

## FMA, Reuters announce introduction of PGBI

By a correspondent

KARACHI: The Financial Markets Association of Pakistan (FMA) and the Reuters Pakistan Ltd have announced the introduction of the Pakistan Government Bond Index (PGBI), under the initiative of the State Bank of Pakistan (SBP) from February 21, 2005.

The FMA and the Reuters would provide the Total Return Index (TRI) and the Clean Price Index (CPI) as two indices for the market participants, said an official statement of the FMA on Tuesday.

The TRI calculates the price performance and the income paid assuming that the coupon is reinvested back in the portfolio, while the CPI tracks the daily price performance of the market.

In addition, a modified duration calculation of the portfolio provides a risk measure. The indices are composed of selected liquid government bond issues chosen by the technical committee of FMA, added the statement.

The indices will be calculated daily for the settlement day of the market. The validated closing market prices for the selected bond issues will be sourced from the primary dealers.

"For this purpose a Bond Fixing Page (PKBF) has been established on Reuters. The use of market prices will reduce bias in calculating the index. In essence the index will be priced by the market for the market," the statement maintained.

The used methodology for index calculation is in conformity with the standardised rules of the European Federation of Financial Analysts Societies, European Bond Commission and ISMA.

The adopted methodology is al-

several emerging and developed economies like India, Thailand, Taiwan, Turkey, Hong Kong etc.

The PGBI index is constructed with the consultation of the central bank (SBP) and the market participants and is managed by a neutral third party (Reuters). In essence the index would be a true representative of the market.

The index would include only those securities in which an investor can deal at a short notice i.e. liquid issues and Firm prices should exist for all consistent bonds.

Index calculation should accurately reflect the actual changes in the value of the portfolio consisting of the index securities.

Index values are made available on the same day so managers can measure performance immediately, and make timely adjustments to investment strategy.

The index is flexible to accommodate the needs of individual portfolio managers, while investment managers will know which securities are included in the index and how it is constructed.

The objective of the PGBI is to provide track daily performance of the market and track total returns for fixed income investments besides track historical performance and volatility and provide risk measures and transparency.

The investment managers can also measure their performance by using these indices PGBI as a reliable tool.

The PGBI forms an excellent benchmark to measure the performance of the emerging fixed income mutual fund markets added the statement.

The Pakistan Emerging Bond Index will assist both local and