



October-December 2001

Newsletter of South Asian Federation of Exchanges

SAFE Snapshots - 2001

Setting out from Chittagong in early 2000, SAFE successfully helmed the 2nd year of its journey and clubbed variegated events together aiming at achieving its prime objectives through the perspicacity of all the members on board.

Re-Calling SAFE in Colombo

The two-day conference and general assembly of the South Asian Federation of Exchanges was held in the pleasant ambience of Colombo, Sri Lanka, on 22nd and 23rd January, 2001. The Colombo conference was the fourth gathering of the South Asian bourse leaders. But this is the first Annual Assembly where the stocktaking of the first year of the Federation's existence took place. Dr P B Jayasundera, Secretary to the Ministry of Finance and Treasury of Sri Lanka, inaugurated the conference. The theme of the fourth conference was "Globalisation and Deregulation: Issues and Challenges for Exchanges". Colombo Stock Exchange invited Mr Thomas Krantz of FIBV, Mr Robert Sandelowsky of Euronext, Mr Richard Sawyer of Deutsche Bank Global Securities Services and Mr Tony Weerasinghe of Millennium Information Technologies to speak at the conference.

Following a warm welcome speech from the Chairman of Colombo Stock Exchange Mr Ait Gunewardene and the opening remarks of Mr Amir Khosru M Chowdhury, the Chairman of the Federation, the guest of honour appreciated the efforts of the Federation and pledged all-out support to the Federation in order to enhance benefits to the investors of the region.

The European Union is the model of co-operation for the era. While sorting out the regional and national issues to be addressed by SAFE, the delegates shared their experience of European markets as the guest speakers made their deliberations. The SAFE forum was also told that stronger links between exchanges may shape up into cross border trading, but there are regulatory and technical issues that need to be taken in hand.

Cross-border trading is the vision of the SAFE. The General Assembly worked out a detailed action plan to translate the concept into action very soon. The SAFE Mutual fund, of which a concept paper is ready, will be the first launching

pad of cross-border trading in the region.

Technology was another issue that was discussed at this forum. While expressing his view the SAFE Chairman said that technology is the means of all business in the contemporary world and our daily life. So in our modern business world there is actually very little that we can do without it. Also we have planned to hold a training programme for the SAFE members at the National Stock Exchange of India (NSE) in Mumbai. This will help the region to develop good bilateral relationships. This is a challenge for us to develop ourselves within the region rather than focus on the West.

The Assembly highly appreciated the study report submitted by the Colombo Stock Exchange on the rules and regulations of all the member exchanges of SAFE. Colombo Stock Exchange generously volunteered to carry out this study in accordance with a work plan of the Assembly in its last conference in Karachi.

The ad

mission of Mauritius Stock Exchange to the Federation was another significant event. The Assembly welcomed Mauritius Stock Exchange in the spirit of expanding the SAFE members beyond regional boundaries into the stream of globalisation.

Colombo Stock Exchange hosted 25 delegates of 12 exchanges from India, Pakistan, Bangladesh, Bhutan and Mauritius. Apologies were received from Nepal. 1 st

Executive Training Programme of SAFE

The first executive training programme of SAFE on 'Risk Containment Mechanisms in Stock Exchanges' was held in Mumbai from 12-16 March 2001 at National Stock Exchange of India (NSE), coordinated by the SAFE Secretariat and organised by NSE. This comprehensive training programme was designed to impart skills and knowledge to those who manage and conduct the affairs of stock exchanges, especially the mid and senior-level executives of the member bourses. Participants from Chittagong Stock Exchange, Calcutta Stock Exchange, Dhaka Stock Exchange, Islamabad Stock Exchange, National Stock Exchange of India Limited, OTC Exchange of India and Royal Securities Exchange of Bhutan Limited joined the programme.



SAFE Secretariat 2000 & 2001: Chittagong Stock Exchange
CSE Building, 1080 Sheikh Mujib Road, Agrabad, Chittagong 4100, Bangladesh
Telephone: 88031 714100 Fax: 88031 714101 E-mail: info@safe-asia.org Web-site: www.safe-asia.org

European Union Counselor visits the SAFE Secretariat

Mr J V Ketelsen, the First Counselor, and Mr Zillul Hye Razi, Economic and Information Officer of the European Union, visited the SAFE Secretariat at Chittagong Stock Exchange on 20 March 2001. They met SAFE Chairman Mr Amir Khosru M Chowdhury and Secretary General Mr Wali-ul-Marooof Matin to discuss the issues of SAFE and assess its progress. CSE Director Mr. Syed Mahmudul Haq was also present in the meeting. Then, Mr. Marooof made a detailed presentation on the vision and activities of SAFE.

SAFE delegates attended the conference on 'Borderless Trading' in London

This two-day international conference was held by the Royal Institute of International Affairs (RIIA) at the Chatham House, London, on 26-27 April 2001. The main theme of the conference was "Borderless Trading 2001 - Strategies for a Globalised Securities Market".

Mr Amir Khosru M. Chowdhury, Chairman, and Mr. Wali-ul-Marooof Matin, Secretary General of SAFE, along with Mr. Praveen Mohnot, SAFE Executive Committee Member and Managing Director of OTC Exchange of India, attended the conference. The Chairmen of London Stock Exchange and OM Exchanges of Switzerland, Secretary-Generals of Federation of International Stock Exchanges (FIBV) and Federation of European Stock Exchanges (FE5E) were also present in the conference.

The two-day conference ended with panel discussions based on each of the issues covered. While expressing their views, the SAFE representatives described the seminar as informative and mutually beneficial at a time when SAFE is in the process of launching its own Mutual Fund.

SAFE'S 3rd Executive Committee Meeting held in Chittagong - SAFE Mutual Fund to be floated by next year

The third meeting of the Executive Committee of SAFE was held in Chittagong on September 10, 2001, represented by Chittagong, Colombo, Karachi stock exchanges and OTC Exchange of India. Representation of the Mumbai Stock

Exchange (BSE) was regretted in advance. Mr Wali-ul-Marooof Matin, Secretary General, attended the meeting.

The main agenda of the meeting discussed the progress of SAFE Mutual Fund. The Executive Committee recommended that a 100 million dollar SAFE Mutual Fund should be listed to facilitate cross-border trading among the member exchanges. The proposed Fund will provide wider choices of investment avenues to the investors and enable them to allocate their savings more efficiently within the region. This close end mutual Fund will be the first of its kind in the region and will be managed by an offshore asset management company (AMC), which will manage the fund and make a portfolio of companies where the investment will be made. So far 15 fund management companies have evinced interest to be the AMC of the proposed fund. The newly formed SAFE Mutual Fund Committee will select one of them soon to act as AMC. SAFE Mutual Fund will be floated in two categories - one for the local market and another for the non-residents of the SAFE members. The fund raised locally will be invested in the local companies of the respective countries while the fund raised from the non-residents of the member countries will be used in any market of the world. The fund to be used in the member countries will be managed by local fund managers under the guidance of the offshore asset management company. The local fund manager will be controlled under the local regulations while the offshore fund manager will be regulated under the securities regulation where it is registered. The amount of money raised from each member country is still to be decided upon along with the regulatory framework.

The EC meeting also decided that Bhutan will hold the next annual assembly of SAFE and recommended the application of the Inter-connected Stock Exchange of India Ltd. for the SAFE membership to the General Assembly for approval. The committee also reviewed the accounts and budget of the Federation.

Chittagong Stock Exchange (CSE) hosted the 3rd EC Meeting of SAFE. The EC members expressed their gratitude to CSE for their very kind hospitality and well-arranged event during the conference.

Chittagong Stock Exchange Elects New President

The Board of Directors of CSE elected Mr Mirza Salman Ispahani as new president of CSE to fill in the vacancy following the resignation of the former president of CSE, Mr Amir Khosru Mahmud Chowdhury, MP, due to his appointment as Minister of Commerce of the Government of the People's Republic of Bangladesh. Previously Mr Ispahani was the Senior Vice President out of three Vice Presidents of CSE. Mr Ispahani held this office since CSE's inception.

In the board meeting the newly elected president, Mr. Salman Ispahani expressed his gratitude to the board for electing him president and sought the cooperation of all the directors. The directors present at the meeting congratulated the new president and wished him all success. The Board also put on record the outstanding contribution of Mr. Amir Khosru Mahmud Chowdhury to setting up the first automated nationwide screen based stock exchange in the country and leading the same since its installation. Mr. Ispahani told the Board that he would continue to carry out his responsibilities in the direction already set out and implement the vision of the Exchange to meet the challenges of the day.



CSE launches New Index Calculation Method

Chittagong Stock Exchange launched a new Index as directed by the Securities and Exchange Commission on 24th November 2001 under the new mode of index calculation taking weighted average method into consideration. The new index excludes the "Z Group" shares. The index comprises 108 scrips including 94 'A' category issues and 14 'B' category issues. Under the new method, the 22nd of November, 2001, will be considered as Base Day and 1836.73 as Base Index.

IFC Delegation Visits CSE

Mr Maxwell Aitken, Manager, Small & Medium Enterprise (SME), Mr Daq Larsson, Minister Counselor, NORAD New Delhi and Mr Hafezuddin Ahmed, Country Manager of Bangladesh, International Finance Corporation (IFC) visited CSE on 3rd November, 2001 and met CSE President Mr Mirza Salman Ispahani and a few small and medium

entrepreneurs in Chittagong. Chittagong Chamber of Commerce President Mr Fariduddin Ahmed Chowdhury was also in attendance, and participated in the discussion. Mr Aitken briefed the participants about the activities of IFC. He informed the meeting that IFC would take up a 5-year program to develop the infrastructure of small and medium enterprises in the country through loan and equity



CSE Records its Highest Annual Growth in 7 Years:

All Share Price Index (ASPI) gains by 38.7% and MILANKA Price Index (MPI) gains by 47.6% making it one of the best performing equity markets

The increased investor focus during the latter part of the year had a positive effect on the Colombo stock market. The ASPI, which opened the year at 447.6 points, closed at 621.0 points on 31st December 2001, which is an increase of 38.7%. The MILANKA Price Index (MPI) opened the year at 698.5 points and closed at 1031.0 points at close of trading on December 31, 2001 gaining 47.6%.

During the first three quarters of 2001 the ASPI reported a negative growth of 44.0 points (9.8%) while the MILANKA Price Index (MPI) moved down by 91.0 points (13.0%). The fourth quarter of the year witnessed a significant increase in market activities with the ASPI moving up by 217.4 points (53.8%) and the MPI reporting a growth of 423.5 points (69.7%), thus becoming one of the best performing stock markets in the world. The ASPI recorded its highest point in 42 months on 10th December (678.2 points) and the MPI which was introduced in 1999 recorded its highest ever point, 1164.0 points, on the same day. The ASPI recorded its highest ever point (107.4 points) and percentage (20.6%) change for a day on 7th December.

The levels of trading volumes increased significantly during 2001 particularly during the last quarter of the year. The annual turnover level increased by 27% from 1.0 billion in 2000 to 14.0 billion in 2001. The first nine months of 2001 had an average daily turnover of 29.2 million as against an average daily turnover of Rs. 148.3 million for the last quarter of 2001. The month of December saw higher levels of activity with a record daily turnover average of Rs. 258.3 million, which is the highest for any given month since February 1994. On 10th December the CSE recorded its highest-ever daily turnover at Rs. 866.9 million.

The volume of shares traded increased significantly, too. The total volume of shares traded increased by 66.4% from 448.6 million in 2000 to 746.9 million in 2001. However the market saw a reduced number of transactions in the year 2001 from 160,325 trades in 2000 to 159,725 trades in 2001.

The Investor Services Center (ISC) of the CSE at Matara also saw increased levels of activity particularly during the last quarter of 2001 with increased trading volumes and the addition of two new stock broking companies. The average

participation. He also said that IFC's objective would increase job opportunities, development of management skill of local enterprises. CSE Vice President Mr Habibullah Khan, Mrs Monwara Hakim Ali, Director, The Women Entrepreneurs Association of Bangladesh in Chittagong were also present in the meeting.

turnover level of the ISC at Matara, which was at Rs. 365,000 a day on average from January 2001 to September 2001, had increased by nearly 1050% to 4.2 million in October 2001. The momentum was continued in November with a daily turnover average of Rs. 3.9 million. The month of December saw a further increase with a record daily average turnover of Rs. 11.9 million. The ISC recorded its highest ever turnover on 7th December with a turnover of Rs. 42 million.

The stock market was driven mainly by local investors. Net purchases of local investors amounted to Rs 1024.8 million.

Reopening of the Public Gallery

Colombo Stock Exchange (CSE) reopened the public gallery after a lapse of 10 years at the Exchange premises in November 2001. The public gallery offers on-line and real time trading data and connectivity to stockbrokers. The public gallery also would make available a range of stock market data and information products to investors.

Currently, four member firms of the Stock Exchange have investment representatives physically located at the public gallery to offer a range of stock broking services, including investment advice, placing of orders, order execution etc.

The main objective of opening the public gallery was to offer another access point for domestic stock market investors. This public gallery concept was introduced two years ago at the Investor Services Center of the Stock Exchange. Located approx. 100 miles away from Colombo in the south of the country, the gallery has proved extremely popular among investors.

The CSE also intends conducting regular educational seminars and workshops at the public gallery on a regular basis on topics that would be of interest to stock market investors, the programme will commence from January 2002. The public gallery will remain open from 9:30 a.m. to 12:30 p.m. on all market days and no admission fee will be charged to investors.

CSE Introduces a New Sector

Colombo Stock Exchange (CSE) introduced a power and energy sector with the listing of the power generation company, Lakdhanavi Ltd. on 10th January 2002.

Currently, CSE has classified its listed companies into 16 sectors such as banking finance and insurance, food and beverages etc. With the addition of the power and energy sector, the CSE would have 17 sectors. CSE also publishes an index for each of these sectors.

Lakdhanavi Ltd. is a public utility company incorporated in 1996. At present it has set up a 22.5 mega watt thermal power generation plant that supplies power to the national grid. It is the 1st private sector thermal power plant set up under the build-own-operate (BOO) status in the country.

Lakdhanavi Ltd. was quoted on CSE by way of an introduction, where the company is listed without the requirement of a public issue.

DSE hails government decision to reduce bank rate and interest on Savings Certificates

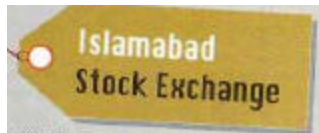
Dhaka Stock Exchange has welcomed the government decision to cut bank rate by one percent interest rate against export credit to the readymade garments sector by three percent and interest rate on savings certificates. The DSE Chairman termed the decision a bold and timely one, saying that it would create a congenial environment for investment in the country beefing up the private sector. He also hoped that the interest rate cut on savings certificates would channelise funds into the stock market for rapid industrialization of the country.

Canadian envoy visits DSE

On October 31, 2001, Canadian High Commissioner to Bangladesh Mr David Preston made a courtesy visit to the DSE and met its Chairman Mr Md. Shahiq Khan, along with its councilors. DSE Chairman Mr Md. Shahiq Khan briefed the delegates about the present activities, the reforms already made and the mode of share trading at DSE under the automated trading system. The Canadian High Commissioner said that Bangladesh has the potential for making significant economic development. He also identified the energy, power, gas and telecommunication sectors as the key areas where Canadian companies could join hands with local companies. He also praised DSE for having adopted the state-of-the-art technology facilitating trading.

DSE agrees on OTC trading

Dhaka Stock Exchange has agreed to a Securities and Exchange Commission proposal to introduce Over-The-Counter (OTC) trading at stock exchanges.



In the recent election of board of directors as well as chairman and vice chairman of Islamabad Stock Exchange (ISE) at its annual general meeting, Mr Omer Iqbal Pasha was unanimously elected chairman of the Exchange.

Mr Pasha, who has been associated with ISE for the past many years as director and vice chairman, appeared pro-transparency, contrary to the traditional secretive behavior of the brokers community, while, during his various interviews with print media, he strongly supported the SEC reforms that had opened the bourses governance to vigilance from outside in the form of non-broker directors and appointment of outside professionals as independent managing director. He announced that the new Board of Directors of ISE would shortly appoint a professional as managing director with prior approval of SEC.

From Left, Mr. Omer Iqbal Pasha, Chairman Islamabad Stock Exchange with Mr. Khalid A. Mirza, Chairman, Securities & Exchange Commission of Pakistan (SECP) on the occasion of Chairman SECP visit to Islamabad Stock Exchange dated January 09, 2002



Under OTC trading, shares of companies which are not listed with the stock exchanges will be allowed trading on the OTC. The new trading counter would also open new opportunities for public limited companies to Boast their snares in the stock market through the bourse by getting instant permission and by paying requisite listing fees. It will also facilitate trading of companies, which were de-listed from the stock market in the past.

The provision will offer a facility for the shareholders of the respective companies for selling and buying the shares of, the company at the stock exchanges.

Direct listing opportunity for PLCs

For the first time in the history of Bangladesh capital market, public limited companies were given a chance to get listed directly with DSE. The announcement came after getting the approval from the Securities and Exchange Commission (SEC) on a draft regulation affording such opportunities to the PLCs. The opportunity was available for three months from the date of publication of the notification i.e. up to 8th January, 2002.

Only companies having a paid up capital of at least Taka three crore with operational performance for at least three years with two years profit record without having any accumulated loss in its financial statement and having no record of annual general meeting default were considered eligible for listing with DSE.

Recounting the reforms measures, Mr Pasha said that SECP initiated a series of reforms with the view to strengthening its role as a regulator of the capital market as well as to put the country's securities market on sound footing at the benest of Asian Development Bank. These reforms included, among other things, the following: (1) Restructuring of the governing board and appointment of professional managing director by the stock exchanges; (2) Enhancement in Net Capital Balance; (3) introduction of capital adequacy; (4) Ban on blank short selling; (5) Introduction of T+3 trading and settlement system and (6) Prohibition of Free exposure limit.



The overall objectives of the above reforms have been to bring in good governance, corporate culture, transparency in the affairs/operations or the stock exchanges; to curb the speculative trading which up till recently was rampant in the market; to strengthen the risk management regime of the stock exchanges in order to safeguard the interest of the investors and the institution; and over and above to bring the existing trading system up to par with the developed countries by replacing the balance order settlement system with T+3 trading and settlement system. Most of these reforms have already been implemented. We have always supported the reforms because we believe that these are the means of achieving development, expansion and modernization of the capital market in Pakistan. At ISE we are committed to improve the operational efficiency of the Exchange. We strongly believe that these reforms will go a long way in transforming our stock exchanges into vibrant institutions capable of meeting the challenges of the new millennium. This, coupled with constant vigilance and monitoring, had made the work of stock exchanges much safe and transparent. The confidence of the investors has been restored which is reflected in the recent upsurge in the capital markets throughout the country.

Islamabad Stock Exchange, in a short span of ten years, has successfully developed into a dynamic and vibrant financial market in the northern region of Pakistan, which



New Developments at KSE ; National Clearing and Settlement System

National Clearing and Settlement System (NCSS) had gone into operation on December 26, 2001. Initially, 2 companies have been included under the system.

New Listings

During the quarter, the Exchange listed one Modaraba, namely, Fayzan Manufacturing Modaraba with a paid up capital of Rs.900 million and one TFC, Pakistan PTA Limited amounting to Rs.1600 million.

Election of Board of Directors

Mr. Salim Chamdia and Mr. Mohammed Siddique Dalai have been elected Chairman and Vice-Chairman of KSE respectively for the year 2002. Mr. Noman Ahmed, Managing Director, by virtue of his office is also a Board Member.

New Developments at LSE:

- Lahore Stock Exchange has placed all listed companies on the T+3 Settlement system instead of the T+5 system.
- The debt capital market is developing at Lahore Stock Exchange through issuance of growing numbers of Term Finance Certificates (TFC) by the domestic corporates.
- National Clearing Company of Pakistan has been established. LSE, one of its equity holders (NCSS), was implemented, and linked up the settlement of three stock exchanges of Pakistan.

had been, till recently, known only for political, bureaucratic and real estate activity. Credit for remarkable performance which was noted and acknowledged by other exchanges as well as experts in the field, goes to the highly dedicated, efficient and innovative teams of chairmen and boards of directors who ran the affairs of ISE. It is because of their untiring efforts that ISE has carved out for itself the most prestigious position in the country, despite being a new entrant in the stock market. The newly elected chairman has assumed his responsibilities with the same zeal and dedication as that of the eminent member of previous board of directors and the former vice president of ISE. Pasha, perhaps the youngest Chairman of the ISE, vowed to go beyond the ADB-SEC reforms by introducing non-broker members of the vital sub-committees of the Exchange such as Arbitration and Default Management Committees. There are over a dozen such sub-committees to oversee various aspects of the management of the Exchange. Another formidable task ahead of the new and young leadership of the ISE is the building of the Exchange on the Jinnah Avenue where it owns a tower site. He reported that they were looking for a builder who could construct a * building on the prime site in the federal capital on a build-operate-and-transfer (BOT) basis. After the September 11 . terror attacks on the World Trade Centre, the ISE lost its - earlier contractor who had planned to construct twin towers, one for ISE and the other to own on the BOT basis.

IMPORTANT STATISTICS

Membership strength	200
Active members	133 (includes 88 corporate members 8 of whom are public quoted companies)
Listed companies	747
*Securities listed on the Exchange	761 (Ordinary shares 747, Preference shares 3 and 11 debt instruments)
Listed Capital	Rs.235,683.14 million (\$3934.60 million)
Market Capitalisation	Rs.296,143.67 million (\$4944 million)
*Average Daily Turnover	96.91 mill on shares
*Average Daily Trade Value	Rs.3134.39 million (\$52.30 million)

	September 28, 2001	December 31, 2001
KSE-100-Index	1133.44	1273.07
Market Capitalisation (Rs. in billion)	285 126	296.143

*The information is upto December 31, 2001.
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- * Lahore Stock Exchange commenced internet trading from Nov. 2002, which is a big achievement, members and investors widely using this facility.

National Bank of Pakistan has issued 5% of its capital to the general public and National Bank of Pakistan is now listed on Lahore Stock Exchange.



SEM's automated trading system (SEMATS) has been in operation for the last six months and has generally been well received by the stock market participants and investors at large. The increased transparency and efficiency brought by the system and the internet-trading facilities offered have considerably enhanced the visibility of stock market transactions among investors.

On the regulatory front, the Financial Services Commission (FSC) has remained effective since December 1, 2001. The FSC is responsible for the licensing, regulation and supervision of all non-banking financial services. It is also responsible for the protection of consumers of financial services. The FSC has taken over the duties and functions of the Stock Exchange Commission (SEC), the Insurance Division and the Mauritius offshore Business Activities Authority (MOBAA). The FSC has been created under the Financial Development Act 2001, which provides for an integrated regulatory framework ensuring that there are no gaps in the monitoring and supervision of financial intermediaries and service providers and conduct of financial services at large.

The government has set up a committee on corporate governance led by the private sector. The committee on corporate governance is the coordinating body responsible for disseminating information, enforcing the "Code of Best Practice on Corporate Governance" and providing guidance/ training to companies wishing to introduce corporate governance practices. The main tasks of the Committee would be to: (i) review the current situation in Mauritius and assess the needs of the corporate sector; (ii) raise awareness, and forge consensus, on the significance and concept of corporate governance; (iii) consider the appropriateness of introducing a "Code of Best Practice on Corporate Governance" to local circumstances through a process of consultation; (iv) develop and implement action plans in collaboration with all stakeholders, and establish monitoring parameters to gauge the success of its programmes; and (v) establish linkages with regional and international institutions to draw on their experiences and expertise.

SEM was awarded the contract to set up a regional stock exchange in Central Africa, which will consist of an

BSE launches Trading in Single Stock Futures

The Stock Exchange, Mumbai (BSE), launched trading in single stock futures on November 9, 2001. The introduction of single stock futures completes the full family of derivative products in India and this product will place India among a few countries that allow trading on single stock futures.

The single stock futures contract will be available on 31 stocks permitted by SEBI, on which option contracts are already trading. These contracts will be available for a period of one, two and three months' maturity and they will be cash settled. The market lot for single stock futures will be the same as in case of stock options. A portfolio based margining model would be adopted which will take an integrated view of the risk involved in the portfolio of each individual client comprising his/ her positions in all the derivatives contract traded on Derivatives Segment.

integrated stock market infrastructure linking five countries in the region. The regional stock exchange will be located in Libreville, Gabon. SEM has already submitted its report of the first phase of the project, leading to the establishment of a regional stock exchange in Central Africa. SEM has recently conducted an awareness campaign in Gabon and Congo to sensitise potential shareholders of the regional stock exchange and potential issuers about the characteristics and features of the regional stock exchange.

On the developmental front, the Central Depository System has reduced the settlement cycle from T+5 to T+3 as from September 17, 2001, thus placing the Mauritian stock market at par with well-known markets. As from that date, delivery of securities and payment of funds have taken place in the CDS system on the third business day following the day on which the trade took place on the stock market. SEM and the CDS are jointly studying the possibility of introducing the concept of turnaround trades on the Exchange, which will enable investors to buy and sell a security during a trading day if profit opportunities arise.

The Executive Committee of the World Federation of Exchanges (formerly FIBV) has agreed to consider an application from the Stock Exchange of Mauritius to become a member of the World Federation Exchanges. The attainment of membership status requires that stringent standards be met, not only by the Exchange, but also by regulatory authorities. FIBV membership will allow SEM to join the league of well-known stock markets. Stringent market principles and standards need to be implemented and achieved by any exchange who is seeking the FIBV membership.

As part of a process aiming at infuse new blood into the universe of financial products and reaching ever-higher standards of operation, SEM is contemplating the introduction of a new product, namely Stock Futures Contracts, to some highly capitalized and liquid stocks.

At the fourth quarter meeting of the Committee of SADC Stock Exchanges (COSSE) held in Namibia in November 2001, the Chief Executive of the Stock Exchange of Mauritius, Mr Sunil Benimadhu, was elected chairman of COSSE. Dr H.Kibola, Chief Executive of Dar-Es-Salaam Stock Exchange, was elected deputy chairman. Set up in 1997, COSSE aims at (i) providing an environment for fair, secure, efficient and transparent financial markets (ii) promoting portfolio investments in the region (iii) adopting internationally accepted standards and practices and (iv) harmonizing the standards of operation of member exchanges.



It is expected that the introduction of leveraged product like single stock futures will inject the much needed liquidity into the Indian capital market as deferral products allow traders to carry forward their position while taking a more long-term view of the market. This product would provide hedging and arbitrage opportunities to all market participants like mutual funds, retail and institutional investors. Since there are a number of products based on the same underlying, there will be arbitrage opportunities between the underlying cash market, single stock futures and stock options. The derivative products like stock - options may also receive a boost, as traders will now find an opportunity to hedge their open positions in options through trading in futures. Thus futures and options can play a complementary role. Price discovery may be enhanced even more with the addition of this product.

In a multi-product environment, it is very important to have a safe and user-friendly trading system. The BSE trading system gives real time online clientwise margin, it enables better risk management at the broker's end. The BSE trading system also has a unique feature wherein a broker can restrict his traders from dealing in certain products. Thus it enables a broker to install his trading terminals at various places with a much higher comfort level.

The Stock Exchange, Mumbai (BSE), collaborates with the Zee Telefilms Limited for Investor Education

BSE has been in the forefront of providing investor education and training to the vast investor populace in India as this is enhancing the safety and security features in the capital market mechanism so as to ensure the highest level of investor protection.

BSE's collaboration with Zee Telefilms Ltd. is a very important step in this direction. An agreement was signed by Dr. Manoj Vaish, Dy. Executive Director of Stock Exchange, Mumbai (BSE), and Mr. Subhash Govai, Group Broadcasting CEO of Zee Network, on November 22, 2001 for imparting education to investors on television. The 26 part series will be telecast on the educational channel Zed TV.



This series on investment awareness will be a complete guide to investment within India. The series will contain a wealth of information on different financial instruments available on the market with insight into the functioning of the market. It will have a step-by-step approach to alternate investment avenues with its pros and cons. The series would demystify the entire investment process for the ordinary citizen - who invests for a better future. The programme aims at involving a number of luminaries from the financial sector to help provide information to the viewer that would enable them to make more informed financial investment decisions.

BSE Training Institute (BTI) Launches Programme on Debt Market & BCDM

The BSE Training Institute (BTI) launched 2 days' training programme on "DEBT MARKET" which was conducted on 30th October -31st October, 2001. The course was followed by a test for BSE's certification on Debt Market (BCDM). The objective of the course is to provide conceptual, analytical and practical input for understanding debt instruments and applying tools and techniques of fixed income analysis so that the investors dealing in wholesale debt and retail debt segment are better informed while taking investment decisions.

The course covered sessions on money markets and debt markets in India, instruments and players, regulatory framework, government securities markets, primary and secondary markets, analysis of macro-economic indicators or debt markets, bond mathematics, yield curve analysis and trading strategies in debt markets. The course ended with a practical session on "Bond Mathematics" and a case study.

The sessions were conducted by the authorities from the leading Institutions and regulators of the Indian capital market such as Reserve Bank of India, UTI Institute of Capital Markets, N.M. Institute of Management, Corp Bank Securities, ICICI Ltd, Templeton Mutual Funds and the Stock Exchange, Mumbai.

Retail Debt Market: The new frontier

The Stock Exchange, Mumbai (BSE) has played a major role in educating investors and other market participants with a view to bringing about a healthy, safe and resilient capital market. In addition to their endeavors, on January 10, 2002, BSE in joint association with PNB, Gilts, one of the major primary dealers in India, organized a seminar on government securities and treasury bills. The seminar was addressed by Shri Arun Kaul, Managing Director, PNB Gilts Ltd. The programme was directed towards a large untapped population of investors (both at retail and institutional levels) who are still unaware of the pros and cons of investment in government securities and treasury bills.

BSE has been offering a retail - trading platform for the corporate debt instruments through its 'F' group, and has launched the Wholesale Debt Segment on June 15, 2001. BSE also plans to set up the Retail Debt Segment for G-secs and T-Bills, which will enable the retail investor to participate in this dynamic and potential market.

Over The Counter Markets -An elusive but a significant market in the financial sector that lies beyond the realms of the traditional listing-trading-clearing institutions like stock exchanges. As commonly understood in the stock exchange circles, it means both a market of customized financial products ordered-to-trade by risk conscious entities and a market of standard instruments/contracts traded-to-the-order of entities with diverse trade-conditioned interests, in this conversation, the former is referred to as non-standardised and the latter as standard(izable) markets. And it is essentially the latter markets that the stock exchanges as economic agents can perform a significant economic role.

A few instances of non-standardised financial markets traditionally operating have been in areas like currency forwards, and currency and interest rate swaps and derivatives. A silent revolution that has been lately ignited in a hitherto inhabitant territory of credit derivatives is sweeping across major Asian financial centers (ex-Japan) like Singapore, Hong Kong, Korea, and Singapore in a big way. Some estimates contemplate a volume of US \$ 40 billion alone in credit derivatives and forecast it to rise to US \$ 1.6 trillion of notional value globally. The emerging breeds of financial instruments are in the form of plain credit default swaps, total return swaps and structured credit derivatives and more complex collateralised debt obligations (CDOs). These markets are largely constituted by liability-conscious banks tailoring their capital ratios and the asset-aggressive commercial banks and asset managers. Essentially, these markets cater to the personalized and diverse combination of market and credit risk appetites. Every deal is surgeon(ed), and functions on over 30-odd investment parameters, which epitomizes its non-standard character.

The Standard(izable) OTC market is another tail of the tale. However, there is immense scope of civilising these markets from an OTC product market to an Exchange Traded contracts' market. The two critical preconditions for the transition, nevertheless, are the maturity of the trading practices to attain standardization of contracts and the general recognition of intermediation as an economic value-creation agency by the market players. A better characterization of these markets can be attained by understanding two main types of markets in this category. These are illiquid markets and markets for standardised (constant) components of non-standardised markets (as discussed above). A major reason for this classification is only to underscore the need for different treatment deserved by each of these markets. The examples of illiquid markets that operate Over-the-Counter are illiquid and non-liquid stocks ailing with a lack of market fancy on account of low capitalization and / or inadequate floating stock. Other underdeveloped markets that do not attract sufficient liquidity have been corporate bond markets where different issues of the same issuer carrying



common ratings cast different risk perceptions on the market participants.

The virgin initiative to institutionalize this segment was taken by OTC Exchange of India in the early nineties to assist capital formation of SME ventures and afford liquidity to the investors by running secondary trading platforms for these securities. Even in the west, NASDAQ had initiated to invigorate interest in the second tier scrips by launching OTCCB i.e. Over The Counter Bulletin Board, where the last trade details in such scrips were disseminated to the market at large.

The other segment for running markets for standardised elements of non-standardisable could be in the area of interest rate derivatives where the market constituents can hedge, arbitrage or trade based on their underlying view of the interest rates. The instruments like Forwards Rate Agreements (FRAs), Interest Rate Swaps (IRS), Interest Rate Futures, Interest Rate Option Futures and the like as also Fixed Income Benchmark Derivatives can be developed into tradable contracts.

Over The Counter markets, though flexible for the trading fraternity, remains unhealthy in terms of the largesse that it lends to the trading participants to resort to continuously evaluate default incentives. They are also plagued by the inefficiency inherent in the system on account of information asymmetries and price mismatches. An exchange traded product will always command its premium over other forms of market microstructure tingeing it with its virtues of authenticity, efficiency and fairness. In fact, more sophisticated order driven continuous markets can also promise anonymity to avoid biases, price-time fairness and credit risk guarantee. However, over the counter markets need some grooming before they can be migrated to continuous order-driven platforms. All OTC markets in general do have their graduation life cycle when they breed on non-anonymous . and / or non-continuous systems or a combination of both before they finally soft-land on mature and advanced platforms.

Again some of those OTC markets, although - standard(izable) as per our conversation, are accustomed to different sets of intermediary fraternity like investment and merchant bankers and other non-stock broking entities. A network of such market-specific entities also remains critical for the orderly development of any OTG market.

All we could prognosticate is: Like death and taxes, the eventual graduation of all OTC markets to exchange- oriented ones is also certain.

Presented by: **Praveen Mohnot**, MD & CEO, OTC Exchange of India ,
Authored by: **Amir Parjwani**, OTC Exchange of India