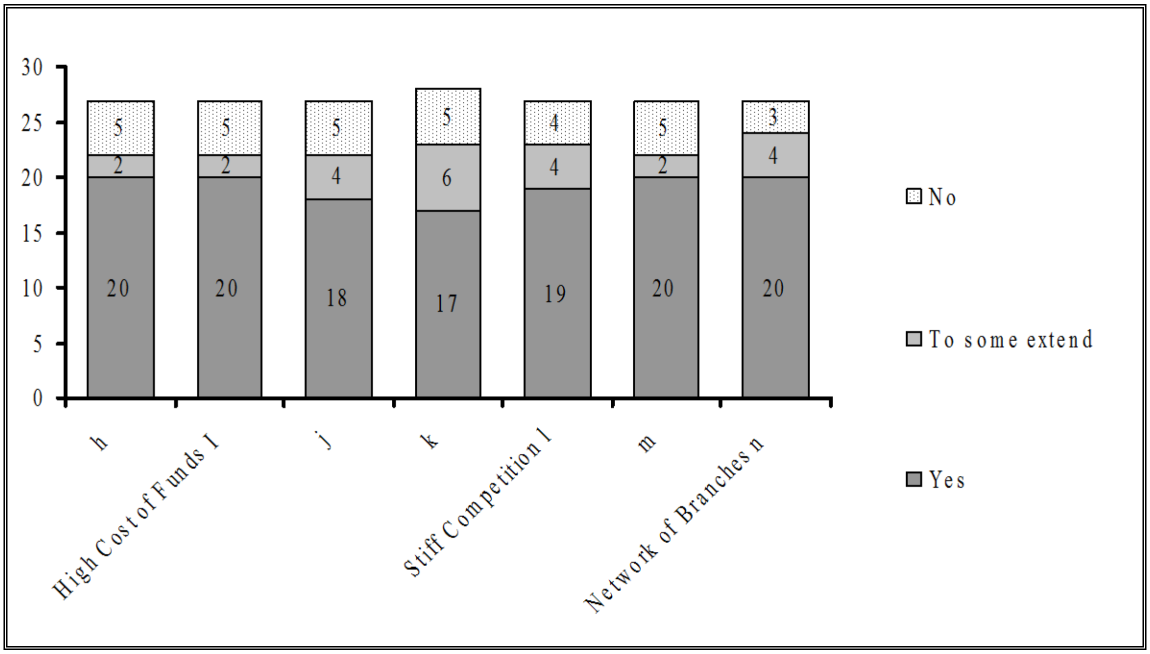


g. Investment banks offer low-cost financing solutions for companies, enabling them to access the capital markets.



Responses for Question 2:

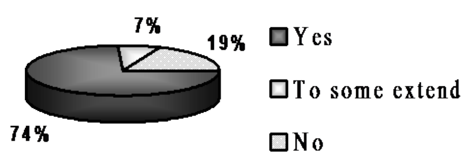
Statements from h to j are related to high cost of funds; k and l are related to stiff competition of investment banks with other financial institutions, statements m and n are related to branch network.



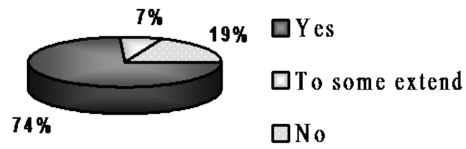
Pie – Charts for each statement:

Following are the pie – charts for each the statement related to funds mobilization.

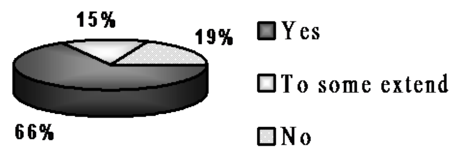
h. Investment banks are facing difficulties in funds mobilization.



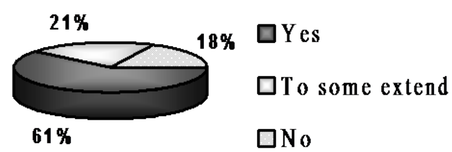
i. Investors prefer commercial banks because of higher rate of return on invested money.



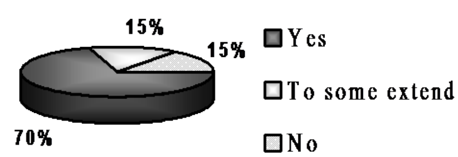
j. Higher interest rate on lended money results in lower concern of public and other corporate client.



k. Various activities of commercial banks, investment banks and leasing companies are overlapping.

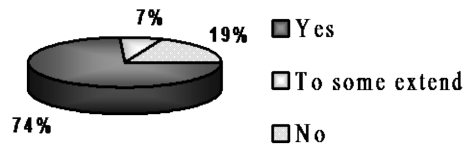


l. This overlapping in activities creates tough competition for investment banks.

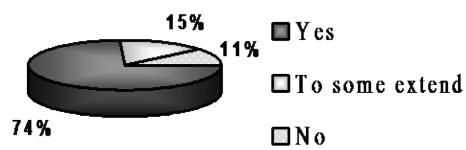


Following are the pie – charts for each the statement related branch network of investment banks.

m. Small number of branches is inconvenient for investors so they prefer other banks and financial companies.



n. To mobilize funds all over the country large network of branches is mandatory.



5.2 STATISTICAL ANALYSIS

5.2.1 Encoding Of The Responses

For data analysis, the responses of the questionnaires encoded as:

Scale

The encoding of the scale used in questionnaire is as follows:

Yes	+1
To some extent	0
No	-1

Hypothesis Statement

"Increase in public awareness, large network of branches, low cost of funds and higher rates of return will help in the development of Investment Banks in Pakistan."

5.2.2 HYPOTHESIS TESTING

Hypothesis: *"Increase in public awareness, large network of branches, low cost of funds and higher rates of return will help in the development of Investment Banks in Pakistan."*

For this Hypothesis, there will be one-tale $t - test$, as it is about to know the relationship between the variables and relationship can be of two types, positive and negative.

Formula: The formula for t – test is:

$$t_{cal} = \frac{\bar{X} - \mu}{\delta / \sqrt{n}}$$

(Where n = 27, as out of 30 sample, 27 questionnaires were useful and only those were analyzed.)

Where $$\bar{X} = \frac{\Sigma f x}{\Sigma f}$$

$$\mu = \frac{\Sigma x}{n}$$

$$\delta = \sqrt{\frac{\Sigma f x^2}{\Sigma f} - \left(\frac{\Sigma f x}{\Sigma f}\right)^2}$$

STATEMENTS	**Yes**	**To Some Extend**	**No**
a.	19	3	5
b.	15	6	6
c.	16	6	5
d.	14	7	6
e.	14	7	6
f.	17	5	5
g.	15	6	6
h.	20	2	5
i.	20	2	5
j.	18	4	5
k.	17	6	4
l.	19	4	4
m.	20	2	5
n.	20	4	3
Total	**244**	**64**	**70**

Steps For Calculation

Step I: Step one for the Hypothesis Testing is to state the Alternate and Null Hypothesis.

Alternate Hypothesis: **H_1** $\beta > 0$

There is *positive* relationship between Public awareness, Network of branches, Rate of return and Development of Investment Banks in Pakistan.

Null Hypothesis: **H_o** $\beta = 0$

There is *no* relationship between Public awareness, Network of branches, Rate of return and Development of Investment Banks in Pakistan.

Step II: Step two for Hypothesis Testing is to determine the Level of significance. For this Hypothesis Testing, Level of Significance taken as standard that is 5%.

Level of Significance:

$$\alpha = 0.05$$

Step III: Step three for Hypothesis Testing is about the actual calculations.

x	f	fx	x^2	fx^2
-1	70	-70	1	70
0	64	0	0	0
1	244	244	1	244
Σ 0	**378**	**174**	**2**	**314**

1. $$\bar{X} = \frac{\Sigma f x}{\Sigma f}$$

$$\bar{X} = \frac{174}{378}$$

$$\boxed{\bar{X} = 0.460}$$

2. $$\mu = \frac{\Sigma x}{n}$$

$$\mu = \frac{0}{27}$$

$$\boxed{\mu = 0}$$

3. $$\delta = \sqrt{\frac{\Sigma f x^2}{\Sigma f} - \left(\frac{\Sigma f x}{\Sigma f}\right)^2}$$

$$\delta = \sqrt{\frac{314}{378} - \left(\frac{174}{378}\right)^2}$$

$$\delta = \sqrt{0.619}$$

$$\boxed{\delta = 0.788}$$

4. $$t_{cal} = \frac{\bar{X} - \mu}{\delta / \sqrt{n}}$$

$$t_{cal} = \frac{0.460 - 0}{0.788 / \sqrt{27}}$$

$$t_{cal} = \frac{0.460}{0.152}$$

$$\boxed{t_{cal} = 3.026}$$

Step IV: After calculating the t_{cal}, now fourth step is to check the critical value of t_{tab}, in the Percentage points of the $t - distribution$ Table. Therefore, the critical value of t is:

$$\boxed{t_{tab} = 1.703}$$

Step V: After finding the value of t_{tab}, now conclusion is to be made on the rule that:

If $t_{cal} > t_{tab}$ then $\mathbf{H_o}$ will be rejected and $\mathbf{H_1}$ will be accepted.

If $t_{cal} < t_{tab}$ then $\mathbf{H_o}$ will be accepted and $\mathbf{H_1}$ will be rejected.

So, in this case, t_{cal} that is 3.026 is greater than the critical value of t_{tab} that is 1.703

$$\boxed{(t_{cal} > t_{tab})}$$

Therefore, we accept $\mathbf{H_1}$ and reject $\mathbf{H_o}$ at 5% Level of significance and it is concluded by this test that $\boldsymbol{\beta > 0}$, which means that:

There is positive relationship between Public awareness, Network of branches, Rate of return and Development of Investment Banks in Pakistan.

Hypothesis Conclusion

By this test, our following Hypothesis for X_2, “Increase in public awareness, large network of branches, low cost of funds and less competition with other financial institutions will help in the development of Investment Banks in Pakistan.” is accepted and hence it is proved that, after taking such aggressive steps as creating Public awareness and Lowering the cost of funds, increasing the branch network, Investment Banks in Pakistan can be developed and will also be a big step towards the Development of Financial Institutions in Pakistan.

CHAPTER VI

Conclusion

CHAPTER 6. CONCLUSION

From this research and hypothesis testing it is concluded that in Pakistan the concept of investment banking is not as much successful as expected because they are facing different problems in the economy. These problems are considered as great hurdles in the success and development of investment banks. Major problems faced by investment banks are lack of public awarness, small network of branches, high cost of funds and stiff competition among different NBFCs and commercial banks. If investment banks cope up with these problems through different strategies and steps, then this industry can grow further very rapidly and will contribute dynamically in the economic and financial system of the country.

It is also necessary that proper differentiation of limits for all types of financial institutions should be defined. Presently, the activities of commercial banks, investment banks and leasing companies are so overlapping that it is almost impossible to differentiate between these institutions.

CHAPTER VII

Recommendations

CHAPTER 7. RECOMMENDATIONS

So, if Investment Banking industry need to growth in future, they should consider the following points:-

1) To use their creative ingenuity to compete with large commercial banks and brokerage houses. Still there are different areas in which investment banks can deal such as cross border debt issuances and venture fund advisory.
2) To be more responsive to rapid changes in market.
3) To increase the branch network.
4) To be more imaginative to come up with new financial vehicles based on derivatives, guarantees and non-directional strategies targeted at rich private consumers.
5) To create awareness in public.
6) Smart management and an equally diligent staff to deal with the problems of the investment-banking world.
7) To Strengthened the Risk Management practices
8) To Promote Financial Product innovation
9) To increase corporate governance and transparency
10) Streamline policy making, regulation supervision
11) Tax treatment should be same .
12) De-mutalize Stock Exchanges and introduce new OTC market segment
13) To provide risk guarantee for capital markets.
14) A political risk guarantee for terrorism risk insurance.
15) Quantity and quality of information to be improved.

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- www.pacra.com/pdf/JSCL.pdf

Articles:

- ADB's Strategy for Improving Governance of Financial Markets[1]
- Attracting Investment in Pakistan: Challenges and Issues
- Foreign Investment in Pakistan - Developments in the Banking and Finance Sector Towards An Enabling Environment by Mr.M.Ali Shah
- Speech by Dr Shamshad Akhtar, Governor of the State Bank of Pakistan, at the Pakistan Society Dinner, London, 21 June 2006.
- Pakistan's Financial Sector – A Road Map 2005-2010
- Building Trust in Investment Banking by Dr.Izhar –ul-Hassan
- Role of Capital Markets in Investment Banking Development by Dr.Navid Hamid.

Appendices

APPENDIX - A

"PROBLEMS FACED BY INVESTMENT BANKS IN PAKISTAN"

Questionnaire

Name (Optional): ____

Bank Name: ____

Designation: ____

Dear Respondent

I am a student of NUST, (National University of Science & Technology) in the discipline of MBA; as per my degree requirements I am doing research on "Investment Banking issues in Pakistan". Your responses will be helpful. I need your cooperation and will be thankful to you for this

1. In your opinion general public/investors have information about investment banks like:	**Yes**	**To Some Extent**	**No**
a) Investment banks and commercial banks are same.	❑	❑	❑
b) Investment banks acts as a broker to invest in stock market.	❑	❑	❑
c) Investment banks offer long-term investment opportunities to general public.	❑	❑	❑
d) Investment banks offer current accounts to general public.	❑	❑	❑
e) Investment banks are interested in creating investment products targeting the common man.	❑	❑	❑
f) Investment banks help in Mergers and Acquisitions.	❑	❑	❑
g) *Investment banks offer personal services to individual clients.*	❑	❑	❑
2. Do you think:	**Yes**	**To Some Extent**	**No**
h) Investment banks are facing difficulties in funds mobilization.	❑	❑	❑
i) Investors prefer commercial banks because of higher rate of return on invested money.	❑	❑	❑
j) Higher interest rate on lended money results in lower concern of public and other corporate client.	❑	❑	❑
k) Various activities of commercial banks, investment banks and leasing companies are overlapping.	❑	❑	❑

l) This overlapping in activities creates tough competition for investment banks.	❑	❑	❑
m) Small number of branches is inconvenient for investors so they prefer other banks and financial companies.	❑	❑	❑
n) To mobilize funds all over the country large network of branches is mandatory.	❑	❑	❑

3. Any other comments you want to give?

____

____

____

Please use overleaf if you want to write more…!

Thank you very much for your cooperation. Please go through the whole questionnaire again to check that no statement is unanswered. Thanks again.

Omar Naeem
MBA-Finance
NUST Rawalpindi

APPENDIX B

INVESTMENT FINANCE SERVICES

Terms and conditions for undertaking investment finance services.— A NBFC licensed by the Commission to undertake investment finance services may undertake the following activities or functions provided that its memorandum and articles of association permits it to do so, subject to the conditions prescribed by these rules and any other conditions that may be specified by the Commission from time to time, namely:-

(a) **Incase of money market activities**.

(i)Issue certificates of deposit or short-term paper of its own or investments of not less than thirty days maturity subject to the conditions prescribed by these rules and any other conditions that may be specified by the Commission from time to time;

(ii)Trade in commercial paper issued by its client, Government securities, promissory notes, bankers' acceptances and other money market instruments, acting either as a broker or acting on its own account;

(iii) Assist in the issue of commercial paper, including introduction of companies to the money market, preparation of documentation, distribution and market making; and

(iv) Act as broker or on its own account in the call money market.

(b) **In case of capital market activities**:

(i)Trade in listed securities, both equity and non-equity instruments, acting either as broker or acting on its own account;

(ii) Provide professional analysis of securities to both institutional and individual investors;

(iii) Underwrite stocks and shares, short and long term participation term certificates and other negotiable term obligations of corporations and financial institutions, acting singly or jointly as manager, underwriter and distributor of such issues and taking an active part in all stages of preparation for such issues either public issues or private placement;

(iv) Manage portfolios of stocks and shares, pension and provident funds, participation term certificates and other negotiable and debt instruments for both individual and institutional clients on a discretionary as well as non-discretionary basis;

(v) Provide margin loans to individual and institutional investors; and

(vi) Offer cash management accounts, security management accounts and to facilitate clients so that they are able to select various available investment alternatives at their discretion;

(c**) In case of project financing activities**: -

(i) Make investment in projects through underwriting of public issue of stocks, shares and securities, short-term and long-term participation term certificates and term finance certificates of varying features;

(ii) Guarantee and counter-guarantee loans and obligations, including establishment of documentary credits; and

(iii) Open letters of credit for their corporate clients for the import of machinery for installation, expansion, balancing, modernization and replacement.

(d) **<u>In case of corporate finance services:-</u>**

(i) Act as adviser and financial agent for companies in obtaining direct bank loans, syndicated loans, export credits, leases and project finances, both domestically and internationally;

(ii) Assist companies in private placement of debt and equity, domestically and abroad;

(iii) Act as adviser to companies in corporate or financial restructuring as well as in the preparation of resource mobilization plans;

(iv) Act as adviser to companies in mergers, acquisition and divestitures.;

(v) Assist companies with cash management systems;

(vi) Prepare feasibility, market or industry studies for companies, both domestic and foreign;

(vi) Raise equity, such as through venture capital, for new and existing companies, by acting as financial intermediary;

(viii) Act as custodian for securities owned or held by clients pursuant to their instructions and provide each or any of the following services; custody of securities, placing or execution of orders for purchase or sale of securities, receipt of dividends and other income on securities, execution of voting and other rights in connection with securities, holding the securities in the name of investment finance companies on behalf of their clients, and transacting aforesaid activities through nominees, agents, or attorneys; and

(ix) Act as nominees, agent, attorney, administrator, executor or trustee for clients; and

(e) **<u>In case of general activities</u>**,

(i) Raise funds through equity, foreign debentures both short and long term, commercial paper issued abroad, sale of short and long term participation term certificates and term finance certificates:

Provided that the period of term finances certificates and other instruments shall not be less than thirty days;

(ii) Act as authorized seller for securities and certificates, denominated in local or foreign currency, issued by Federal or Provincial Governments, statutory bodies, and state-owned corporations, including instruments of National Savings Schemes (NSS);

(iii) Provide safe deposit vaults to clients; and

(iv) Handle payments and collections for clients.

Total investment in equities. The total investment in equities shall not exceed the liquid net worth of the NBFC, except equities taken up as consequence of underwriting commitment in which case this limit may be exceeded by the amount of equities taken up for a period of six months and risk assets shall not exceed ten times of the liquid net worth of the NBFC.

Maximum exposure to a single issuer or associated issuer of risk assets. Unless otherwise specified by the Commission, the maximum exposure to any single issuer, associated companies or associated issuer of risk assets by a NBFC undertaking investment finance services shall not exceed the following limits,

Risk Assets:	**Maximum exposure to single issuer or associated issuer expressed as a *per cent* of the liquid net worth of the NBFC:**
1	2
Equity investment	……………………………...10%
Margin Loan	……………………………...10 %
Corporate financial paper and Short-term commercial paper	……………………………..35 %
Underwriting of shares and Corporate financial paper	...………..………………….. …….. 50 %.

Underwriting commitments. All underwriting commitments shall be fully backed by either available funds or firm standby lines of credit or other funding arrangements.

Principles for margin loans. The grant of margin loans to clients shall be governed by the following principles, namely:-

(a) The aggregate of margin loans granted by a NBFC duly licensed by the Commission to operate, as an investment finance company shall not exceed fifty per cent of its liquid net worth;

(b) The margin to be maintained by the client shall not be less than thirty per cent of the loan amount outstanding calculated as the residual value obtained after deducting from the portfolio's market value the loan amount outstanding;

(c) Margin loans to a single client or associated clients (being the same, in the case of corporate bodies, as associated companies or associated issuers) shall not exceed ten per cent of the liquid net worth of the NBFC; and

(d) Margin loans shall be approved by a minimum two-third majority of the Board of the NBFC and shall not be granted to any employee, officer, director, or a shareholder having a beneficial ownership including that of close relatives of more than ten per cent in the paid-up capital of the NBFC whether directly or indirectly (through their close relatives, companies controlled by them, affiliates, subsidiaries, or by way of acting in concert with others).

Managing discretionary client accounts. In managing discretionary client accounts, a NBFC duly licensed by the Commission to operate as an investment finance company shall,

(a) Exercise due diligence and prudence to achieve the investment objective of the discretionary clients;

(b) So organize its affairs that discretionary client accounts are managed separately from other activities, each investment or disinvestments decision being taken independently on its own merit without consideration of any other potential or actual involvement of the NBFC; and

(c) Secure no remuneration directly or indirectly resulting from or otherwise related to transactions.

Explanation: In the event of any dispute, the onus of proof shall be on the NBFC to show that it complied with the principles stated in clauses (a), (b) and (c).

Articles

ARTICLE –1 The Financial Sector of Pakistan

The Financial Sector represents NBFIs, which could be segregated into DFIs, 14 investment banks, 33 leasing companies, 41 modaraba companies, 4 asset management companies, 2 finance companies, 2 discount houses and 2 ventures capital companies.

The sector is characterized by the following: (i) a shallow and narrow sector structure; (ii) heavy government involvement; (iii) inefficient banking system; and (iv) mixed performance of equity markets.

Shallow and Narrow Sector Structure:

Pakistan's financial sector is not very large and diversified. Deposits amount to only about 56 percent of GDP. The money to GDP ratio - which is an indicator for financial sector deepening - at only about 44 percent, suggests that a major portion of the economy is still not monetized.

Heavy Government Involvement:

Despite the number of reforms initiated by the Government in the past, which have sought to reduce its operational involvement in the financial sector, the Government still plays a predominant role, and much financial intermediation is driven by its financing needs. Examples include the, National Saving Schemes (NSS), the State Life Insurance Corporation (SLIC) and the Employees Old-Age Benefits Institution (EOBI); remain Government controlled. This raises governance concerns, as most of the funds they are entrusted with belong to private individuals.

Inefficient Banking System:

Financial intermediation is dominated by the banking system, which accounts for 60% of deposits. About 34% of deposits are with the NSS, and only 5% are mobilized through NBFIs. Non-performing loans (NPLs) average around 24% for all banks, and more than 50% for specialized financial institutions, including development finance institutions.

Mixed Performance of Equity Markets.

Pakistan's equity market, which is dominated by the Karachi Stock Exchange (KSE) but also include exchanges in Lahore and Islamabad, has seen some impressive growth over the past decade. But the economic impact of the equity market, despite the development, has been negligible. Market capitalization is still only around 11% of GDP. Many companies sought listing primarily for tax without subsequent trading taking place and little interest in investor relations or dividend payouts. Both the issuer and investor base is very narrow, with trading being heavily concentrated on a few scrips only. Factoring in the devaluation of the Pakistan rupee and economic uncertainties, as well as the high guaranteed returns offered by the NSS, investing in the stock markets has not been a very attractive proposition.

All this has deterred long-term and foreign investors, and valuations of some economically sound companies are often very low. This environment is not very attractive for companies with serious economic ambitions to raise capital from the equities markets, and there have been only 13 new listings on all three exchanges over the past 5 years.

To counter the trend, the Securities and Exchange Commission of Pakistan (SECP) has, since its inception in 1999, and within the framework of the Government's first ADB financed Capital Market Development Program (CMDP) (see below), taken credible steps to restore investor confidence. In particular, SECP has been improving risk management and is vigorously enforcing compliance with rules and regulations, including delisting of defaulting companies. These measures will need to be enhanced further but constitute an important basis for more sustainable market development.

In order to address the above problems, Pakistan has since the mid-1990 embarked on comprehensive financial sector reforms. Key reforms include: (i) liberalization of the foreign exchange market and interest rates; (ii) increased autonomy of the central bank and its focus on monetary policy and banking supervision; (iii) establishment of an independent regulator for capital markets and NBFIs; (iv) upgrading of legal and regulatory frameworks; (v) reduction of NPLs in the banking sector, and

(vi) restructuring of government-owned financial institutions including privatization, merger, closure, and enhanced management autonomy.

Yet, the reform agenda is far from complete, and reforms are ongoing at various levels to further reduce the Government's involvement in financial sector operations and enhance private sector participation on market-based principles.

ADB's Capital Market Development Program

The ADB's Capital Market Development Program (approved by the Bank in 1997 for $250 million) was the first major intervention to reform the non-bank financial sector implemented over 1997-2001. The reforms were carried out under a difficult macroeconomic environment and subdued investor and issuer interest. The main achievement under the CMDP has been the establishment of an effective regulator in SECP as well as improvements in the technological market infrastructure. Progress was also made in improving investor protection, governance of the stock exchanges, and development of the primary corporate debt market, as well improving prudential norms for NBFIs. The ambitious reforms addressed some of the problems and established a good basis for further market development. However, a number of important areas within the financial sector need further attention to bring about the full impact of these reforms. In many ways, the achievements under the CMDP have been necessary but not sufficient.

The opportunities and challenges facing the financial market include:

Potential for Growth and Development:

Given the underdeveloped state of Pakistan's non-bank financial markets relative to the size of its economy as well as other emerging markets, and the inefficiencies and structural problems within the banking system to finance the much-needed capacity expansion of the economy, there is good reason and scope for growth in the sector. Capital markets, in particular, can play an important role for sustainable investment and mobilization of long-term savings. Direct financial intermediation through markets can improve funding and investment management of companies, and thus their productivity, while offering better return for savers. Further reduction in government involvement in the sector would also stimulate allocation of resources according to market-based principles.

Improving Investor Confidence is Key.

While a good foundation has been established through the CMDP, functioning of financial markets cannot be mandated by the Government or any other party. Their efficiency and effectiveness depends on building credibility with private sector investors and issuers, which needs to be sustained over time in a dynamic environment. Within this context, strengthening investor confidence through policy consistency, a strong and credible regulator, and effective dialogue among various stakeholders is of paramount importance.

Increase Corporate Governance and Transparency.

The development and sustainability of financial markets will depend highly on the framework of corporate governance adopted and the degree of adherence to the framework in practice. Poor governance, wide information asymmetry, and lack of confidence in the integrity of transactions and internal control mechanisms are the biggest investor concerns in Pakistan. Thus, governance frameworks need to be improved and vigorously adhered to at various levels. Key ingredients are adequate information disclosure and the right of key stakeholders to influence behaviour or change management according to a set of rules.

Building a Level Playing Field by Removing Policy Distortions.

Key distortions on the policy level remain, primarily with regard to tax and interest rates. There has been differential tax treatment among financial instruments, which has worked to the advantage of some instruments and investors while discriminating against other. Moreover, tax rates and assessment modalities have been changed frequently in the past. This has created confusion among investors and unintended distortions, in addition to an administrative burden in tax assessment and collection. Streamlining tax treatment can stimulate financial market activity.

Streamline Policy Making, Regulation and Supervision:

The integration of financial markets witnessed globally has only been partly matched with institutional responses in Pakistan. Policy making remains fragmented, involving diverse ministries, in particular with regards to contractual savings and institutional investments, which are poorly developed and Government dominated. In such an environment, policy consistency is less likely to be achieved, and coordination administratively more cumbersome. Further clarification and a strong mandate to key institutions including SBP and SECP, in line with international best practices, are needed to provide a clear perspective to investors.

Upgrade Market Structure and Infrastructure:

Few areas are more affected by the rapid advancements in information technology than financial markets. While a good technological base has been established under the CMDP with automation of trading and creation of central securities deposit, clearing, and settlement systems, the development of internet-based technology in particular has created new opportunities and challenges to increase the access to capital markets by retail investors. Further systems are needed to accommodate new instruments and market segments. This requires institutional responses by the stock exchanges, in particular. There is increasing competition and integration among international exchanges, and Pakistan must respond to those trends to offer an attractive and competitive market place. Integration of the domestic exchanges into a national market, demutualization of exchanges, as well as introduction of new over-the-counter market segments will be required.

Improve Risk Management and Enforcement:

The increasing sophistication of financial markets carries high inherent risks that must be adequately addressed. There is an increasing awareness internationally that concept of self-regulation need to be complemented through strong regulatory regimes and credible enforcement as well as adequate risk management systems and tools. This must also include mechanisms of investor compensation and market stabilization during times of stress on markets.

The Financial (Non Bank) Markets and Governance Program

In December 2002, the ADB, reacting to the Government's request for further assistance in the restructuring of the Financial Sector, approved the $260 million Financial (non-Bank) Markets and Governance Program (FMGP) loan.

The immediate objectives of the Program are to: (i) strengthen investor confidence through improved governance, transparency, and investor protection; (ii) increase the depth and diversity of financial intermediation through new capital market issues for saving and investment; (iii) improve operational efficiency and risk management of intermediaries; and (iv) reduce financial sector vulnerabilities. The FMGP Program period extends to December 2005.

The FMGP reform agenda is structured around five components: (i) improvement of the fiscal, interest rate and investment policy environment; (ii) improvement of governance of market participants and transparency in information disclosure; (iii) increase in supply of financial instruments and improvements in market infrastructure; (iv) increase in demand for financial instruments through promotion of contractual savings and institutional investment; and (v) development of complementary financial services and institutions.

The Program reform agenda is supported by two TA loans for strengthening regulation, enforcement and governance of non-bank financial markets; and strengthening of pension, insurance and saving systems. The first $4.4 million TA will ensure sustainable development of non-bank financial markets and protection of investors and policy holders through capacity building of SECP's enlarged mandate for regulation and supervision of non-bank financial institutions, insurance and pensions, restructuring of stock exchanges; and mechanisms for skills development and training. The second $4.5 million TA will develop solutions to improve Pakistan's pension system and capacity building of EOBI, strengthen the capacity of key government institutions including the Central Directorate of National Savings, mobilization and management of contractual savings and capacity building for investment management in State Life insurance Corporation.

The FMGP Program is complemented further through non-lending initiatives including ADB's guarantee products to ensure greater private sector involvement in the development of non-bank financial markets and services; and to ensure continued availability of insurance for non-commercial risks following the terrorist events in the United States on 11 September 2001 and its implications on the international insurance industry.

The Partial Risk Guarantee (PRG) is to guarantee international investors for payment of proceeds from eligible investments if that payment is not made as a result of a guaranteed risk, including restriction on foreign exchange convertibility and transferability blockage. The PRG will, however, not cover any risks that affect the value of the investment itself. The PRG will be counter-guaranteed and indemnified by the Government. The maximum aggregate liability under the PRG covered by ADB at any time will not exceed $25 million, but the PRG may be enhanced through co-guarantee arrangements with the private sector. It is envisaged to leverage the ADB investment by a factor of up to ten times, for total cover of about $250 million.

Conclusion:

In response to the financial crisis of 1996, implementation of the Government's banking and non-bank financing institution's program began with earnest in 1997 and is well advanced.

The ADB program is in agreement with Pakistan's financial systems - a market-oriented, predominantly private owned banking and financial system that operates under a strong regulatory framework, supported by an effective legal and judiciary system, mobilizing the capital needed to finance rapid private sector growth, and improving access to financial services by the poor.

ADB and the World Bank have been actively supporting the reform strategy by adjustment lending, restructuring and privatization of operations, technical assistance for capacity building of SECP operations, strengthening financial institutions and expanding the micro finance sector.

ADB will support the emergence of NBFI's through development of new financial products to better meet the needs of the private sector, (e.g. long term financing for infrastructure, guarantees for SME finance) and expansion of access to financial services to new clients (access to bankable poor through micro-finance institutions) and to under-served SMEs.

ADB has come up some innovative financial solutions for Pakistan. These initiatives include:

A Political Risk Guarantee for capital markets,

Which provides protection to foreign portfolio investors for political risk in Pakistan. This is expected to greatly facilitate greater inflows of foreign direct investment

A Political Risk Guarantee for terrorism risk insurance,

Expected to be approved shortly, would enable insurance companies in Pakistan to offer terrorism risk insurance and would help in providing comfort to not only local private sector but also to foreign investors

Long term local currency financing

To ensure the sustainability of companies and/or projects by extending long-term local currency loans particularly to those that generate revenues only in local currency. ADB can offer local currency financing through issuing **Local Currency Bonds**, undertaking **Cross Currency Swaps**, and providing **Local Currency Guarantees**

The reform agenda is structured around five components: (i) improvement of the fiscal monetary and investment policy environment; (ii) improvement of governance and transparency for investor confidence; (iii) increase in supply of financial instruments and improvements in market infrastructure; (iv) increase in demand for financial instruments through promotion of contractual savings and institutional investment; and (v) development of complementary financial services and institutions.

I. Improvement of the Fiscal, Monetary and Investment Policy Environment

Reforms under the first component will improve the fiscal policy environment to promote and encourage long-term saving and investment in financial markets, as well as further reform the NSS. Specific actions will rationalize tax treatment for financial instruments and investors, and provide selective incentives to stimulate long-term savings and non-speculative equity investment. In addition, a more systematic mechanism for linking interest rates for NSS to market based benchmarks will be introduced.

II. Improvement of Governance and Transparency

The second component will involve reforms to improve investor confidence, seek to raise governance standards, and improve transparency in information disclosure and enforcement for investor protection. Those reforms will be spearheaded by the SECP. This includes strengthening regulatory and supervisory capacities and accountability, including a review and improvements to enhance mandate and governance of SECP for broad based regulation of financial markets and services. This also comprises further reduction and streamlining of direct Government involvement in financial sector operations and regulation as well as improving coordination among various government ministries on financial matters. A corporate governance code based on wider stakeholder consultation is being introduced and will be vigorously enforced, to cover the corporate sector financial intermediaries and related professions. The Companies Ordinance is being updated to provide legal cover for some of the provisions. In addition, laws and regulations for enhanced transparency in financial transactions and corporate affairs will be introduced, including legislation to combat money laundering and regulate corporate insolvencies.

III. Increase in Supply of Financial Instruments and Improvements in Market Infrastructure

The third component seeks to facilitate new capital market issues and introduce new financial instruments. To increase the supply of equities, the government will make use of the stock market to implement its privatization program in particular for 'blue chip' companies. The use of electronic trading will be facilitated through adequate technology platforms. New risk management instruments are being introduced to facilitate forward cover and hedging. Regulations and procedures will be developed to facilitate issuance and trading of commercial paper by rated corporates. Clearing and settlement systems will be upgraded further, in particular to facilitate secondary trading.

IV. Increase in Demand for Financial Instruments

Under the fourth component, institutional changes will be introduced including increased private sector participation in the largest government-owned institutional investors to ensure better alignment between the interests of management and investors and savers.

V. Development of Complementary Financial Services and Institutions

Under the last component, the program will support the cost of restructuring key state owned enterprises like IDBP for sale to the private sector, or liquidation. Greater private sector participation will be allowed in the insurance industry, in particular reinsurance, to enhance the weak risk-bearing capacity of the sector. The public sector monopoly of the National Insurance Corporation (NIC) will be abandoned. The establishment of a specialist reinsurance vehicle will be supported to provide cover for terrorism-related risk that cannot be placed in the commercial market.

An important and innovative feature of the Program is that it builds on ADB's unique capacity among multilateral financing institutions to combine public and private sector instruments and integrate non-lending assistance to leverage the policy reform agenda. In particular, the Program seeks to leverage private sector investment directly into the development process, in addition to the traditional Program loan, which seeks to finance the cost of adjustment.

The Program will be implemented over the next 2-3 years, and will require considerable technical assistance for capacity building that the ADB will provide. In particular, the effectiveness of the SECP as the corporate and capital markets watchdog to improve governance standards and practices will be crucial. ADB expects that the overall outcome of the program will be a vibrant, diversified and efficient non-bank financial sector offering a wide range of products and instruments for saving and investment in a well-regulated and sustainable sector environment. This will contribute to improved resource mobilization to generate employment, and strengthening of social safety nets as well as fiscal and financial sector stability.

ARTICLE –2 ROLE OF CAPITAL MARKET IN INVESTMENT BANKKING DEVELPOMENT

In my presentation, I would first like to dwell on the role of capital market in investment banking development and then the financial sector reforms which led to major improvements in Pakistan's capital market and finally, some challenges being faced by the investment banking industry in Pakistan.

Role of Capital Market

As you are aware, a major Investment Banking function relates to formation of capital for private and public sector entities. This formation of capital is mostly done by raising capital, debt or equity, from the primary and secondary markets, through outright purchase and sale of securities offered by the issuer. Thus investment banking intermediates between capital market borrowers and lenders and between buyers and sellers of securities. This investment banking function provides a win-win solution for both investors and issuers and thus plays an important role in a sound financial system.

One of the basic prerequisite for a sound investment banking system is the existence of an efficient capital market. Capital market acts as a backbone to an investment banking system where the presences of developed primary and secondary markets are thvehicle for raising the required financing. Therefore, an investment bank with the assistance of a developed capital market offers low-cost financing solutions for companies, enabling clients to access the capital markets, with minimum market disruption.

Capital market plays a crucial role in mobilizing domestic resources and in channeling these efficiently to the most productive investments. The level of capital market development is thus an important determinant of a country's level of savings, efficiency of investment and ultimately of its rate of economic growth. An efficient capital market can also provide a range of attractive opportunities to both domestic and foreign individual and institutional investors.

A fully developed capital market offers an entity many choices for fund raising. Products like commercial paper, convertible bonds, quasi debt and equity offerings can not be launched unless we have an enabling environment under an efficient capital market. Thus the development of Investment Banking System is directly dependent on the existence of a developed capital market.

Let me corroborate the same through recent experience in Pakistan. In late 1980's and early 1990's Pakistan decided to liberalize and deregulate the financial sector. The Government decided to set up investment banks in the private sector and in no time we saw a large number of investment banks (13) in the private sector. Due to lack of an enabling environment and non-existence of a developed capital market these investment banks primarily became lending institutions and did little investment banking which was their basic objective. Consequently, we have seen many of these investment banks collapsing or getting merged in commercial banks and other financial institutions.

Financial Sector Reforms benefiting Investment Banking industry

The multilateral agencies like the IMF, World Bank and ADB in dialogue with Government in 1990s emphasized the need for reforming the financial sector. The Government took up the challenge and implementing far-reaching measures specially those relating to restructuring of SBP, SECP and nationalized banks. Some of the reforms undertaken by the Government in the financial sector with the assistance of the multilateral agencies include:

Capital Market Reforms:

ADB financed a Capital Markets Development Program (CMDP) for $250 million, approved in October 1997, with the following objectives:

Creation of a policy environment for enhancing competition and level play field;

Strengthening of the regulation, governance, and supervision of the securities market to restore investor confidence;

Modernization and upgrading the securities market infrastructure for encouraging automated and centralized trading, clearing and settlement of transactions;

Development of a corporate debt market;

Reform of the mutual funds and the leasing industry; and

Promotion of contractual savings through reforms of the insurance sector and pension and provident fund industry.

The Program was successfully implemented by 2001 and benefits are obvious. Structural changes have reshaped the basic character of Pakistan's capital market. Institutional change, market liberalization, legal/regulatory reform have been the principal forces at work precipitating the transformation of the market from a largely fragmented loosely regulated, and highly inefficient system into a more integrated, closely regulated, more transparent, orderly, modern and competitive system. The corporate law authority has been restructured and transformed into a vibrant Securities and Exchange Commission of Pakistan (SECP). SECP is playing its role of a facilitator rather than a bureaucratic web. Professional staff has been appointed which is customer friendly and courteous. Strong leadership and program ownership at both Ministry of Finance (MOF) and SECP has borne fruit despite many political and bureaucratic hurdles. Today, the Karachi Stock Exchange, Pakistan's largest stock exchange, is one of the best performing markets in the region. The automated trading systems and settlement mechanisms have ensured large number of transactions to be smoothly settled with least systemic risk. The corporate debt market is growing at a phenomenal pace with the size reaching close to Rs. 54 billion from a meager Rs. 5 billion three years back. New instruments like commercial papers, asset backed securities, money market funds have been launched and well received by the investing public. National clearing and settlement system has been established and setting up of credit rating agencies has strengthened information flows and market efficiency.

One of the major beneficiary of developed capital markets in Pakistan privatization program. The major reforms in the capital market have enabled the Government to offload large blocks of shares in the market, thus creating excess liquidity. Issues, like National Bank of Pakistan, OGDCL, Pakistan

Oilfields would not have been sold in the market if it didn't have the capacity and infrastructure in place. More issues like Pakistan Petroleum, Sui Southern Gas, KAPCO, United Bank and Habib Bank will further broaden the market.

In addition to the CMDP, ADB approved a $260 million non-Bank Financial Markets and Governance Program, in December 2002, that will seek to improve investor confidence through improved governance, transparency and investor protection.

SBP and Banking Sector Reforms

While ADB supported the development of capital markets, the World Bank in 1997 through Banking Sector Adjustment Loan ($ 250 million), in 1999 through the Structural Adjustment Loan ($ 350 million), and in 2001 through Banking Restructuring and Privatization Support Project ($300 million) concentrated on improving on the banking sector in Pakistan. These programs aimed at strengthening the banking system governance, bringing in private sector management to the nationalized banks, arrest the flow of bad loans, curtail loss-making and conserve assets of the nationalized banks prior to privatization. They also aimed to strengthen central bank independence and supervisory and regulatory capacities, and to build the capacity of the legal and judicial system for loan recovery.

SBP has become a strong and autonomous central bank. It has been restructured to focus on its core operations such as monetary policy, banking supervision and foreign exchange management. Here again we have seen that strong leadership at SBP has delivered despite the difficult environment. The managers appointed from the private sector in nationalized banks and some state owned financial institutions have been able to turnaround these institutions. United Bank Limited that was on the verge of collapse in 1996-1997 has been privatized and recently, Habib Bank, has also been privatized. The Government has also successfully privatized MCB and Bank Al-Falah while Allied Bank sale proved to be unsuccessful.

Key Challenges

Although substantial work has been done by the Government, under capital market reforms with the support of multilateral agencies, the Pakistani investment banking industry's role is limited relative to developed or even developing countries like Thailand, Malaysia, India, etc. We feel that the following challenges need to be address for further development of the capital market and investment banking industry.

Financial intermediation dominated by banking system: The banking system accounts for 61 percent of total deposits. About 34 percent of deposits are with the NSS, and only 5 percent are mobilized through investment banks. Nonperforming loans (NPLs) averages around 24 percent for all banks, and more than 50 percent for specialized financial institutions, including development finance institutions (DFIs). Coupled with administrative inefficiencies, this had driven up the intermediation cost at one point in time to as high as 8%, which has now come down to nearly 4%. The generally poor access, limited choice and low quality of financial services and products contribute to explaining the low savings rate in the country.

Economic impact of equity market growth limited: Pakistan's equity market has seen impressive growth but the economic impact of this growth has been negligible, as not many new issues have been introduced. However, it is heartening to see that a number of issues are in the pipeline after a long time. Though market capitalization on the other hand has increased decently over the last one year to 25% of the GDP, both the issuer and investor base is very narrow, with trading being heavily concentrated on a few scrips only. In the debt market, PIBs with maturities of 3, 5 and 10 years, have established a much needed benchmark for pricing and with the introduction of 15 and 20 year issue and jumbo bonds the yield curve would extend further. However, most of the investors in PIBs are banks, which raises some regulatory and market concerns. Also, there is limited secondary market activity in TFCs, and tenors are generally not available beyond 5 years.

Poorly developed institutional investment system: Institutional investment in Pakistan is poorly developed. Life insurance premium income amount to less than 0.3 percent of GDP, much lower than in India (1.8 percent), the Philippines (0.8 percent), Malaysia (2.1 percent) or the US (4.5 percent), and has shown little growth over the few past years, unlike in most other emerging Asian economies. Private pension and provident funds lack a proper regulatory framework. This issue is being address to a great extent under the ongoing ADB Program for non-bank financial markets. Similarly, nonbank products, markets and services remain relatively little developed and average level of sophistication in the investment-banking sector is considered low by global standards.

Information asymmetry in the capital market: Investors in Pakistan are keenly aware of the wide information asymmetry in the capital market. There is little confidence in the accuracy of information, integrity of transactions, or internal control mechanisms of the various participants.

Bottlenecks in the way of enhanced governance standards in capital markets: Despite progress made on several counts, some serious issues remain to be resolved to enhance governance standards of capital market intermediaries. For example, the listing criteria require further updating, and the delisting process is cumbersome and time consuming. There is also increasing recognition globally that stock exchanges perform a competitive business function, and that self-regulatory concepts promoted widely in the past have to be approached carefully and need strong regulatory backing. To provide efficient services to investors, many stock exchanges worldwide have demutualized and adopted corporate structures that separate ownership of the exchange from trading rights. This process may well be beneficial for Pakistan, but key issues, including valuation of membership rights in the current setup, will need to be resolved to carry this process forward.

Market activities controlled by a few well-connected insiders: The most critical bottleneck in the way of enhancing governance standards in capital market is the widely held perception that a few well-connected insiders control market activities. Improper broker activities, including front running and no separation of proprietary and client trading as well as insider trading are believed to be widespread. As a result, trading is largely opportunistic and short term, and there is little genuine investor interest. The market is heavily discounted, and companies with solid fundamentals and high dividend yields, often as high as 12 percent, and low price earnings ratios, often as low as 5 or 6, are left without buyers. To address this situation, transparency in trading of shares must be increased, and the members of the stock exchange must be required to meet a strict set of professional standards.

Insufficient quality and quantity of financial information:

The quality and quantity of financial information available to the public is often inadequate and unreliable. Listed companies are required to have their accounts audited under the Companies Ordinance of 1984. Disclosure standards are further reinforced by the special regulatory orders issued by the SECP that prescribe mandatory application of International Accounting Standards (IAS) to listed companies and the subsidiaries. Nevertheless, financial information is often not reliable, and enforcement of standards remains a key issue. It is estimated that firms with adequate resources to conduct audits in accordance with IAS audit less than 30% of the listed companies. The Institute of Chartered Accountants, in its effort to improve compliance with IAS, has prepared auditing manuals and organized training workshops. It has also established an investigation committee to take actions for cases of gross noncompliance. However, the legal framework is still lacking for the investigation committee to be an effective monitoring unit. There is the need to review the disclosure standards required by law, the capacity of the auditors and their professional qualifications, their code of conduct, as well as enforcement capacities for strict adherence to IAS.

Conclusion

In light of the above, while appreciating the steps Government has taken in brining a paradigm shift in the way capital market was regulated, we should be prepared to the challenging time ahead and work on the challenges discussed. ADB being a long standing development partner of Pakistan would continue working for creating the best possible enabling environment for the domestic capital market.

ARTICLE –3 Building Trust in Investment Banking by Dr.Izhar-ul-Hassan

It gives me great pleasure to inaugurate this conference on "Building Trust **in Investment Banking".** I am thankful to the organizers for inviting me for the purpose. I would like to take this opportunity to say a few words about investment banking in Pakistan, a perspective on its past performance, its prospects in the coming days, and ways to revive these institutions to our maximum advantage.

Investments banks play a crucial role in the process of capital formation which is imperative for breaking the vicious circle of poverty we are faced with. A conventional investment bank mobilizes the savings and makes them available for investments in longer-term projects and provides a number of ancillary services, which are equally instrumental in an economy's capital formation process. These services, *Inter a/ia,* include securities underwriting, stock and bond trading, facilitating mergers and acquisition, arranging and funding syndicated loans, arranging and managing public issues, and providing financial advice to businesses.

The investment banking started to take roots in Pakistan in second half of *I* 980s when realizing the need for investment banking services the policy makers first time issued charter to investment banks. A broad range of business services were envisaged that included money and capital market activities, project financing, corporate financial services, and operations in call and money market. Since inception the sector showed strong performance and continued to flourish till the mid 1990s. While this growth was mainly backed by wide ranging financial liberalization measures and favourable economic conditions particularly the boom in the stock market, however, these institutions could not diversify their portfolio and thus failed to built in shock absorber to withstand the twists of changing economic and business environment. Resultantly, most of the investment banks started to face problems.

This downturn also exposed the structural weaknesses that investment banks failed to redress during their growth phase. A few of these significant weaknesses are:

- High fragmentation with only a couple of institutions dominating the market,
- Small capital bases with limited ability to absorb significant shocks,
- Failure to develop competencies for delivering non-fund based services,
- Lack of relevant expertise and acumen,
- Failure to develop stable source of long term funds,
- High cost of funds, and
- Limited capacity to expand outreach.

The recent rise of universal banking has further added to the woes of investment banks as the commercial banks are increasingly taking up the activities which were once considered to be the exclusive domain of the former.

Presently the sector is undergoing a transformation process. Under the regulatory purview of the Securities and Exchange Commission of Pakistan (SECP), investment banks are classified as Non-Banking Financial Companies (NBFC5) and are regulated by the NBFC (Establishment and Regulation) Rules of 2003 which provide an enhanced framework of operations for investment banks and have considerably widened their scope of business. Accordingly, they have started to focus their attention on becoming multi-business entities instead of retaining their specialized business status so as to remain commercially viable. Over the last few years, the sector has also witnessed considerable consolidation; the number of banks came down to 9 from *16* in 2000. The total assets of these banks stood at Rs.32.7 billion in FY04 as compared to Rs.34.4 billion in FY03 and Rs.41 .5 billion in FY2000. Similarly their total investments declined to Rs.16.4 billion in FY04 as compared to Rs.22.I billion in preceding year. However, total investment in FY04 increased over its level in FY2000. Over the last couple of years the industry is shrinking and the current scenario reflecting a declining trend calls for concerted efforts by the regulators as well as industry itself to overcome the situation.

Investment banks in Pakistan generally had limited success due to various reasons, primarily due to the weaknesses I have pointed out earlier. But they are not altogether devoid of opportunities. They are very much an integral component of our financial infrastructure. The corporate sector has perennial needs for services such as investment advisory, corporate restructuring, distressed assets acquisition and disposal, merger and acquisitions, equity and debt financing. With the maturing up of economy and financial markets the need for these services will further intensify thus holding good prospects for the investment banks proficient in these areas. Commercial banks will not be able to compete with them on those fronts as they lack specialized expertise in these areas. But the investment banks will have to refocus their current strategy of imitating commercial banks; they should focus on developing competitive advantages in specialized areas of corporate finance and advisory services. Once they have developed these competencies, they can leverage it by forming strategic alliances with commercial banks which lack these capabilities but have a competitive advantage in the form of wider outreach and ability to mobilize national savings with greater efficiency. This strategy not only promises lucrative growth to the investment banks but will also add much needed value to the society.

ARTICLE-4 PAKISTAN'S FINANCIAL SECTOR by Dr.Ishrat Hussain

A Roadmap for 2005-20 10

The first generation of reforms in the financial sector of Pakistan is about to be completed successfully and we have to lay down the proposals for eliciting wide discussion on the second generation of reforms. The reforms should be implemented in the next five years, although they have to be reviewed continuously to adapt them according to the changing circumstances both domestically and internationally.

The objective of the second-generation reforms is to further deepen the financial sector and integrate it into the global economy. Before we lay down the proposed road map, let me recapitulate briefly as to what we have learnt from our experience so far and what we have accomplished so far.

Lessons Learnt:

First, financial sector functions effectively and efficiently only if the macroeconomic situation is favorable and stable. The need to maintain macroeconomic stability will thus remain imperative for the coming period too.

Second, reforms can be successfully implemented only if there is consultation, involvement and consensus building among all the stakeholders throughout the process. An institutionalized mechanism for this interaction and collaboration has to remain in place.

Third, there has to be an active champion for conceptualizing, formulating, sequencing, implementing and monitoring reforms. In the absence of such a champion, there is a serious risk of derailment, reversal or abandonment.

Fourth, application of technology, intensive use of human resource competencies and managerial skills are the key tools for achieving results and have to be carefully nurtured and upgraded continuously.

Fifth, the regulators have the responsibility to communicate and explain the rationale, progress and outcomes of their policies and keep the market players fully informed.

Results Accomplished:

(a) Financial markets in Pakistan have been liberalized and have become competitive and relatively efficient but still remain shallow.

(b) The array of financial instruments available for various types of transactions in the market has widened but the evolution of new instruments has to remain on track

(c) Financial infrastructure has been strengthened but the legal system is still too time consuming and costly for the ordinary market participants.

(d) Regulatory environment has improved and the capacity of regulators to oversee and monitor is much better today but the enforcement and prompt corrective action capabilities need to be further enhanced.

(e) Financial soundness indicators of the system show an upward moving trend in almost all dimensions but there are weaknesses and vulnerabilities that require to be fixed.

(f) Corporate governance rules have been clarified and conform to best international practices but their consistent application and voluntary adoption by the industry remain uneven.

(g) Financial sector is opening up to the middle and lower income groups but the commitment and mindsets of the providers are still out of sync with the new realities.

It can be seen from the above catalogue of accomplishments that we have made a lot of progress but, at the same time, challenges ahead of us are quite formidable, the agenda for action is a lot more complex and the need for remaining alert and agile is even more pressing. The industry and regulators cannot afford to become complacent on our achievements but strive to work harder and together to move forward on the road we have set for ourselves.

What needs to be done?

The second generation of reforms should be built on the strengths of the financial system, work on removing the weaknesses and gaps and agree upon the speed, contents and phasing of these reforms. In my humble view, there are at least ten areas in which these reforms will produce promising results.

(a) Broadening Access to Middle and Lower Income Groups:

The banks have learnt that by broadening their client base, adding new products to their portfolio and offering new types of services, they can not only diversify their risks but also earn higher returns. We should continue to move along these lines and aim to reach out to at least three million.

Households in agriculture sector and two million small, medium and micro enterprises in the next five years. The economies of scale and economies of scope make these goals quite feasible but I must also warn that only those who have imagination, agility and capability will be successful while others will fail. Reckless lending or optimistic forecasting that the current low interest rate environment will remain unchanged in times to come, is bound to get your institutions into deep trouble. I would urge you to be enterprising but prudent, strategic but not risk averse and flexible but not too indulgent in reaching out to the small farmers, small firms or individuals with micro-finance or consumer fmancing needs.

(b) New Liability Products:

The industry has paid adequate attention so far on developing new products on the asset side but neglected the savers and depositors. It is myopic for us to have such one sided approach as it is the savers and depositors who provide the wherewithal for the industry to perform its basic function of intermediation. The banks and non-bank institutions have to come up with innovative solutions tailored to the needs of 28 million depositors and savers of Pakistan. The Government has made the playing field level for you by removing the preferential returns in the National Savings Scheme, which has hurt the scheme holders badly. It is a wake-up time for all of us to begin looking after the interest of this vast majority of small savers and mobilize and utilize their savings in a much better way than we have done so far. Development of new liability products should be on the top of the agenda for the next five years. This is a serious weakness that we cannot afford to live with any more.

(c) Corporate Restructuring:

Financial Sector Reforms in absence of corporate sector restructuring i.e. pruning costs, reducing debt and increasing efficiency will have only short-term beneficial effects. The ratio of total corporate debt to GDP should be lowered, capacity has to be expanded and labour productivity needs to be raised. Firms have to be in better shape and invest in productive activities while new firms have to enter credit markets.

Firms will fail in their businesses for a variety of reasons. Bankruptcy law will provide a mechanism for an orderly settlement of obligations. Bankruptcy separates bad managers from potentially valuable assets, lifts debts from shoulders that cannot support them and preserve value that alternatives such as liquidation might destroy.

(d) Infrastructure Financing:

The traditional mode of financing infrastructure projects only through Public Sector Development programme has resulted in congestions, shortages and bottlenecks. The experiment with the independent power producer types of arrangements in the private sector has not proved satisfactory from the viewpoint of the consumer. We have, therefore, to find some other ways of fostering private-public partnership in the areas of infrastructure development, and like other countries, the banks and capital markets have to take the lead. You should look at the successful experiences in other emerging markets and adapt them to our conditions. The State Bank of Pakistan (SBP) is prepared to work with you and we plan to hold a conference next year in which we will bring all the stakeholders together to ponder over this issue and come up with some practical course of action.

(e) E-Banking:

It is gratifying to note that a lot of progress has been made in establishing the platform for Electronic banking. With the deregulation of telecommunication sector in Pakistan, the opportunities for further value added services to underpin banking transactions have multiplied manifold. While small and medium banks can now offer on-line services to their customers, the large banks have to move more expeditiously so that the E Banking network can be utilized optimally. Transaction costs will become lower and customer service will improve. A variety of new services can then be offered. Our ATM penetration ratio is still quite low and we should expand ATMs more aggressively while maintaining them in good stead.

(f) Private Equity. Pension and Provident Funds:

There is still a mismatch between the growing appetite of institutional and contractual saving institutions for long term investment vehicles and the demand for long gestation mortgage, infrastructure, real estate and project financing. Private equity and venture capital funds, private pension and provident funds and insurance companies can play an important role in filling in this market segment. I would very much urge those who are always so keen to obtain a traditional banking license to exploit the vast potential by setting up these new types of funds which are almost non existent in the country but are badly needed. I can assure you, on the part of the SECP and SBP, that we will render all possible assistance to those who wish to move into the fields of private equity funds, venture capital funds, private pension and provident funds, real estate investment trusts and similar other vehicles.

(g) Investment Banking:

The role of investment banking in Pakistan has remained quite murky so far. The spread of universal banking model in the country has led to a certain degree of ambiguity as far as the market niche in which investment banks can operate. In my view, the corporates will always require investment banks to render services such as investment advisory, corporate restructuring, distressed assets acquisition and disposal, mergers and acquisitions, equity and debt financing. The investment banks have to get away from their aspiration to mimic commercial banks and build up their capabilities in the areas, which are begging for help. Commercial banks will never be able to compete with them either on costs or customer satisfaction even if they all profess that they can provide total banking solutions to all the clients needs.

Several investment banks have merged into commercial banks but those who are serious players in this field should re-examine their strategies and direction and build up their human resource capabilities.

(h) Human Resource Development:

I wish to thank all the Chief Executives of banks who have put in place transparent and merit based system of recruitment of entry-level bankers. The next step in this value chain of human resource development is the continuing education, training, testing and progression of in-service employees and identification of future managers of the financial industry. Recently, I had a very productive meeting with the Human Resource Heads of some of your institutions at the IBP and we have agreed that this area needs your personal attention and commitment. We, at the SBP, have gained some experience in this endeavor and we are willing to share that with you. The IBP has been given a much larger mandate, the NIBAF facilities have been opened up to the whole industry and the five large banks have offered to upgrade the quality of their training institutions which can then be available to other banks, leasing companies, etc. I attach a lot of importance to this particular area of work and I will take personal interest in developing a cadre of professional bankers in Pakistan who are of international standards and can move into multinational banks without much difficulty.

(i) Risk Management:

The advent of Basle II regime in a couple of years imposes a sense of urgency on both the regulators as well as the financial industry to put their act together as far as risk management is concerned. I have very little doubt that the foreign banks operating in Pakistan will have any serious problems in making the transition successfully but I remain very much worried about our domestic banks — large, medium and small. Although we all have been talking about Basle II for sometime, our response in preparing ourselves have been at best patchy. The SBP has installed capacity for risk management within the institution and we intend to keep on expanding this capacity but I see that our large banks have not yet woken up to attract the human resource of the right kind, set up the internal rating systems and the supporting technology. We have started the training courses in real earnest and I have asked the IBP to give priority to this area but we need trainable material from the banks. I hope that the Pakistan Banks Association (PBA) will form an internal working group to bring their member institutions to reach minimum standards by certain timelines.

(j) Promotion of Islamic Banking:

I have been very much encouraged by the enthusiastic response to the setting up of Islamic banks and branches in the country. This is an extremely positive development as it brings into the fold of formal financial sector those who have remained outside because of their faith and beliefs. From my interactions, I can tell you that their numbers are in millions and not in hundreds of thousands. That is why we have a highly liberal licensing policy for opening Islamic banks, subsidiaries or branches. But I must caution you that we do not wish to transform this into another façade by moving too quickly and too imprudently. You should have all the ingredients in place —Shariah Advisors and Auditors, credit appraisers and marketing specialists, product development capacity, systems and technology — before you approach the SBP. Merry-go-around a few experienced individuals in this field by offering them attractive compensation packages will soon out price Islamic banking products from the market.

This is not in our long-term interest that such kind of reckless actions put the future of Islamic banking in Pakistan at risk.

There are many more tasks we have to do but I thought if I had too many items on the platter it would not be possible for us to manage it within the timeframe of the next five years. But, as I said earlier, these are only some proposals and suggestions for your consideration, critical review and scrutiny. You may have some other priorities in mind, which may make better sense. Please feel free to articulate them, as I do not have any pretensions of having monopoly on wisdom.

Article-5

Understanding How Glass-Steagall Act Impacts Investment Banking and the Role of Commercial Banks

Introduction to the Glass-Steagall Act

The Glass-Steagall Act has remained one of the pillars of banking law since its passage in 1933 by erecting a wall between commercial banking and investment banking. In effect, the law keeps banks from doing business on Wall Street, and vice versa. In actuality, there are two Glass Steagall measures. The first was the Glass-Steagall Act of 1932, a bookkeeping provision that allowed the Treasury to balance its account. And what is commonly known today as the Glass-Steagall law is actually the Bank Act of 1933, containing the provision erecting a wall between the banking and securities businesses. It also laid the groundwork for legislation that would allow the Federal Reserve to let banks into the securities business in a limited way.

Causes For and Brief History of Glass-Steagall Act

Fundamental to an understanding of the passage of the Glass-Steagall Act is the fact that by 1933 the U.S. was in one of the worst depressions of its history. A quarter of the formerly working population was unemployed. The nation's banking system was chaotic. Over 11,000 banks had failed or had to merge, reducing the number by 40 per cent, from 25,000 to 14,000. The governors of several states had closed their states' banks and in March President Roosevelt closed all the banks in the country. Congressional hearings conducted in early 1933 seemed to show that the presumed leaders of American enterprise -- the bankers and brokers -- were guilty of disreputable and seemingly dishonest dealings and gross misuses of the public's trust. Looking back, some historians have come to a different conclusion about the role such abuses played in bringing down banks. Some historians now say the chief culprit of bank failures was the Depression itself, which caused real estate and other values to fall, undermining bank loans. Securities abuses played a minimal role in the collapse of banks, these historians say, and caused few failures among the New York banks with the largest Wall Street operations.

The Banking Act of 1933 was probably the newly-elected Roosevelt administration's most important response to the perceived shambles of the nation's financial and economic system. But the Act did not change the most important weakness of the American banking system -- unit banking within states and the prohibition of nationwide banking. This structure is considered the principal reason for the failure of so many U.S. Banks, some 90 percent of which were unit banks with under $2 million in assets. (In contrast, Canada, which had nationwide banking, suffered no bank failures and only a few of the over 11,000 U.S. Banks that failed or merged were branch banks.) Instead, the Act established new approaches to financial regulation -- particularly the institution of deposit insurance and the legal separation of most aspects of commercial and investment banking (the principal exception being allowing commercial banks to underwrite most government-issued bonds).

The Provisions Within the Sections of the Glass-Steagall Act

The Glass-Steagall Act has come to mean only those sections of the Banking Act of 1933 that refer to banks' securities operations -- sections 16, 20, 21, and 32. These four sections of the Act, as amended and interpreted by the Comptroller of the Currency, the Federal Reserve Board and the courts, govern commercial banks' domestic securities operations in various ways.

Sections 16 and 21 refer to the direct operations of commercial banks. Section 16 and 21 refer to the direct operations of commercial banks. Section 16, as amended by the Banking Act of 1935, generally prohibits Federal Reserve member banks from purchasing securities for their own account. But a national bank (chartered by the Comptroller of the Currency) may purchase and hold investment securities (defined as bonds, notes, or debentures regarded by the Comptroller as investment securities) up to 10 per cent of its capital and surplus. Sections 16 and 21 also forbid deposit-taking institutions from both accepting deposits and engaging in the business of 'issuing, underwriting, selling, or distributing, at wholesale or retail, or through syndicate participation, stock, bonds, debentures, notes or other securities', with some important exceptions. These exceptions include U.S. Government obligations, obligations issued by government agencies, college and university dormitory bonds, and the general obligations of states and political subdivisions. Municipal revenue bonds (other than those used to finance higher education and teaching hospitals), which are now of greater importance than general obligations, are not included in the exceptions, in spite of the attempts of commercial banks to have Congress amend the Act. In 1985, however, the Federal Reserve Board decided that commercial banks could act as advisers and agents in the private placement of commercial paper.

Section 16 permits commercial banks to purchase and sell securities directly, without recourse, solely on the order of and for the account of customers. In the early 1970, the Comptroller of the Currency approved Citibank's plan to offer the public units in collective investment trusts that the bank organized. But in 1971 the U.S. Supreme Court ruled that sections 16 and 21 prohibit banks from offering a product that is similar to mutual funds. In an often quoted decision discussed at length in section IV of this chapter and in Chapters 2,3,4 and 5, the Court found that the Act was intended to prevent banks from endangering themselves, the banking system, and the public from unsafe and unsound practices and conflicts of interest. Nevertheless in 1985 and 1986 the Comptroller of the Currency decided that the Act allowed national banks to purchase and sell mutual shares for its customers as their agent and sell units in unit investment trusts. In 1987, the Comptroller also concluded that a national bank may offer to the public, through a subsidiary, brokerage services and investment advice, while acting as an adviser to a mutual fund or unit investment trust. Since 1985 the regulators have allowed banks to offer discount brokerage services through subsidiaries, and these more permissive rules have been upheld by the courts. Thus, more recent court decisions and regulatory agency rulings have tended to soften the 1971 Supreme Court's apparently strict interpretation of the Act's prohibitions.

Sections 20 and 32 refer to commercial bank affiliations. Section 20 forbids member banks from affiliating with a company 'engaged principally' in the 'issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities'. In June 1988 the U.S. Supreme Court (by denying certiorari) upheld a lower court's ruling accepting the Federal Reserve Board's April 1987 approval for member banks to affiliate with companies underwriting commercial paper, municipal revenue bonds, and securities backed by mortgages and consumer debts, as long as the affiliate does not principally engage in those activities. 'Principally engaged' was defined by the Federal Reserve as activities contributing more than from 5 to 10 per cent of the affiliate's total revenue. In 1987, the DC Court of Appeals affirmed the Federal Reserve Board's 1985 ruling allowing a bank holding company to acquire a subsidiary that provided both brokerage services and investment advice to institutional customers. In 1984 and 1986 the Court held that affiliates of member banks can offer retail discount brokerage service (which excludes investment advice), on the grounds that these activities do not involve an underwriting of securities, and that 'public sale' refers to an underwriting.

Section 32 prohibits a member bank from having interlocking directorships or close officer or employee relationships with a firm 'principally engaged' in securities underwriting and distribution. Section 32 applies even if there is no common ownership or corporate affiliation between the commercial bank and the investment company.

Sections 20 and 32 do not apply to non-member banks and savings and loan associations. They are legally free to affiliate with securities firms. Thus the law applies unevenly to essential similar institutions. Furthermore, securities brokers' cash management accounts, which are functionally identical to cheque accounts, have been judged not to be deposits as specified in the Act.

Commercial banks are not forbidden from underwriting and dealing in securities outside of the United States. The larger money center banks, against whom the prohibitions of the Glass-Steagall Act were directed, are particularly active in these markets. Five of the top 30 leading underwriters in the Eurobond market in 1985 were affiliates of U.S. Banks, with 11 per cent of the total market. These affiliates include 11 of the top 50 underwriters of Euronotes. Citicorp, for example, has membership in some 17 major foreign stock exchanges, and it offers investment banking services in over 35 countries. In 1988, it arranged for its London securities subsidiary to cooperate with a U.S. Securities firm to make markets in securities in the United States. The Chase Manhattan Bank advertises that it 'has offices in almost twice as many countries as ten [major listed] investment banks combined. Furthermore, commercial banks' trust departments can trade securities through their securities subsidiaries or affiliates for pension plans and other trust accounts.

In summary, commercial banks can offer some aspects of investment advisory services, brokerage activities, securities underwriting, mutual fund activities, investment and trading activities, asset securitization, joint ventures, and commodities dealing, and they can offer deposit instruments that are similar to securities

The Generally Accepted Rationale for the Separation of Commercial and Investment Banking

The generally accepted rationale for the Glass-Steagall Act is well expressed in the brief filed by the First National City Bank (1970) in support of the Comptroller of the Currency (William Camp), who had given the bank permission to offer commingled investment accounts. For this case (*Investment Company Institute v. Camp*, 401 US 617, 1971), which the Supreme Court decided in favor of the Investment Company Institute, FNCB's attorneys described the rationale for the Act thus: (First National City Bank, 1970, pp. 40-2):

The Glass-Steagall Act was enacted to remedy the speculative abuses that infected commercial banking prior to the collapse of the stock market and the financial panic of 1929-1933. Many banks, especially national banks, not only invested heavily in speculative securities but entered the business of investment banking in the traditional sense of the term by buying original issues for public resale. Apart from the special problems confined to affiliation three well-defined evils were found to flow from the combination of investment and commercial banking.

Summary of the Rationale Leading up to the Enactment of the Glass Steagall Act

The original (and in some measure, continuing) reasons and arguments for legally separating commercial and investment banking include:

- · Risk of loses (safety and soundness). Banks that engaged in underwriting and holding corporate securities and municipal revenue bonds presented significant risk of loss to depositors and the federal government that had to come to their rescue; they also were more subject to failure with a resulting loss of public confidence in the banking system and greater risk of financial system collapse.
- · Conflicts of interest and other abuses. Banks that offer investment banking services and mutual funds were subject to conflicts of interest and other abuses, thereby resulting in harm to their customers, including borrowers, depositors, and correspondent banks.
- · Improper banking activity. Even if there were no actual abuses, securities-related activities are contrary to the way banking ought to be conducted.
- · Producer desired constraints on competition. Some securities brokers and underwriters and some bankers want to bar those banks that would offer securities and underwriting services from entering their markets.
- · The Federal 'safety net' should not be extended more than necessary. Federally provided deposit insurance and access to discount window borrowings at the Federal Reserve permit and

even encourage banks to take greater risks than are socially optimal. Securities activities are risky and should not be permitted to banks that are protected with the federal 'safety net'.

- · Unfair competition. In any event, banks get subsidized federal deposit insurance which gives them access to 'cheap' deposit funds. Thus they have market power and can engage in cross-subsidization that gives them an unfair competitive advantage over non-bank competitors (e.g. Securities brokers and underwriters) were they permitted to offer investment banking services.
- · Concentration of power and less-than-competitive performance. Commercial banks' competitive advantages would result in their domination or takeover of securities brokerage and underwriting firms if they were permitted to offer investment banking services or hold corporate equities. The result would be an unacceptable concentration of power and less-than-competitive performance.
- · Universal v. Specialized Banking. If the Glass-Steagall Act were repealed, the U.S. Banking system would come to resemble the German universal system, which would be detrimental to bank clients and the economy

Gramm-Leach-Biley Act:

The Gramm-Leach-Bliley Act, also known as the Gramm-Leach-Bliley Financial Services Modernization Act, (November 12, 1999), is an Act of the United States Congress which repealed the Glass-Steagall Act, opening up competition among banks, securities companies and insurance companies. The Glass-Steagall Act prohibited a bank from offering investment, commercial banking, and insurance services. The Gramm-Leach-Bliley Act (GLBA) allowed commercial and investment banks to consolidate. For example, in its wake Citibank merged with Travelers Group, an insurance company, and formed the conglomerate Citigroup, a corporation combining banking and insurance underwriting services. The combined industry is known as the financial services industry.

Article-6 Capital Requirement for Non-Banking Financial Companies:

Survival of single product company may become very difficult in future. Diversification is therefore not only necessary but required. Therefore a need for a financial supermarket with the availability of multiple financial services was there. Thus Non Banking Financial Companies (NBFC) previously known as Non Banking Financial Institutions are now the solution to it (NBFI).

Previously Non Banking Financial Institutions (NBFI) were only allowed to conduct one business under one name. But after their status being changed by the SECP to Non Banking Finance Companies (NBFC) they are now allowed to conduct more than one business under the same name. NBFC is regulated by Security and Exchange Commission of Pakistan (SECP). The NBFC shall make separate applications to the Commission for grant of licenses for carrying on different forms of businesses. The processing fee for each license would be Rs 100,000/-.

Permission to Form a NBFC

A person who is desirous of forming a NBFC shall make an application to the Commission, providing information, along with all the relevant documents and receipts evidencing the payment of non-refundable processing fee amounting to Rs.100,000/-.

The Commission, if it is satisfied that the person seeking permission to for the NBFC has fulfilled the terms and conditions, permit and order in writing to such person to establish a NBFC.

A NBFC shall have to make separate applications to the Commission for the grant of licenses for carrying on different forms of business, provided that the Commission if satisfied may issue a single license for both investment advisory and asset management services.

Minimum Equity

The company has separate requirements of minimum equity for the following forms of businesses:

I.	Investment Finance Services	Rs 300 million
II.	Leasing	Rs 200 million
III.	Venture Capital Investment	Rs 5 million
IV.	Discounting Services	Rs 200 million

V. Investment Advisory & Asset Management Services — Rs 30 million

VI. Housing Finance Services — Rs 100 million

Further more, apart from the minimum equity requirements, each business has it own terms and conditions for its commencement which is specified by the SECP.

The company has to allot at least 15 % of the paid up share capital to the promoters. It is necessary for the company's promoters and directors to give an undertaking that they shall not dispose their shares for a minimum period of three years from the date of the commencement of business.

The company has to furnish an undertaking that within ninety days of the grant of certificate of registration it shall give evidence to satisfy the SECP that the personnel employed by the company for its executive positions have sufficient educational qualifications and relevant professional experience for that particular form of business.

The license which is granted to form the NBFC is valid for one year and each license is renewable annually on an application by the NBFC along with the payment of a fee of Rs.25,000/-.

The Following is forbidden for NBFC:

1. Appoint or elect more than 25 % of its directors form the same family
2. Purchase anything from or sell anything to any director, officer or employee of the NBFC
3. Transfer ownership of controlling shares, merge with, acquire or take over any other company without the prior approval of the SECP.
4. Make loan or advance money to any person except if he is in connection with the ordinary course of business.

Change its chief executive and board of directors without the approval of SECP.

Reforms and Regulations Developments by SBP :

An efficiently functioning financial sector requires the support of an adequate regulatory and legal framework. Both SECP and SBP have continued their proactive surveillance of the changing market dynamics with an increasingly sound performance of the economy, and issue directives as and when required. SBP has undertaken a comprehensive revision of the Prudential Regulations' framework given the changing risk profile of the banking sector in terms of diversification of their asset portfolio and has issued separate sets of Prudential Regulations for Corporate / Commercial lending, SMEs and Consumer Financing.

Detailed Financial Derivatives Business Regulations were also issued during the year. Additionally, State Bank has also started the process of implementation of *Basel II* by outlining a roadmap for its execution in consultation with the stakeholders.

Given the increased exposure of banks on consumer financing, the role of the ***Credit Information Bureau (CIB)*** has become even more significant. The scope of coverage of SBP's

CIB database is now being enhanced to cover all loans amounts. Developments such as these are in the process of being implemented.

SBP has also issued specific Prudential Regulations for the conduct of ***Micro finance Institutions (MFIs)*** which detail the various requirements for a prudent operational framework for an MFI.

In addition, Guidelines for ***Infrastructure Project Financing*** have also been notified by SBP, which facilitate banks to develop, relevant expertise in providing non-recourse financing based on the assessment of the future income streams of the borrower. The guidelines have been categorized in line with the various phases associated with Infrastructure Projects given their long growth period.

SBP has also developed an ***Institutional Risk Assessment Framework (IRAF)*** which is in the process of being implemented. Moreover, in the last few years, SBP has taken various steps and measures towards the improvement of the payment and settlement systems in the country. In addition to regulatory requirements, an appropriate and sound legal framework gives banks the requisite support in conducting their business. In this respect the Financial Institutions (Recovery of Finances) Ordinance, 2001 has greatly facilitated the recovery of outstanding dues. Moreover, with an increased emphasis on the significance of Payment Systems and the need for a uniform regulatory approach especially towards e-based payments, SBP has posted ***Payment Systems and Electronic Funds Transfer Act*** on its website. This Act provides a legal framework to supervise and regulate payment systems and electronic funds transfers in Pakistan, and to protect the rights of both the financial institutions and customers involved in any transaction related to electronic funds transfer.

In order to promote Private Pension schemes, SECP has introduced a set of rules called the ***Voluntary Pension System Rules*** which authorize a Life Insurance company or an Asset Management company to register themselves as Pension Fund Managers to manage the contributions made by or on behalf of participants in pension funds.

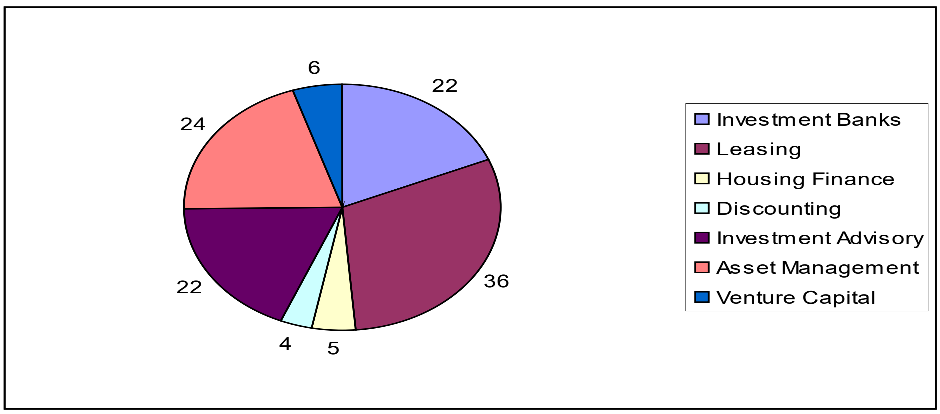

Figure Composition Of NBFC Sector

OVERLAPPING ACTIVITIES BETWEEN COMMERCIAL & INVESTMENT BANKS:

The NBFC face severe competition from commercial banks, DFIs and brokerage firms. Under the Banking companies ordinance, 1962, commercial banks and DFIs are allowed to indulge in investment banking and leasing activities, which are otherwise licensed by the commission specifically for NBFC under NBFC rules. The commercial banking sector has and edge due to its low cost of funds, big equity position on the balance sheet and extensive branch network. Most of the brokerage firms also indulge in the functions, which are exclusively licensed for investment banks e.g. underwriting of shares and providing advice on capital market activities. Competing with financial giants in an overlapping financial environment is significant challenge for NBFCs and therefore, the paradigm shift from single product companies to Universal NBFCs is an inevitable step towards the development of NBFC sector.

Core Functions of State Bank of Pakistan

State Bank of Pakistan is the Central Bank of the country. While its constitution, as originally laid down in the State Bank of Pakistan Order 1948, remained basically unchanged until 1st January 1974 when the Bank was nationalized, the scope of its functions was considerably enlarged. The State Bank of Pakistan Act 1956, with subsequent amendments, forms the basis of its operations today.

Under the State Bank of Pakistan Order 1948, the Bank was charged with the duty to "regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in Pakistan and generally to operate the currency and credit system of the country to its advantage". The scope of the Bank's operations was considerably widened in the State Bank of Pakistan Act 1956, which required the Bank to "regulate the monetary and credit system of Pakistan and to foster its growth in the best national interest with a view to securing monetary stability and fuller utilization of the country's productive resources". Under financial sector reforms, the State Bank of Pakistan was granted autonomy in February 1994. On 21st January, 1997, this autonomy was further strengthened by issuing three Amendment Ordinances (which were approved by the Parliament in May, 1997) namely, State Bank of Pakistan Act, 1956, Banking Companies Ordinance, 1962 and Banks Nationalization Act, 1974. The changes in the State Bank Act gave full and exclusive authority to the State Bank to regulate the banking sector, to conduct an independent monetary policy and to set limit on government borrowings from the State Bank of Pakistan. The amendments in Banks Nationalization Act abolished the Pakistan Banking Council (an institution established to look after the affairs of NCBs) and institutionalised the process of appointment of the Chief Executives and Boards of the nationalised commercial banks (NCBs) and development finance institutions (DFIs), with the Sate Bank having a role in their appointment and removal. The amendments also increased the autonomy and accountability of the Chief Executives and the Boards of Directors of banks and DFIs.

Like a Central Bank in any developing country, State Bank of Pakistan performs both the traditional and developmental functions to achieve macro-economic goals. The traditional functions, which are generally performed by central banks almost all over the world, may be classified into two groups: (a) the primary functions including issue of notes, regulation and supervision of the financial system, bankers' bank, lender of the last resort, banker to Government, and conduct of monetary policy, and (b) the secondary functions including the agency functions like management of public debt, management of foreign exchange, etc., and other functions like advising the government on policy matters and maintaining close relationships with international financial institutions. The non-traditional or promotional functions, performed by the State Bank include development of financial framework, institutionalization of savings and investment, provision of training facilities to bankers, and provision of credit to priority sectors. The State Bank also has been playing an active part in the process of islamization of the banking system. The main functions and responsibilities of the State Bank can be broadly categorized as under:-

REGULATION OF LIQUIDITY

Being the Central Bank of the country, State Bank of Pakistan has been entrusted with the responsibility to formulate and conduct monetary and credit policy in a manner consistent with the Government's targets for growth and inflation and the recommendations of the Monetary and Fiscal Policies Co-ordination Board with respect to macro-economic policy objectives. The basic objective underlying its functions is two-fold i.e. the maintenance of monetary stability, thereby leading towards the stability in the domestic prices, as well as the promotion of economic growth.

To regulate the volume and the direction of flow of credit to different uses and sectors, the Bank makes use of both direct and indirect instruments of monetary management. Until recently, the monetary and credit scenario was characterised by acute segmentation of credit markets with all the attendant distortions. Pakistan embarked upon a program of financial sector reforms in the late 1980s. A number of fundamental changes have since been made in the conduct of monetary management which essentially marked a departure from administrative controls and quantitative restrictions to market-based monetary management. A reserve money management programme has been developed. In terms of the programme, the intermediate target of M2 would be achieved by observing the desired path of reserve money - the operating target. While use in now being made of such indirect instruments of control as cash reserve ratio and liquidity ratio, the program's reliance is mainly on open market operations.

ENSURING THE SOUNDNESS OF FINANCIAL SYSTEM: REGULATION AND SUPERVISION

One of the fundamental responsibilities of the State Bank is regulation and supervision of the financial system to ensure its soundness and stability as well as to protect the interests of depositors. The rapid advancement in information technology, together with growing complexities of modern banking operations, has made the supervisory role more difficult and challenging. The institutional complexity is increasing, technical sophistication is improving and technical base of banking activities is expanding. All this requires the State Bank for endeavoring hard to keep pace with the fast-changing financial landscape of the country. Accordingly, the out dated inspection techniques have been replaced with the new ones to have better inspection and supervision of the financial institutions. The banking activities are now being monitored through a system of 'off-site' surveillance and 'on-site' inspection and supervision. Off-site surveillance is conducted by the State Bank through regular checking of various returns regularly received from the different banks. On other hand, on-site inspection is undertaken by the State Bank in the premises of the concerned banks when required.

To deepen and broaden financial markets as also to diversify the sources of credit, a number of non-bank financial institutions (NBFIs) were allowed to increase substantially. The State Bank has also been charged with the responsibilities of regulating and supervising of such institutions. To regulate and supervise the activities of these institutions, a new Department namely, NBFIs Regulation and Supervision Department was set up. Moreover, in order to safeguard the interest of ultimate users of the financial services, and to ensure the viability of institutions providing these services, the State

Bank has issued a comprehensive set of Prudential Regulations (for commercial banks) and Rules of Business (for NBFIs).

The "Prudential Regulations" for banks, besides providing for credit and risk exposure limits, prescribe guide lines relating to classification of short-term and long-term loan facilities, set criteria for management, prohibit criminal use of banking channels for the purpose of money laundering and other unlawful activities, lay down rules for the payment of dividends, direct banks to refrain from window dressing and prohibit them to extend fresh laon to defaulters of old loans. The existing format of balance sheet and profit-and-loss account has been changed to conform to international standards, ensuring adequate transparency of operations. Revised capital requirements, envisaging minimum paid up capital of Rs.500 million have been enforced. Effective December,1997, every bank was required to maintain capital and unencumbered general reserves equivalent to 8 per cent of its risk weighted assets.

The "Rules of Business" for NBFIs became effective since the day NBFIs came under State Bank's jurisdiction. As from January, 1997, modarbas and leasing companies, which are also specialized type of NBFIs, are being regulated/supervised by the Securities and Exchange Commission (SECP), rather than the State Bank of Pakistan.

EXCHANGE RATE MANAGEMENT AND BALANCE OF PAYMENTS

One of the major responsibilities of the State Bank is the maintenance of external value of the currency. In this regard, the Bank is required, among other measures taken by it, to regulate foreign exchange reserves of the country in line with the stipulations of the Foreign Exchange Act 1947. As an agent to the Government, the Bank has been authorised to purchase and sale gold, silver or approved foreign exchange and transactions of Special Drawing Rights with the International Monetary Fund under sub-sections 13(a) and 13(f) of Section 17 of the State Bank of Pakistan Act, 1956

The Bank is responsible to keep the exchange rate of the rupee at an appropriate level and prevent it from wide fluctuations in order to maintain competitiveness of our exports and maintain stability in the foreign exchange market. To achieve the objective, various exchange policies have been adopted from time to time keeping in view the prevailing circumstances. Pak-rupee remained linked to Pound Sterling till September, 1971 and subsequently to U.S. Dollar. However, it was decided to adopt the managed floating exchange rate system w.e.f. January 8, 1982 under which the value of the rupee was determined on daily basis, with reference to a basket of currencies of Pakistan's major trading partners and competitors. Adjustments were made in its value as and when the circumstances so warranted. During the course of time, an important development took place when Pakistan accepted obligations of Article-VIII, Section 2, 3 and 4 of the IMF Articles of Agreement, thereby making the Pak-rupee convertible for current international transactions with effect from July 1, 1994

After nuclear detonation by Pakistan in 1998, a two-tier exchange rate system was introduced w.e.f. 22nd July 1998, with a view to reduce the pressure on official reserves and prevent the economy to some extent from adverse implications of sanctions imposed on Pakistan. However, effective 19th May 1999, the exchange rate has been unified, with the introduction of market-based floating exchange rate system, under which the exchange rate is determined by the demand and supply positions in the foreign exchange market. The surrender requirement of foreign exchange receipts on account of exports and services, previously required to be made to State Bank through authorized dealers, has now been done away with and the commercial banks and other authorized dealers have been made free to hold and undertake transaction in foreign currencies.

As the custodian of country's external reserves, the State Bank is also responsible for the management of the foreign exchange reserves. The task is being performed by an Investment Committee which, after taking into consideration the overall level of reserves, maturities and payment obligations, takes decision to make investment of surplus funds in such a manner that ensures liquidity of funds as well as maximizes the earnings. These reserves are also being used for intervention in the foreign exchange market. For this purpose, a Foreign Exchange Dealing Room has been set up at the Central Directorate of State Bank of Pakistan and services of a ‘Forex Expert’ have been acquired.

DEVELOPMENTAL ROLE OF STATE BANK

The responsibility of a Central Bank in a developing country goes well beyond the regulatory duties of managing the monetary policy in order to achieve the macro-economic goals. This role covers not only the development of important components of monetary and capital markets but also to assist the process of economic growth and promote the fuller utilization of a country’s resources.

Ever since its establishment, the State Bank of Pakistan, besides discharging its traditional functions of regulating money and credit, has played an active developmental role to promote the realisation of macro-economic goals. The explicit recognition of the promotional role of the Central Bank evidently stems from a desire to re-orientate all policies towards the goal of rapid economic growth. Accordingly, the orthodox central banking functions have been combined by the State Bank with a well-recognized developmental role.

The scope of Bank’s operations has been widened considerably by including the economic growth objective in its statute under the State Bank of Pakistan Act 1956. The Bank’s participation in the development process has been in the form of rehabilitation of banking system in Pakistan, development of new financial institutions and debt instruments in order to promote financial intermediation, establishment of Development Financial Institutions (DFIs), directing the use of credit according to selected development priorities, providing subsidized credit, and development of the capital market.

MINIMUM CAPITAL REQUIREMENTS

Banks are aware that Section 13 of the Banking Companies Ordinance, 1962 relating to requirement of minimum paid up capital and reserves has recently been modified through the Banking Companies (Second Amendment) Ordinance, 1997 (copy enclosed). The modified law interlay states that no banking company shall commence business unless it has a minimum paid up capital as may be determined by the State Bank or carry on business unless the aggregate of its capital and unencumbered general reserves so of such minimum value within such period as may be determined and notified by the State Bank from time to time. Accordingly, in exercise of the powers vested under the above provisions of law it has since been decided that effective from December 31, 1997 all banks shall maintain minimum capital as laid down in the enclosed Annexure

INSTRUCTIONS ON CALCULATION OF MINIMUM CAPITAL REQUIREMENTS BASED ON RISK WEIGHTED ASSETS

No banking company incorporated in Pakistan shall commence and carry on banking business unless it has a minimum paid up capital or Rs 500 million. Similarly, no banking company incorporated outside Pakistan shall commence and carry on banking business in Pakistan unless it has a minimum paid up capital of the value of Rs 500 million.

Provided that where a banking company already in existence is found short of the minimum required paid up capital on 31^{st} December, 1997, it shall meet shortfall by 31^{st} December, 1998.

Effective from where the capital and unencumbered general reserves maintained by a banking company are found short of the minimum required capital and unencumbered general reserves (MCR) on December 31^{st}, 1997, the State Bank shall, on request from the banking company concerned, consider grant of extension in time for meeting the required capital adequacy.

The capital and unencumbered general reserves for the purposes of the minimum requirement of 8% of risk-weighted assets shall mean and include

Equity:

Fully paid up capital / capital deposited with SBP*

Balance in share premium account

Reserve for Bonus Shares

General Reserves as disclosed on the balance-sheet

Unappropriate/unremitted* profits (net of accumulated losses, if any)

Company Profiles

Company Profiles

ESCORTS INVESTMENT BANK LIMITED

Escorts Investment Bank Limited has come a long way since it was established in 1996, to become one of the most progressive investment Banks in Pakistan in terms of Products and Services offered, Assets size and Return on Equity.

The current Business Plan of Escorts Investment Bank, ***Escorts Beyond 2001*** was launched in January 2002 after a thorough S.W.O.T Analysis of the Bank, assessment of the Macro Economic and Financial Market trends and ***An Eye On The Future!***

Broad Policy Objectives:

- Value Creation for Shareholders on a Sustainable Basis.
- Shift from Pseudo Commercial Banking activities to genuine Investment Banking to address the issue of Legitimacy, and more importantly because we feel that Investment Banking is a high-end activity that is a better vehicle for achievement of our first objective.
- Maintaining High Asset Quality.
- Good Governance & Best Business Practices.
- High Professional Efficiency and Constant Improvement Policy.

The Operational Policy:

The Operational Policy of the Business Plan is focused on Enhanced Profitability and Sustainable Growth through a broader range of Products & Services, Capacity Building in terms of Human

Resource, Infrastructure, Systems Support and Risk Management Policies.

First International investment Bank

INTERBANK was founded in 1990, with an ambition to provide specialized solutions to the growing financial industry. The Bank offers an array of integrated financial services focusing on investment expertise and unique analytics; this has placed INTERBANK in the league of leading investment banks in Pakistan.

INTERBANK caters to a clientele of emerging and established businesses, and professional and individual investors.

INTERBANK is licensed by SECP (Securities and Exchange Commission of Pakistan) to carry out or undertake Investment Finance Services as NBFC. The Bank is also listed on the Karachi and Lahore Stock Exchanges of Pakistan, with offices in major cities like Karachi, Lahore, Islamabad, Faisalabad and Sialkot.

INTERBANK provides following Investment Banking services to its clients:

Distribution & Brokerage

Consumer Finance

Commercial Financing & Leasing

Corporate Finance

Cash & Treasury Management

Portfolio Management & Advisory

Mutual Funds Advisory Service

Fund Select is INTERBANK's Mutual Funds Advisory Service; it has been established to assist you in making informed decisions through different investment strategies. These strategies offer attractive returns, choice, diversification, convenience, liquidity, tax benefits and are handled by qualified professionals.

Fund Select is designed to help you build your personal portfolio and provides a clear understanding of how the combination of different Mutual Fund Investment Strategies can provide you with potential growth and peace of mind.

Our vast experience proves that every individual investor has different needs; therefore we offer a variety of Investment strategies with goals and styles to suit a broad range of objectives and circumstances.

Investing through Fund Select carries minimum risk as compared to investing directly in stocks and money market. Your money is simultaneously invested in various securities thereby reducing your total risk that can arise if investments are made in just one kind of securities. Because the Investment strategies comprise of different Mutual Funds investments, investors are able to reduce their risk profile further lower.

Fund Select offers a variety of Mutual Funds to individuals and corporate investors, your principal remains safe and you can also earn a regular growth on your investments.

Cash & Treasury Management

The First International Investment Bank (INTERBANK) established its Cash and Treasury Management setup effectively in 1992 as an independent Division. The basic objective of this Division was optimum utilization of its financial resources, effective liquidity management and participation in various money market activities, with the aim to contribute towards the enhancement of INTERBANK's profitability.

While the banking sector in Pakistan has been evolving rapidly, many companies and individuals, at times, still find it challenging to implement comprehensive cash management arrangements. In many cases, complex regulations, limited investment products, unique operating conditions and developing clearing and banking infrastructures inhibit the implementation of Cash and Treasury Management techniques widely used elsewhere in the world.

Treasurers play a key role in explaining and educating firms and individuals about working capital management. Acting as consultants, INTERBANK can help drive efficiencies to enhance cash flow and improve liquidity.

Products, Services & Functions

INTERBANK's Treasury Division primarily acts as an in-house service provider for various lending, borrowing and investment activities undertaken by other departments / branches of the Bank. Accordingly, the Treasury is constantly engaged in handling the assignments and /or providing services as listed below:

1) Liquidity management with optimum return to the Bank
2) Assisting the Bank's liability marketing team in mobilization of short term and long-term deposits through the Bank's Certificate of Deposit Scheme (CODs)
3) Borrowing / Placement of funds from / with other money market participants
4) Trading / Investment in government securities
5) Trading / Investment in TFCs
6) Undertaking other money market activities such as Repo, Reverse Repo transactions against government securities, rated / listed TFCs and blue chip shares.

Portfolio Management

INTERBANK offers "Portfolio Management Accounts" to corporate clients as well as high net worth individuals. The aim is to offer the highest standard of service in managing portfolios of investments, customized according to each client's requirements and also in accordance with the Company's investment policies.

At INTERBANK, customers can utilize the best available professional expertise to achieve and optimize the return on investment, customized investment solutions for allocating assets, involving clients in structuring and arranging investment plans according to their needs, diversifying holdings and tailoring strategies to your investment goals and other long-term objectives.

INTERBANK offers this service to the following client categories:

- Corporations/Companies
- Provident & Pension funds
- Insurance Companies
- High Net worth Individuals

Commercial Financing & Leasing

INTERBANK is a progressive commercial financing company, providing its customers with commercial loan financing as well as leasing products and equipment, and advisory services. INTERBANK's lending, leasing and factoring products including direct lease, sale and leaseback, short term loans, term loans for BMR, acquisition and expansion, and project financing.

The Bank's commitment is "what is best for the customer", hence allowing it to develop long-term performance based relationships with them.

Commercial Leasing

INTERBANK offers plant & machinery, equipment and vehicles leasing and financing plans and services to a cross section of the economy. As one of the leading commercial leasing companies in the country, the Bank offers innovative financing options with outstanding services to its customers. INTERBANK mainly focus is on local companies with sound financial credibility and standing in the market. It also maintains a diversified clientele base with less than 1% infection in portfolio.

Short Term and Long Term Loan Financing

INTERBANK provides a diverse range of loan sizes and financing tools suitable to business applications.

Short Term Loans:

INTERBANK offers flexible short-term loans facility to its customers. This service is for those customers who need immediate working capital or require funds for general use.

The bank concentrates on really short-term loans that have a life of 12 months or less against charge on assets, hypothecation on vehicles, equitable / registered mortgage on property etc. This service can be availed by a customized payment structure to meet desired business needs and fulfill the customer requirements.

Long Term Loans:

INTERBANK offers long-term loans against tangible securities. These loans are commonly set for a span of 5 years. This facility can be availed by established businesses that can leverage sound financial statements and substantial down payments to minimize monthly payments and total loan costs.

INTERBANK also participates in syndicated loans for project financing or else arranged by Banks, DFI's and NBFC's. Each member Bank provides loan funds according to the contribution shares agreed in the Syndicate Agreement and collect loan principal and interest according to the ratio agreed.

Brokerage

INTERBANK offers a complete service Equity Brokerage Division to its clients, based on mutual respect, trust and competence. The Bank has managed to revolutionize institutional brokerage by applying technology and money management diversification techniques to equity brokerage.

INTERBANK has acquired Finex Securities; this will provide the Bank with the complimentary distribution strength and expanded market coverage in the financial markets. Finex Securities, with more than one decade of presence in the financial markets has always been in the forefront in equity, money market and forex broking business in Pakistan.

As a Trading Member of the Lahore Stock Exchange, our brokerage division provides full Trading and Clearing services in line with the philosophy of providing counseling based broking services.

With the onset of on-line trading, INTERBANK has come forth as one of the pioneers to recognize and utilize the potential of the Internet as a powerful financial tool. As a result, the INTERBANK Brokerage Division has developed an on-line trading platform; “I-trade” - a true synthesis of tradition and technology with cutting edge advanced trading software systems in place.

- Products and Services offered:
- Regular Transaction
- Provisional Transaction
- Spot Transaction
- Futures Transaction
- Carry Over Transactions (Badla Transactions)
- Margin Financing Transaction
-

INTERBANK believes in concentrating on building strong working relationship with its patrons. We accomplish this by providing our customers with the most comprehensive overview of the market, timely information and a close contact with each and every customer during market developments and movements.

INTERBANK’s professionalism, precision, accountability, consideration to customer instructions and capability to deliver outstanding results has resonated with investors through out the country.

Consumer Finance

Auto Financing

INTERBANK Auto Finance is committed to offer the most flexible and convenient programs to best fit your choice. For more information about our comprehensive leasing programs and services, simply choose one of the car leasing options or contact our officers.

Personal Loan

There are many things in life that we aspire to enjoy such as owning and living in a luxurious home, obtaining the best education and enjoying a dream vacation.

With INTERBANK's Personal Loan, you can obtain additional cash for personal use, without the hassle of any form of securities or guarantors.

SECURITY INVESTMENT BANK LTD

The bank maintained its performance by further improving its profitability. The JCR-VIS Credit Rating Company has maintained its rating at A (single A) for long term to medium term and A-1, (A one) for short term. This reflects the confidence over the stability of performance and earnings.

Security Investment Bank Limited was incorporated as an Investment Finance Company on May 23, 1991. The company was incorporated in Pakistan as a public limited company, and was listed on the Stock Exchanges of the country on January 06, 1992. The company is engaged in providing investment, finance and related banking services.

Jahangir Siddiqui Investment Bank Ltd

Jahangir Siddiqui Investment Bank Limited (JSIBL) is a non-banking finance company based in Pakistan. The Company is licensed to carry out the business of investment finance services. JSIBL operates through two business segments. The capital market segment is principally engaged in dealing in equity instruments of enterprises listed on the stock exchange. The money market segment is engaged in the provision of money market, trading and treasury services, as well as management of the Company's funding operations by use of treasury bills, government securities, and placements and acceptances with other companies, through treasury and wholesale banking. Its other operations include underwriting, trusteeship, portfolio trading services, loans and advances, and consultancy services. JSIBL offers a range of products to its clients, which include certificates of deposit (COD), short-term margin finance and term finance, corporate finance and portfolio trading services.

ORIX INVESTMENT BANK LTD

ORIX Investment Bank Pakistan Limited (OIBP) is a joint venture sponsored by ORIX Corporation, Japan, ORIX Leasing Pakistan Limited, International Finance Corporation, Asian Finance & Investment Corporation, Saudi Pak Industrial & Agricultural Investment Company (Private) Limited and Pak Kuwait Investment Company (Private) Limited. OIBP was incorporated as a Public Limited Company under the name of ORIX Investment Finance Company Pakistan Limited in July of 1995. OIBP is listed in the Karachi and Lahore Stock Exchanges.

Corporate Finance:

Services offered :-

Advisory Services:

The corporate finance department provides financial advisory services with regards to new projects, mergers, acquisitions and new equity issues.

- Arrangement of Syndicated Facilities:

  The corporate finance department arranges short and long term syndicated finance facilities to cater to the working capital as well as BMR/expansion requirements of customers. This facility provides a one-window operation for those customers who wish to deal with one Lead Banker for the said facilities, instead of dealing individually with a number of banks/financial institutions for the requisite funding.

- Issuance of Corporate Bonds:

  The corporate finance department is involved in the arrangement of finances for customers via issuance of various corporate debt instruments either through a private placement or a public issue.

- Lease Syndication:

  The arrangement of lease syndication for industrial equipments, plants, machinery, and generators as well as commercial vehicles including buses , trucks, bowzers, storage tanks, etc.

- Privatization Advisory:

  Advisory for privatization of government/semi-government organizations including their restructuring and future rehabilitation plans.

- Securitization:

  Advisory structuring and placement of various securitization transactions including, but not limited to, incorporation of SPV, issuance and listing of securitized TFC's and its management.

- Sukuk TFC's:

  Sukuk TFC's are a Islamic mode of financing. The installments are based upon operating profit/loss basis.

- Trusteeship:

  The Trustee Department (part of corporate finance department) is additionally engaged in acting as Trustees for privately placed or public issues of Fixed Income Security (mainly TFCs).

- Underwriting of Public Debt/Equity Issues:

  Underwriting of equity as well as debt instruments (mainly Term Finance Certificates - TFCs) is also carried out by the corporate finance department, on a selective basis.