



FINANCIAL MARKETS ASSOCIATION OF PAKISTAN

An Association incorporated under Section 42 of the Companies Ordinance, 1984.

Treasury Department
Meezan Bank Limited,
2nd Floor, P.N.S.C Building
M.T. Khan Road, Karachi
Dir. : (92-21) 35611858
35611868
UAN : 111-331-331
Fax : (92-21) 35611856
(Affiliated with ACI)

President

Shah M. Azim Azmi
Head of Treasury
NIB Bank Limited
shah.azmi@nibpk.com

General Secretary

M. Abdullah Ahmed, ACIF, FRM
Executive Vice President
Treasury & Financial Institutions
Meezan Bank Limited
abdullah.ahmed@meezanbank.com

Assistant Secretary

Muhammad Ismail Usuf
Senior Vice President &
Head of Interbank
National Bank of Pakistan
mismail@nbp.com.pk

Treasurer

Masood A. S. Wahedna
VP / Divisional Head
Treasury & Investments
The Bank of Khyber
masood.wahedna@bok.com.pk

MEMBERS EXECUTIVE COMMITTEE

Hasan Zia Syed

Deputy General Manager
Team Leader - TMU
Habib Bank Limited
hasan.zia@hbl.com

Muhammad Anees

Assistant Vice President &
Chief Dealer
Soneri Bank Limited
anees.abasi@soneribank.com

Qasim Nadeem

Senior Dealer - ALM
Barclays Bank PLC, Pakistan
qasim.nadeem@barclays.com

Syed Zain Raza Kazmi

Dealer Money Market
Treasury
Silkbank Limited
zain.raza@silkbank.com.pk

Kashif Rafi

Senior Vice President
JS Investments Limited
kashif.rafi@jsil.com.pk

MINUTES OF FMAP TECHNICAL COMMITTEE MEETING HELD AT RBS PAKISTAN LIMITED

Date: 3rd November, 2010

Present:

1. **Dr. Naim Abdullah** (NA) (In the Chair)
2. **Mr. Shah Miftah-ul Azim Azmi** (MA)
3. **Mr. Abdullah Ahmed** (AA)
4. **Mr. Nusrat Vohra** (NV)
5. **Mr. Faizan Mitha** (FM)
6. **Mr. Hanif Akhai** (HA)
7. **Mr. Mohammad Ramzan** (MR)
8. **Mr. Saquib Ayub** (SA)
9. **Mr. Deedar-Ul-Haq** (DH) (representing SCB)
10. **Mr. Muhammad Yaseen** (MY)
11. **Mr. Rehan Mir** (RM)
12. **Mr. Zahid Mansoor** (ZM)
13. **Mr. Fahim Ahmed** (FA)
14. **Mr. Kashif Rafi** (KR) On invitation

Agenda for the meeting:

1. Discussion on T-bill maturity falling on possible Eid holiday.
2. Approval of draft code of conduct document before onward submission to the SBP.
3. Discussion on backvaluation compensation on PKR payments.
4. Discussion on SBP's letter on OIS and brokerage accreditation requests
5. To discuss any other business within the scope of the Committee with the permission of the Chair.



DISCUSSIONS

DH brought to the attention of the committee that the Treasury Bill maturity of approximately PKR 135 billion is falling on possible Eid holiday, i.e. November 18, 2010. This maturity had recently caused anxiety amongst the market participants due to expectations that Eid holidays could be announced from November 17-19, 2010. In case this maturity date actually becomes an SBP holiday, then the next working day for settlement of this transaction would be Monday, November 22, 2010, which would result in estimated financial loss of USD 2.5 million to the market. He was of the view that if this anomaly is not corrected, there is a possibility of distorted bidding behavior from primary dealers whenever such auctions are held around Islamic holidays.

FA suggested that FMAP should circulate a calendar mentioning the holidays in Pakistan (including lunar holidays) to the whole market. To this, AA responded that FMAP had added the Pakistan holidays to the ACI calendar and it was distributed amongst the treasurers of banks and DFIs in 2010. NA asked AA to also post these holidays on the FMAP website for the market. After this issue was extensively deliberated upon, it was decided by the technical committee that the Financial Markets Association of Pakistan would recommend to the State Bank of Pakistan to conduct open market operations i.e. the outright purchase of Government paper two days before the maturity dates of such auctions, so as to ensure that there is no unnecessary financial loss or gain, whatsoever to the market participants due to a holiday being announced subject to the appearance of moon.

Next, the technical committee thoroughly reviewed the code of conduct draft document presented by the executive committee. Changes were suggested in the draft document by the committee members. NV suggested that legal opinion be taken on the disclaimer of the document. AA informed the committee that once the changes are incorporated, FMAP will email the draft (with the track changes as suggested by Technical Committee) for review, followed by approval of the hard copy by the technical committee members through circulation, before onward submission of this document to the SBP.

AA mentioned another issue that had been raised a few months back by MY which was backvaluation. AA also informed the committee that the executive committee had bounced off this idea with SBP who stressed that FMAP must build consensus among market participants and get approval of technical committee before submitting the proposal of Back Valuation to SBP. Alternatively, SBP had also advised that this issue could be addressed in the Code of Conduct document. HA recommended that discount rate be used for this purpose. NV mentioned that SBP penalties, which are a non-tax deductible expense, should also be factored in the compensation calculations in cases where penalties are actually imposed due to a shortfall in reserve requirement as a result of counterparty default. SA said that even if the committee agreed to discount rate for backvaluation in the case of default and penalty rate in the case of shortfall resulting from default, still it does not address the situation where banks are forced to borrow at exorbitantly high levels above discount rate, e.g. at year end, etc. NV suggested that in that case the committee could decide on SBP penalty rate or market rate, whichever is higher for backvaluation purpose. After heavy deliberation, it was decided by the committee to defer this issue for the time being until a consensus is achieved on the rate that is required for backvaluation purpose.



AA informed the committee that SBP had advised that FMAP also needs to discuss future course of action for launch of Overnight Index Swap (OIS) since the initial trial period of KONIA has gone by. The OIS sub-committee meeting is long overdue. To this FA responded that he would be submitting the presentation to the subcommittee the next working day, after which the sub-committee could meet to discuss the MTM/ settlement arrangement of OIS, before deciding on its launch date.

The next issue on the agenda was the outstanding 3 broker accreditation requests which have been put on hold by SBP. Moreover, SBP has informed FMAP that they will not accept any fresh application for broker accreditation until FMAP submits a study on market size and required number of brokers along with revised accreditation criteria for brokers. The committee decided to form a 4-member sub-committee comprising HA, MY, NV, and SA to propose changes in the broker accreditation criteria within the next 3 working days, after which a delegation comprising NA, HA, AA, and MA would visit SBP to discuss the new accreditation criteria and the pending accreditation requests.

AA further mentioned that as per the advice of MY, show cause notices had been issued to 8 brokerage houses, of which some had ceased their operations and some had failed to commence after receiving FMAP go ahead. FMAP has also given these institutions 30 days to respond. Moreover, FMAP has forwarded this list of institutions to SBP as well.

In this regard, some letters have come back due to the institutions not existing at their respective addresses. One institution, Atlas Capital Markets has responded by stating that they are now in the process of hiring skilled staff for their forex desk to startup the services before the deadline; however, they wanted an extension till 31st December, 2010. To this, the technical committee recommended to the executive committee to submit this response to SBP as well. AA also inquired on the status of Invest & Finance which had failed to commence operations 4 months after FMAP had given its go ahead. To this, MA and NV responded that their institutions had received letters from Invest & Finance which confirmed that Invest & Finance had started commencement of broking operations.

FA mentioned that a task force needs to be set up to finalize modalities on contract netting and payments netting. The committee agreed to the proposal and decided on forming a sub-committee comprising representation from UBL, NBP, HBL, SCB, Deutsche, and Citibank for this purpose.

The meeting ended with the understanding that inshallah committee would meet again soon.