

# Round Table on “Stock Exchange, Where is it Heading?”

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A panel discussion on “Stock Exchange, where is it heading?” was organized in collaboration with M/S Business Solutions in September 2005 at PAF-Karachi Institute of Economics and Technology Main Campus. It was inaugurated by Sardar Ahmed Khan, Senior Minister, Finance, Sindh.

Sindh Minister of Finance Syed Sardar Ahmed called for small investor representation on company board of directors and on the management committees of regulatory bodies to protect investor interests. The minister said that the stock market was currently direction less and the Karachi stock exchange management was dominated by a small number of major players. Institutional reform was badly needed. The same persons get elected to KSE leadership positions again and again.

The minister said that steps should be taken to protect investor's rights. Small investors had lost billions of rupees during the March 2005 crisis and the existing system did not provided adequate redress mechanisms. The government was seriously concerned about the negative fallout of stock market volatility on the small man.

The minister stressed that development of the stock markets was not an end in itself. It was desirable only if it served national economic interests. While government interference in markets was currently unpopular, government could not stand aside and allow a handful of capitalists to hijack the economy.

The minister said that investment in Pakistan was mainly debt financed and maximum debt ratios, which were mandatory in the past, should be reintroduced. The stock market could make a major contribution to reducing the corporate sector's reliance on debt, but the meager growth of new issues on our stock exchanges did not represent a healthy trend.

The minister stressed the need for close co-operation between business schools and the financial markets in Pakistan. He appreciated the role played by PAF-Karachi Institute of Economics and Technology and hoped that PAF-KIKE would; make a major contribution to the growth of human capital in the financial sector.

Conspicuous by their absence in the panel discussion were representatives of the SECP and the State Bank. Both these regulatory bodies have continued to shy away from accepting their share of the responsibility for stock market volatility and the consequent loss of billions of rupees by small investors. This shows that no major change in the regulatory regime was currently contemplated.

The crisis of the first quarter of 2005 may therefore repeat itself with disastrous consequences.

Earlier in a wide-ranging issue paper the President of the Karachi Institute of Economics and Technology, Air Cdre (Rtd) Khalid Hussain, stressed the need to restore the credibility of the capital market. “Unless those responsible for the March to June 2005 crisis were identified and punished, market credibility would not be restored either in the eyes of foreign or local investors”, he said.

He called for stricter market regulation by the state for reducing the domination of a handful of major players, for protecting investor interests and for making the capital market an instrument for national development.

He cited instances of effective regulation of foreign funds by South Korea and the introduction of regulatory mechanisms governing IPOs for promoting the interests of small investors by India. He said that these measures should be adopted in Pakistan.

“Capital markets should not be left to regulate themselves”, he said.

Panelists included Nasim Baig of Arif Habib Investments, Habib ur Rahman of Atlas Funds, Mansoor Halim of ACE Securities, Farid Alam of PICIC and Yaqoob Memon Acting Managing Director of the Karachi Stock Exchange. The panel discussion was conducted by Aaj TV.

Panelists were of the view that promotion of dynamic marking financing and gradual phase out of Badla would increase stability of the markets. In their view blame for the March 2005 crisis could not be attributed to a small number of brokers but occurred due to technical transactional weakness and high leveraging of key stocks.

They argued that leveraging is now significantly lower and therefore the reoccurrence of a March type crises is unlikely although the KSE index is approaching dangerously a high level.

They agreed the regulation implementation procedures were weak. Commercial banks had neither the inclination nor the capability to handle margin financing. Brokerage houses and Investment Banks were riven with conflicts of interests.

The Karachi Stock Exchange remains extremely reluctant to blacklist and penalize defaulter firms.

Panelists admitted that nothing had been done since March to avoid a similar crisis. A more effective regulatory system ensuring implementation of rule sand procedures was nowhere in sight.

The panelists had no views on how to protect the interests of small investors or on how to enhance the national development role of the capital market.

Chancellor PAF-KIET presented the vote of thanks. Atlas Funds, Arif Habib Securities, and ACE Securities sponsored the panel discussion.