

Exchange Traded Funds Pakistan's Journey



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Pakistan Stock Exchange at a Glance



PSX is the national bourse of Pakistan and classified as an Emerging Market by MSCI



530 Listed companies

217 Shariah-compliant Listed companies

Market capitalization of **USD 46.20 billion**

231,000+ Investors

198 Active brokers

11 Indices and **4** ETFs

Pakistan Mutual Fund Industry



PKR 821 billion (USD 4.93 billion)

Total Mutual Fund AUM

274

Number of Mutual Funds



<http://www.mufap.com.pk/>

19

Asset Management
Companies (AMCs)

~20%

AUM share of Islamic Funds

~25%

AUM of Equity based Funds

~ 2.7%

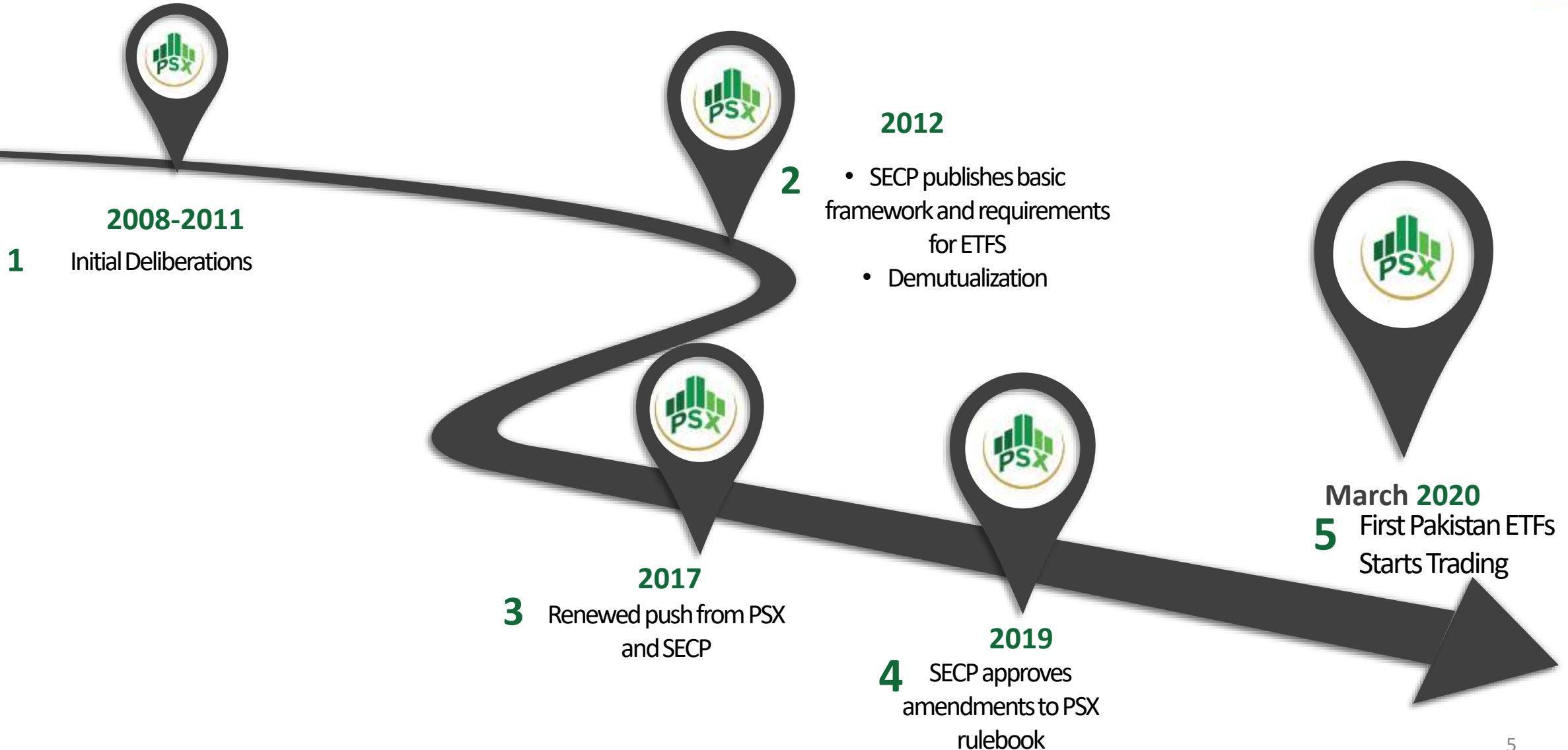
Equity AUMs / Total Market
Cap

Why ETFs in Pakistan



- Serve to boost the number of ***retail investors*** in the market and improve liquidity and depth of the stock market.
- Attract higher investment from ***overseas Pakistani diaspora*** due to their familiarity with index-linked funds in Western markets
- Enhance investments from ***state-owned firms*** (like State Life, EOBI and National Investment Trust)
- ***Pension funds*** and ***insurance companies*** remain the largest investors in ETFs around the globe. They have the ability to take a long term view and an investment horizon of 10-30 years
- *Base for development of mature & dynamics capital markets (options, futures etc.,)*

Pakistan ETF Timeline



Pakistan ETF Timeline



2008-2011: Initial Deliberations

- SECP/AMCs/Exchange - deliberations on regulatory framework
- ETF – basket of securities passively tracking a broad index such as the KSE 30 Index
 - 2008-09 crises – attention to ETF launch was diverted towards market revival

2012: SECP Notice on ETF Guidelines and Framework

- Definitions, requirements, disclosures
- Process of in-kind issuance and redemption through the authorized participants

2017: Renewed interest

2018: Working with stakeholders

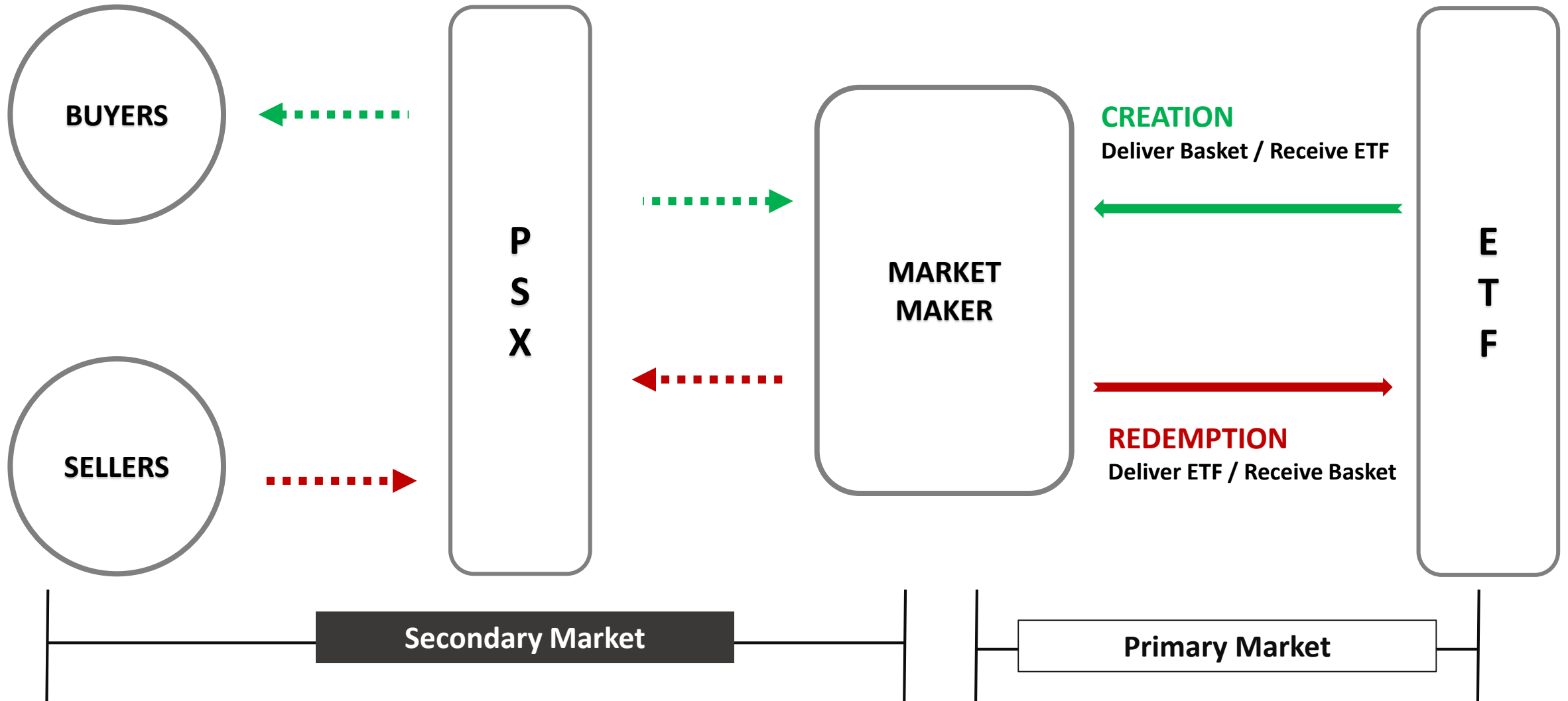
- PSX works with interest market players & key stakeholders in devising end-to-end process

2019: New Rules

- PSX drafted rules amendments including market making
 - SECP accords approval
- Continued work with all stakeholder including CDC, NCCPL
 - Incentive program for MM and AMCs

2020: ETFs launched

Simplified ETF Process



Key Challenges : Liquidity - Market Maker



- Extensive awareness campaign among brokers
- Rewritten MM rules (*Commercial Function vs. Regulatory*)
 - MM Obligations a commercial perspective
- No mandatory requirement of holding minimum Inventories
 - Blank Sale of ETF allowed to MM
 - Short Sale of ETF constituents
 - Pre-Existing Interest : *ETF* vis-à-vis *Underlying basket*
- New Liquid Indices ... to serve as benchmark

Key Challenges : Liquidity - Market Maker



Hedging Risks i.e., Limiting Market Exposure

- Live ETF Creation through CDC
- Devised new mechanism
 - @ T
 - MM sells ETF Blank
 - Buys Underlying Constituents (Immediately) :: *Profits (+/-) Locked*
 - @ T + 2
 - Step 1: Cash payment for Underlying Constituent → Receive delivery of Basket
 - Step 2: Convert Basket into ETFs
 - Step 3: Deliver ETFs to settle Blank ETFs / Receive Proceeds

Other Key Aspects



- Segregation of role of Authorized Participant (AP) for an ETF and MM
- Allow DFI/Banks to act as MM & AP
- 1 Board Lot for the ETF constituents
- iNAV – 15 seconds
- PSX providing iNAV Services
 - Calculation and dissemination to Trading Terminal and AMC websites)
- PSX as Index Provider

Incentives



- Incentives to MM
 - No trading fee on MM activities
 - Share 50% counter party trading fee with MM
- ETF Listing fees exempted by PSX, CDC and NCCPL for one year
- SECP also reduced fees

Pakistan ETFs - Current Profile



NIT Pakistan Gateway Exchange Traded Fund (NITPG-ETF)

<https://dps.psx.com.pk/etf/NITG-ETF>

AMC: **National Investment Trust (NIT)**

ETF Launch Date: **March 24, 2020**

Benchmark Index: **NIT Pakistan Gateway Index**

No. of Constituents: **12**



UBL Pakistan Enterprise Exchange Traded Fund (UBLP-ETF)

<https://dps.psx.com.pk/etf/UBLP-ETF>

AMC: **UBL Fund Managers**

ETF Launch Date: **March 24, 2020**

Benchmark Index: **UBL PSX Pakistan Enterprise Index**

No. of Constituents: **9**



ETFs Just Launched : October 2020



Meezan Pakistan ETF



Shariah Compliant

NBP Pakistan Growth ETF



Challenges Ahead



- Creation & Redemption Clearing / Settlement Netting Mechanism vs 2 Payments at T+2
- More Market Makers & APs
- AMC, Broker and Investor Education
- Expanding ETFs Product Profile
 - Thematic ETFs (Dividends etc)
 - Sector Based ETFs
 - Fixed Income ETFs
 - Commodity ETFs
 - Etc

Thank You

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