



FINANCIAL MARKETS ASSOCIATION OF PAKISTAN

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

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MINUTES OF FMAP TECHNICAL COMMITTEE MEETING HELD AT DEUTSCHE BANK

Date: 11th February, 2011

Present:

1. Dr. Naim Abdullah (NA) (In the Chair)
2. Shah Miftah-ul Azim Azmi (MA)
3. Mr. Abdullah Ahmed (AA)
4. Mr. Nusrat Vohra (NV)
5. Mr. Zohair Ali (ZA)
6. Mr. Hanif Akhai (HA)
7. Mr. Salman Zaidi (SZ) (representing MCB)
8. Mr. Khalid Anvery (KA)
9. Mr. Muhammad Yaseen (MY)
10. Mr. Rehan Mir (RM)
11. Mr. Zahid Mansoor (ZM)
12. Mr. Fahim Ahmed (FA)

Agenda for the meeting:

1. Overnight Index Swaps (OIS).
2. Market Development Issues.

DISCUSSIONS:

NA started the discussion by informing the committee that SBP meeting with technical committee is due on the 18th of February, 2011. For this purpose, the meeting has been convened to summarize key issues that need to be discussed in the forthcoming meeting.

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FA and NA informed the committee about the progress that had been made by the sub-committee on overnight index swaps (OIS). Moreover, it was communicated to the forum that SBP FSCD has emphasized that as too much time has lapsed, the committee should decide once and for all whether they wish to introduce this product in the market or not. MA informed the committee that NIB would be interested in joining the OIS club, and it would take a month in completion of its internal formalities before it commences OIS trading. MA further informed the chair that Samba Bank and JS Bank had also expressed its willingness to join the OIS group. NA asked the remaining members regarding their buy-in about this product. HA stated that being an Authorized Derivatives Dealer (ADD), they would want to start right away, but to remove the teething problems regarding accounting treatment, settlement, it would be preferred that ADDs engage in one-month OIS for a one-month trial period. NV suggested that the 4 existing ADDs should start trading in OIS, allowing the market to observe this product and later join in. For NBP, it would take at least 6 months in completing formalities to join OIS. SZ said that MCB is in the process of finalizing a system for its dealing room, and as this process would take 3-4 months, it would take this much time for MCB to join this group. RM mentioned that he's interested in the product, but discussion on this product is at its preliminary stage in Askari Bank. ZA informed the chair that as HBL has already applied to SBP for license to become ADD, their buy-in is already evident. MY said that as the Derivative Models of Temenos system will be available for testing in ABL within one month, he expects ABL to venture into this product by July this year (subject to SBP approval).

HA suggested to all the participants that existing ADDs should first have a meeting before the end of this month to finalize modalities on starting OIS trading, besides setting 1st March, 2011 as a tentative date to start trading in one-month OIS for a one month trial period. This club could then meet at the end of March to resolve teething problems, if any, and then opt to extend dealing to three months period. NA insisted that the non-ADDs should start exploring back office systems from possible vendors in the market, if they are interested in joining the OIS club.

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On market development issues, the discussion was open for the floor to contribute.

- NV suggested that SBP should be asked to reactivate forward cover facility for imports, both USD/PKR as well as third currencies.
- MA suggested that considering SBP was charging banks on RTGS, one free TT per day facility from one branch of SBP to another branch (as was allowed in past) should be reactivated for banks.
- ZM highlighted the absence of Lender Of Last Resort (LOLR) facility for Islamic banks. And that this is deemed necessary for generating liquidity for these institutions.
- MY mentioned that coupon stripping of PIBs has already been visualized in the PIB guidelines, however, no progress has been made over the last 10 years. NA endorsed this suggestion, mentioning that it increases the duration of investments for corporates in the financial markets. SBP should take steps for this product to be launched soon. Regarding this product, HA mentioned that Invest Capital Securities has made some progress on this product, and that FMAP should call up their relevant personnel to understand the viability of this product.
- NV mentioned that SBP had previously committed to buy back illiquid government paper from the market, but unfortunately this had not been done so. This matter should be taken up with SBP for institutions to redeem this paper with them.
- NA mentioned that the existing ADDs had engaged in the execution of long-term cross-currency swaps (CCS) usually for the tenor of 7-8 years with clients. However, they were unable to create credible benchmark mark-to-market (MTM) curve for this purpose. SBP should take steps for ADDs to develop such a curve.
- FA suggested that SBP allow non-primary dealers (non-PDs) to short-sell in Government securities.
- NV suggested that this committee should take up issue of narrowing down interest rate corridor of SBP by 100 bps.

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Regarding FMAP brokerage rates circular, MA clarified to the forum that FMAP had issued the circular in accordance with the SBP letter on revised interbank brokerage accreditation criteria in which it was emphasized that reducing brokerage as well as dealing in nil brokerage would be tantamount to unethical practice. Taking into account banks' reservations on certain brokerage rates which they deemed quite high, FMAP had asked for feedback from the technical committee as to what brokerage rates in FX, MM, and securities would they want to be revisited. After lot of debate, it was decided by the committee to take up this issue with SBP and until then, the status quo of abiding by FMAP circulars on brokerage rates would stand.

FA pointed out the issue of name disclosure by brokers before the execution of deal, and that FMAP should take action against those dealers who engage in asking names of institutions before executing deals. The committee recommended that FMAP should take out a circular in which it should recommend that this practice should be avoided by market participants. Moreover, NV recommended that in case a bank has a limit problem with a certain institution that day, it should fully disclose that to the broker, so that such issues do not crop up in future.

Furthermore, FA and MA informed the chair that as Reuters had moved its premises outside Pakistan, they had asked for contribution of KIBOR and PKRV rates by FMAP in Pakistan. This was tantamount to conflict of interest. It was suggested that contributors send rates by email rather than dealing system to a Reuters designated email address, from where Reuters could upload the rates at the fixing time. HA asked AA and MA to check whether this was in the domain of FMAP, and to avoid any confusion, it should take up this matter with SBP. This was unanimously agreed by the forum.

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

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Faiz Ahmad