PORJECT ON
STOCK EXCHANGE OF PAKISTAN

Submitted to:

Mr.MEVLUT CHAKLAR
HEAD OF BUSINESS DEPARTMENT.

SUBMITTED BY

MUHAMMAD ALI BILAL KHAN

A PROJECT ON STOCK EXCHANGE

CONTENTS

INTRODUCTION

INTRODUCTION

STOCK EXCHANGE

Stock Exchange is a market where securities and shares are bought and sold by the Members/Brokers on behalf of their clients, on open offers and bids which reflect the prevailing flow of supply and demand for measuring the health of the economy.

The Stock Exchange enables buyers and sellers to enter into transactions without the necessity of individual hawking.

The prices on the Stock Exchange floor are determined by the law of Demand and Supply and thus prices obtained are usually fair. It also helps investors to choose good scripts, as before granting enlistment of a scrip. Stock Exchange satisfies itself that the company is substantial, its shares are legally issued, its shares are widely owned and the company agrees to issue adequate, timely public notice of its financial position, and for closure of its books for the purpose of dividend, right issue and bonus issue.

So, the Stock Exchange provides the investors a place where they can sell or buy stocks, shares and bonds in the quickest, cheapest and fairest possible manner.

GENERAL INFORMATIONS

GENERAL INFORMATIONS

ODD LOTS

An odd lot is any quantity which is not divisible by stipulated 'market lot' of each listed securities. Odd lots bargains are not to be settled through the clearing house. Bargains done in odd lots are to be settled on a mutually agreed prices on settlement days. The Stock Exchange will not entertain any dispute arising in these transactions.

SPOT TRANSACTIONS

These are normally settled on the same day or within 24 hours. If the following day of the deal is a working day, the closing hour of the trading hall will be the latest time by which the settlement has to be effected. In case of non-delivery or non-receipt, the office of the exchange will be informed immediately. The transaction will be informed immediately. The transaction will be covered or sold out immediately by giving 24 hours notice to the defaulting member.

CLEARING HOUSE CHARGES

Those are payable by both purchasing and selling broking firms in accordance with the scale laid down. The charges are calculated on the contract value of the deal, and are payable on all normal dealings. Clearing house charges will be calculated at the rate of 1 paisa per 100 rupees in respect of the dealing done by each broking firm during any month and will be payable in accordance with the clearing house instructions within one week of the receipt of notice by the member.

PENALTIES

These may be levied by the secretary in respect of:-

(a) Late submission of 'Member Daily Statement'.

(b) Late deliveries of scrips to the members in the clearing house.

(c) Failure to complete deliveries or make payments in accordance with settlement instructions.

(d) Any other infringement laid down in the rules.

LIABILITY OF BROKING FIRMS

A broking firm's liability in respect of a particular settlement period will be limited to its net position at the close of trading in the previous account.

PROTECTION ON RECEIVING BROKER

(i) Any broking firm that is a receiver in any settlement shall have the right to demand of the deliverer that he completes delivery in that settlement period.

(ii) In case the delivery fails to deliver by the close of settlement hours at the clearing house the receiver may request the supervisor of clearing house to buy in against the deliverer. The deliverer will be responsible for any loss that may occur.

LIMITATIONS

(a) The pay order must be handed over latest by 1.00 p.m., on the days of deliveries without exception.

(b) A grace period of 30 minutes will be permitted to members so that the payment is received (free of any incidence) latest by 111.30 a.m.

(c) A late fee of Rs.25/- will be payable by the members making payment later than 11.45 a.m. but before than 12.00 a.m.

(d) A late fee of Rs.10/- will be payable by the members making payment later than 11.30 a.m. but before than 11.45 a.m.

(e) Payment will not be received from the members after 12.00 noon and consequently the shares receivable by such members will be received by the clearing house and the shares shall be sold out in the open market at the risk and cost of the member concerned.

(f) In case of non-receipt of necessary payment to the clearing house by 12.00 noon the names of such members will be placed on the notice board in the trading house.

NOTICE OF DIVIDEND/BONUS/RIGHTS

The clearing house follows a standard procedure about the above and all the transactions are quoted 'Spot' by the quotation department, ten or six clear days before the announced closure of books by the company.

HISTORY OF STOCK EXCHANGE

HISTORY OF STOCK EXCHANGE

The first Stock Exchange was formed in 1934. It had a brief career and merged with the Punjab Stock Exchange Ltd., which was incorporated in 1936.

Mr.Noshir F. Dastoor is the first one to start the business of stocks and shares in 1952. After independence, covering the Pubjan and Northern region of the country. So he can be termed as the pioneer in the business of stocks and shares.

Before 1970, there is only one Stock Exchange in Pakistan. In 1970, out of total working companies of KSE, more than 45% were of Punjab and NWFP. Therefore, it was suggested to form a trading floor.

The present Stock Exchange was formed in 1970 and started functioning from 13th May, 1971. It suffered setback from the very start. Some businessmen like Mian Tajammal Hussain, Mr.Pervaiz took keen interest and agreed to establish Stock Exchange in October, 1970.

In the beginning, the number of companies listed on the Stock Exchange were 135 and now the number has increased to 575.

BRIEF HISTORY OF STOCK EXCHANGE

Even before the recognised Stock Exchanges came into operation, the business of similar nature was done of the sea ports of trading nations. When the ships used to said off the coasts of Britain from Port Plymouth, investors used to finance the cargo according to their capacities, and were issued receipts by the shippers. These receipts were traded in the inns and pubs of the ports.

With the industrial revolution in Europe, the entrepreneurs required more finances. To safe guard the interest of the investors and to protect them from the risk of unlimited losses the concept of investment with limited liabilities was offered. Investors were reluctant to place their money in these ventures unless they were assured of prompt liquidity. As such the need for market was felt.

The first Stock Exchange come into operation in one of the Scandinavian countries of Europe. Later on, London became the leader among the world Stock Exchanges because of the Empire almost in all corners of the globe. The Wall Street in New York. USA now considered the biggest in the world, was established in 1792, with 24 members.

In the subcontinent, the East India Company started this business. The leading Stock Exchange in India, the Bombay Stock Exchange, was established in 1850, solely managed and ran by the Britishers. The locals started this business under the banner of Native Stock Broker's Association. These were later merged into one.

For the rapid economic development, the equity finance through Stock Exchange in the public and private sector is of the vital importance. When Pakistan came into being, there was no Stock Exchange in Pakistan, which could play its role in promotion of economy. Therefore, in 1948, Habib Seth, Daud, Haji Karim, Haji Satar and Adamjee held a meeting and it was decided to establish '**Karachi Stock Exchange**'.

The purpose of Karachi Stock Exchange was to attract private investment to the industry. It provides institutional framework to enlarge pool of savings to act as a catalyst for the achievement of economic growth and encourage private sector. In 1949, the registered capital of Karachi Stock Exchange was 10.78 crores and increased to 443.93 crores in 1971.

IMPORTANCE OF STOCK EXCHANGE

IMPORTANCE OF STOCK EXCHANGE

Stock Exchange is one of the most important instruments in mobilizing national resources and broad base industrial ownership to promote economic development of a country. Stock Exchange, the world over has assumed a very important and vital place in the field of industrial finance because of its role in promoting investment climate and capital formation in a country.

It also ensures the maximum opportunities for equity participation for growth and expansion of small and medium sized industries in a country. The Stock Exchange channelizes the capital lying idle with the potential investors to industry and commerce. Also the establishment of large scale industries has been possible due to this institution.

As such, Stock Exchange constitutes an important segment of economy and helps to promote national prosperity and development and also contributes to the laudable objective of making diffusion of ownership.

The Stock Exchange provides necessary stimulant to institutions working for promoting virtue of thrift, in carrying out their aims and objectives which are mainly to attract the savings of individuals and to utilize such savings profitably for industrial development.

With those actions of the capital market, the base of industrial finance has greatly wide and large number of small investors are induced to put their savings in equity investment.

With rapid economic development, the equity finance in private and public sectors has acquired vital importance because of more funds required for industrial expansion. It is obvious that for such a purpose the existence of the Stock Market becomes indispensable because through this institution alone, it would be possible to mobilize savings of general public to investment eliminate and also thereby to contain inflationary pressure, and to provide capital to large and medium sized industries either for setting up such industries or for further expansion, thereby providing new employment opportunities.

In the world over, Stock Exchanges are globally considered as the barometers of the economy of their countries. The perspective investors look to the Stock Exchange for guidance for investment.

OBJECTIVES OF STOCK EXCHANGE

OBJECTIVES OF STOCK EXCHANGE

The objects for which the Exchange is established are to be undertaken in or outside Pakistan any or all of the following:-

(1) To remove of the 45% working burden from KSE.

(2) To develop the concept of Joint Stock Companies.

(3) To help the people in collecting funds to start the business.

(4) To conduct, regulate and control the trade or business of buying, selling and dealing in shares, scrips, participation term certificates, and securities, stocks, banks, debentures, debenture stocks, Government papers, loans and any other instruments and securities of like nature including but not limited to Export Bonus Vouchers. Special National Funds Bonds the documents of a similar nature issued by the Government of Pakistan or any institution or agency authorised by it.

(5) To direct the people to establish Joint Stock Company.

(6) To maintain high standards of commercial honour and integrity, to promote and inculcate honourable practices and equitable principles of trade and business, to discourage and to suppress malpractices, disputes, questions of usage, custom and courtesy in the conduct of trade and business.

(7) To establish and maintain or to arrange with or through a Bank, a Clearing House for a business of the Exchange and to frame rules and regulations under which such clearing house shall function.

(8) To make and adopt bye-laws, rules and regulations regarding the admission conduct, regulation, expulsion and suspension of members and the mode and conditions in, and subject to, which the business of the Exchange shall be conducted and from time to time, as may be necessary, to alter, add to, repeal and substitute such bye-laws, rules and regulations to any of them and to make and implement any new, amended or additional necessary or desirable for the purposes

aforesaid. Such bye-laws, rules and regulations may include but not be limited to:

(a) The maintenance and use, or prohibition of the use of the Exchange or Clearing House whether in the case of the general body or particular class or classes of persons or, any individual or firm or company using the same and the nature and times of such user;

(b) Determining the classes of contracts and the obligations in respect of which differences may be paid and payments and deliveries made through a Clearing Houses;

(c) Determining the list of securities in which transactions may take place on the Exchange for ready and cash, or forward, delivery and carry forward of 'Budla contracts'.

(d) Fixing and declaring market rate and settlement rates and dates;

(e) Determining the opening and closing of the Exchange or market;

(f) Determining the forms of contracts to be used;

(g) The making, performance and determination of contracts;

(h) Determining the consequences of death, supervening incapacity, insolvency or breach of contracts;

(i) The prevention of, and dealing with, 'corners' or 'Bear ralds' in any or every kind of share or security so as to prevent, stop or mitigate undue speculation inimical to the purposes of the Exchange;

(j) Regulating the business between members inter see or between any of them on he one hand and their constituents on the other hand, or between any of the members on the one hand and their sub-brokers on the other hand or between sub-brokers on the one hand and their constituents on the other hand.

(k) The fixing of brokerage and commission;

(l) The levying, compelling payment of and recovering fines, fees, penalties and subscriptions in connection with any of the objects of the Exchange.;

(m) The arbitration and settlement of all manner of disputes or difficulties whether between members and or their constituents and or sub-brokers in connection with the business of the Exchange;

(n) The provision for warnings, fine suspension and expulsion from membership of the Exchange.

(o) The appointment, tenure and conduct of committees:

(p) Any purposes considered necessary or desirable in the interest of the Exchange.

and from time to time, as may be necessary, to alter, add to, repeal and substitute such bye-laws, rules and regulations or any of them and to make and implement any new, amended or additional by laws, rules and regulations as may be considered necessary or desirable for the purposes aforesaid.

(9) To apply for and obtain from the Government a charter for the Exchange or to apply for and obtain form the Government recognition of the Exchange as a recognized Stock Exchange and for such purpose to

make and submit rules for the regulation and control of the business of the Exchange and furnish such informations the Government may require.

(10) To provide forms and contracts, compulsory or permissive, and to regulate the making, carrying out and enforcement of contracts.

(11) To acquire collect, preserve and disseminate statistical or other information in connection with the business of the Exchange.

(12) To collect, collate and edit material for dissemination and to undertake the printing and publishing of brochures, phamphlets, quotations, reports, journals, periodicals or other works of publication in connection with, or for the furtherance of, the objects of the Exchange.

(13) To purchase, take on lease or in exchange, hire or otherwise acquire any immovable or movable property, including but not limited to land, buildings and easements, and any rights and privileges which the

Exchange may think necessary or convenient for its business.

(14) To erect, construct, maintain and provide and suitable building or buildings, halls or rooms, for the conduct of the business of the Exchange and to alter, add to or remove any such building or buildings as may be considered necessary or desirable for the use or convenience of the Exchange or its members, and to regulate admission to and use thereof.

(15) To insure, sell, improve, manage, develop, release, mortgage, dispose of or otherwise deal with all or any part of the property of the Exchange.

(16) To advance the moneys of the exchange upon such securities or without any security and at such terms as may from time to time be determined, subject to law.

(17) To invest the moneys of the Exchange in such manner as may from time to time be determined.

(18) To borrow or raise moneys in such manner as the exchange shall think fit, and it particular by the creation and issue of debentures or debentures stock charged

upon all or any of the exchange's property (present or future) and to purchase, redeem or pay off any such securities.

(19) To receive money, with or without interest, by way of penalty, fines, subscriptions, entrance or membership fees, rents, licence fees, listing fees, from members, companies or any other persons for the objects of the exchange, and to put the same to any usedeemed fit.

(20) To create, raise, collect, apply and appropriate funds for the benefit and welfare of members and employees of the Exchange and the surviving teirs of such members and employees in case of death or incapacity of such members or employees and to do all acts, deeds and things required, incidental to or necessary for them purpose of giving effect to the objects of the said funds and for the administration and management thereof.

(21) To act in such statutory, supervisory, official or public capacity in relation to securities investments or financial matters as may be considered necessary or desirable.

(22) To subscribe to, become a member of an co-operate with other stock exchanges or institutions, whether incorporated or not, whose objects are altogether, or in part, similar to those of this Exchange, and to procure from and communicate to any such institution such information as may be likely to further the objects of this Exchange or, as may be considered necessary or desirable.

(23) To promote, support or propose legislative or other measures for any activities affecting the business of the exchange of any interest therein.

(24) To enter into any arrangements with the Government or Government Agency which may seem contucive to the objects of the exchange of ay of them, and to obtain from the Government or such agency any powers, rights, licences, privileges or concessions which the Exchange may think fit and desirable to obtain and to carry out. Licences privileges and concessions.

(25) To bring, defend or prosecute any suit, action, proceeding, application or arbitration on behalf of the

members or the Exchange as may be considered proper or conducive to the objects of the Exchange.

(26) To sign, seal, execute and deliver all instruments, deeds, documents and writings whatsoever usual, necessary or expedient in relation to the Exchange or its interests whether as principals or agents, trustees or beneficiaries, guarantors, consenters or otherwise.

(27) To take any action considered necessary to raise the status, or to promote the efficiency of the Exchange.

(28) To do all such other acts and things as may be considered incidental or conducive to the above objects or any of them.

CHARACTERISTICS OF STOCK EXCHANGE

CHARACTERISTICS OF STOCK EXCHANGE

The following CHARACTERISTICS of SE is described in its "Memorandum of Association"

1. <u>Name</u>

The name of Association is Stock Exchange (Guarantee) Limited.

2. <u>Office</u>

The registered office of the Exchange shall be situated in the province of Punjab.

3. <u>Main Object</u>

The objects for which the exchange is established are to undertake in or outside Pakistan any or all of the trade or business of buying, selling and dealing in shares, scrips, participation term certificates, Modaraba certificates, pre-organization certificates, and securities, stock bonds, debentures, Government paper, loans and any other instruments conducted regulated and controlled by it.

4. <u>Liability</u>

The liability of the members is limited is upto his share of guarantee.

5. <u>Contribute</u>

Every member of the exchange undertakes to contribute to the assets of the exchange in the event of its being wound up while he is a member or within one year afterwards, for payment of the debts and liabilities of the exchange contracted before he ceases to be a member, such amount as may be required not exceeding one thousand (1000)

6. <u>Revenues</u>

The income and property of the exchange whenever delivered shall be applied towards the promotions of the objectives of the Exchange. No portion of incomes of the exchange shall be paid or transferred directly or indirectly by way of dividend or bonus or in any other kind among members.

There are 129 members of SE till this time, out of maximum limit of 200.

FUNCTIONS OF STOCK EXCHANGE

FUNCTIONS OF STOCK EXCHANGE

Stock exchange plays a very important role in the capital market of a country. The main functions of the stock exchange are as follows:

1. <u>Organize Open Market</u>

Stock exchange provides an organized marked where the shares, stocks and bonds of joined stock companies and Government are freely bought and sold through brokers and jobbers.

2. <u>Turning Investment into Cash</u>

When a person purchases shares or bonds, he wants assurance that on time of need, his investment will be turned into cash at a short notice. The stock exchange provides this facility to the security holders to cash their investment at a short notice. it is almost just like with drawing money from a bank.

3. <u>Mobilization of Savings</u>

The stock exchange is the central source of information on market activity and trends in securities. the general index activity of shares prices motivates to investors to purchase securities in order to earn a regular income from their savings.

4. Pooling Resources for Large Enterprises

The economy of every country moves on the wheels of capital. The establishment of efficient and economic business units require large amounts of capital. the joint stock companies pool the resources of larger number of individual with the liability limited to the extent of the shares. the persons who have invested in the securities are sure that their investment can be turned into cash through the stock exchange. The individual resources of the people ar thus easily pooled for carrying on the productive activity on a large scale.

5. Raising of Funds by the State

Stock exchange is a important media through which the state can raise funds from the private sector for financing projects in the public sector.

6. Shares Price List

The prices of the shares are determined by the factor of forces of demand and supply in the share market. The function of the stock exchange is to report daily the prices of securities for the information and guidance of buyers and sellers. The information is published of those companies only which are listed on the stock exchange.

7. <u>Profitable use of Capital</u>

The market data of value of the securities provided by the stock exchange enables the investors to shift the capital from non-profitable concerns to profitable ones. This is really a great service from the investors point of view provided by the stock exchange.

8. <u>Loan Opportunity</u>

The securities purchased through the stock exchange can be used as security for taking short terms loans from the commercial banks.

The KSE & LSE have been registered as a limited stock exchange by Guarantee and rendering very useful services in industrialization of our country. The have broaden the base of industrial ownership in Pakistan.

WORKING OF STOCK EXCHANGE

WORKING OF STOCK EXCHANGE

A stock exchange is a place where traders in stock and shares assemble during certain prescribed hours for carrying on their business. In the trading hall of stock exchange, shares are exchanged for money and money for stocks and shares. Trading in the stock exchange is carried on by jobbers and brokers. A stock broker is a person whose sole business is to buy and sell shares of his clients while a jobber buys of sells shares on his own account and usually specialists in particular scrips.

The broker keeps himself well informed on the affairs of the companies. In short, a registered member of the stock exchange is an expert of investment and acts as a guide to actual and potential investors.

Stock brokers is approached by intending investors to buy or sell their shares. Normally the broker draws up a list of shares which in his opinion are good for investment. The broker gives alternative recommendations and leave the client to exercise his choice and this gives to the investor the great mental satisfaction of having taken some responsibility in the selection of the scrips in which he is to put his saving. Thereafter, the client places the order with the broker to buy the shares.

The broker enters orders in his order books before going to the trading hall and tries to match the orders in his own brokerage house.

At the opening time of the trading hall all the broker assemble on the trading floor and try to execute their clients, purchase orders by offering and bidding them at prevalent rates. The buying or selling of shares in the trading floor is in the nature of a public auction. After a purchase or sale has ben made, the clients are informed of their respective purchases or sales and contract notes are issued.

The expenses connected with stock exchange transactions are two fold. There is the brokerage to pay the broker and there are stamp duty and transfer expenses to pay if the shares are send to the company to register transfer. the stamp duty and transfer expenses are to be paid by the buyer.

There are three kinds of transactions. First ready or cash transactions, second spot transactions, and their forward transaction. Ready and forward transactions are routed through clearing house. Spot transactions are settled between members themselves.

WHY TO INVEST IN SHARES

Men of all ages have felt the necessity of saving some thing for the rainy days. It is also man's nature to part with his saving only when he feels that his saving is secure and will bring in additional income. Modern man is fortune is having the opportunity of investment in such savings where his saving is secure and return in fair. A prudent man, before investing his savings will certainly take into account the nature of investment, the period of investment and other relative factors and rights attached thereto.

Main consideration should be given before investment to the following points:-

1. Security of capital invested
2. liquidity
3. Margin of profit and return

1. <u>Security</u>

Investment in shares is more secure than any other investment, as listed companies have to abide by listing rules of the Stock exchange which are formed after approval of the CLA (formally called "Securities and exchange authority of Pakistan") and Ministry of Finance to control the affairs of the companies to protect the interests of the small shareholders. The exchange takes up problems of the shareholders with the companies concerned for early solution.

2. <u>Liquidity</u>

The share investment is more liquid than any other investment. A shareholder can buy and sell his shares in the stock market, as and when he desires. He can raise loan from banks by pledging his shares.

3. <u>Profits</u>

i) By investing in shares you participate in the profits of the concern which are distributed by way of dividend as opposed to interest in other forms of investment.

ii) Market fluctuation in share prices of the company.

iii) Bonus of Right shares issued by the company.

iv) In case of free issue claim income tax rebate.

v) By investing in shares one participates in industrial development and creates employment opportunities, thus, binning prosperity to the country.

METHOD OF INVESTMENT IN SHARES

Shares of a company may be acquired either by subscribing to the Memorandum of Association or by an application for shares followed by allotment or by transfer from another shares holders.

FRESH ISSUE

A public company desiring to float fresh capital after fulfilling the necessary formalities invites general public to subscribe to capital through a prospectus which contains necessary information regarding company affairs and financial position of the company alongwith other relative information to enable the investor to take decision for investment. The investor wishing to subscribe should obtain prescribed application form from the registered brokers of the stock exchange, fill in the same and submit it in consultation with his broker.

In case shares are allotted, the applicant will receive allotment letter. The allotment letters, are saleable through renunciation. During renunciation. During renunciation period, no stamp duty is payable. Fresh allotment letters are entitled for investment allowance for income-tax, if the share certificates are issued subsequently in the name of holders.

METHOD OF BARGAINING OF STOCK EXCHANGE

The operation of SE is conducted in a same was as in KSE. Trading hall of stock exchange opens daily at 10.00 a.m. except on holidays. The business of stock exchange divided into three sections

1. Ready section
2. Forward Section
3. Spot Section

A stock exchange is a place where traders in stocks and shares assemble during certain prescribed hours for carrying on their business. In the trading hall of stock exchange, shares are exchanged for money and money for stocks and shares. Trading in stock exchange is carried on by jobbers and brokers. A stock broker is a person whose sole business is to buy and sell shares of his clients, while a jobber buys or sells shares of his own account and usually specializes in particular receipts.

The broker himself well informed on the affairs of the companies. Stock exchange broker is approached by intending investors to buy or sell their shares. Normally the broker draws up a list of shares which is in his opinion are good for investment. Therefore the client places the order with his broker to buy the shares. The broker enters these orders in his orders in his order book before going to trading hall and tries to match the order in his own brokerage house.

Placing of Order

The order may be of two kinds

1. Limit Orders
2. Open Orders

Limit Order

If client wants shares in some limitation regarding price, then those orders are called limit order i.e. the rate is fixed.

Open Order

If client does not impose any limitation regarding price, the order is called an open order. In other word, at best means an order to purchase or sell shares on the prevailing market rates.

At the opening time of the trading hall all the brokers assemble on the trading floor of the exchange and try to execute their clients, purchase order by offering and bidding them at prevalent rates. Each party i.e. prophases and seller prepare contract tickets and exchange it between themselves and cop of each is sent to clearing house. From those contract tickets the member prepares a statement called "Member daily statement" and sent it to the clearing house.

Those statements are reconciled, then clearing house prepares the delivery order and sends it to both the parties and payment order is also prepared and sent to the member who has to effect the payment.

The timing of the settlement is specified by the clearing house. the member who has t make payment delivers a cheque to the clearing house and clearing house issues a new cheque from the stock exchange of the same denomination and delivers it to the seller by getting of the same denomination and delivers it to the seller by getting the delivery of receipts.

1. Ready Transaction
2. Spot Transaction

3. Forward Transaction

1. <u>Ready Transaction</u>

For ready counter there are two accounting periods and two settlement days in a week.

a) Tuesday, Wednesday and Thursday .... (Cleared on Monday)

b) Friday, Saturday and Sunday .... (Cleared on Thursday)

2. <u>Spot Transaction</u>

Spot transactions are settled between members themselves and settlement is made within one day and accounting period is only 24 hours.

3. <u>Forward Transaction</u>

Business of forward counter is of speculative nature. Usually the business is dealt without the intention of effecting delivery. Usually just the difference in the purchasing and selling valued is paid.

<u>Fee for Ready Counter</u>

A membership fee of only Rs.7,500/- is paid by broker who only deals in ready business on ready counter, usually the settlement is made by effecting payment and delivery of receipts.

Fee for Forward Counter

The broker who wishes to do the forward business has to pay Rs.2,500/- as a basic deposit. This deposit entitles a member to do a business of not more than 2500 shares outstanding at the time of submitting contracts to the exchange every day. The person who wants to do business more than 2500 scrips has to deposit extra amount for forward delivery contract the settlement dates and times are declared by the clearing house according to the basic conditions of one month.

Dividend Warrants

Profits of the company allocated for distributions to the share holders are paid through dividend warrant which is in the form of either a cheque or a receipt.

Procedure of Transfer of Shares

The process of transfer of shares is very simple. The seller delivers documents to the buyer. These consist of a share certificate and a transfer deed, wherein the seller's signatures are dully verified by the company and witnessed by a responsible person.

The buyer fills in the signature on the from of transfer, the place of transfer alongwith a signature of witness and other particulars regarding him, after completing transfer deed, proper stamp duty is to be affixed on the reverse and should large the documents with the company requesting to register the transfer. Then the company effects the transfer in buyer's name, endorse the share certificate in the name of buyer and enters the buyer's name in the register of members.

The buyer from that date becomes entitled to all the dividends and rights that attach to those shares. Shares are bought and sold in marketable lots. marketable lot is specified against the names of the companies in the official quotation sheet of the stock exchange. Lots other than marketable lots are know as odd lots and the price of odd lots is individually negotiated.

PROCEDURE OF TRANSFER OF SHARES

The process of transfer of shares is very simple. the seller delivers documents to the buyer. These consists of a share certificate and a transfer deed, wherein the seller's signatures are dully verified by the company and witnessed by a responsible person.

The buyer fills in the signature on the form of transfer, the place of transferee alongwith a signature of witness and other particulars regarding him. After completing transfer deed, proper stamp duty is to be affixed on the reverse and should lodge the documents with the company requesting to register the transfer. then the company effects the transfer in buyer and name, endorse the Share Certificate in the name of buyer and enters the buyer's name in the register of members. The buyer from that date becomes entitled to all the dividends and rights that attach to those shares. Shares are bought and sold in marketable lots. marketable lot is specified against the names of the companies in the official quotation sheet of the stock exchange. Lots other than marketable lots are known as old lots and the price of odd lots is individually negotiated.

ORGANIZATIONAL LEVELS

ORGANIZATIONAL LEVELS

According to the organizational chart of stock exchange, we find that following organizational levels.

1. General Body of Members

Every person who is admitted to membership of stock exchange is generally called as a registered member of general body. The total number of registered members constitute the general body. the maximum number of members is prescribed by its memorandum which is 200 for Stock Exchange. there are 129 member of Stock Exchange till this time.

2. Board of Directors

The board of directors shall be elected by members of exchange or general body. Directors shall not be more than 16 or less than 5. The board shall be elected from its body of members, a president and vice president. The directors are elected yearly in December of each year. Now the board of directors is for the year of 1992-1993.

3. President

In Stock Exchange general body elected the board of directors and these directors within 14 days of their election, elect president among themselves. President has the supreme authority of the management of stock exchange.

4. Vice President

The procedure of electing of vice president is same as the president. he enjoys all the powers of presidention his absence.

5. Committees

The board of directors delegates some of their powers to working Committees. The Stock Exchange has following standing Committees:-

a) Advisory and Arbitrary Committee.
b) Defaulters Committee
c) Taxation, Fiscal and Banking Committee
d) Rules and Regulations Committee
e) Floor Modernization Committee
f) Company Affairs Committee
g) Building Committee
h) Administration Committee

a) Advisory and Arbitrary Committee

Most of the disputes are practically resolved by way of negotiation. Only such disputes which have grave consequences on the trade of Stock Exchange are referred to this Committee.

b) Defaulters Committee

The member who does not fulfill his business commitments at the appropriate time, is called defaulters. The defaulters Committee handles these cases of defaulters.

c) Taxation, Fiscal & Banking Committee

This Committee considers the effect of taxation and fiscal policies of Government on Stock Exchange.

d) Rules and Regulations committee

This committee according to necessity and circumstances, frame rules and regulations to regulate listing of companies, controlling ready and forward contact business and general rules and regulations.

e) Floor & Modernization Committee

The business in the listed securities is conducted in a hall provided for this purpose and is termed as "Trading Hall". The maintenance and modernization of this hall is the responsibility of this committee.

f) Company Affairs Committee

The problems facing to listed companies are considered for resolving by this committee.

g) **Building & Members Welfare Committee**

The stock exchange operated its functions in a building constructed for this purpose. To look after the facilities such as lighting, sanitation is the task of this committee. This committee also take care of the problems of the members. It is members welfare committee.

h) **Administration Committee**

All the administration problems relating to staff and administration of stock exchange are considered and resolved by this committee.

6. **Secretary**

The board appoints a paid secretary, if necessary a paid assistant secretary of the exchange but such secretary or assistant secretary is not the member of exchange. The secretary is the secretary of the exchange and also of the board and secretary to each standing and special committee.

7. **Assistant Secretary**

The Secretary allocates his duties to Assistant Secretary who is responsible for his own section and directly linked with secretary. Each Section has one Assistant Secretary.

8. <u>Deputy or Joint Secretary</u>

For the help of the secretary, board appoints deputy or joint secretary if needed. They perform duties assigned by the secretary.

BRIEF OPERATIONAL INFORMATION OF THE FOLLOWING DEPARTMENTS OF STOCK EXCHANGE

ADMINISTRATIVE DEPARTMENT

Administration Department of the Stock Exchange is supervised by the Assistant Secretary of the Administration and its main functions are to plan objectives of the Exchange supervise the staff to get work done, to keep up leave records, sanction leaves and maintain discipline and punctuality of the employees of the Exchange. The administration department also carry out all the purchases of the exchange and building maintenance is also supervised by the administration department. But all the above activities and overall supervision by the administration and modernization committee of the Exchange formed every year by the Board of Directors.

CLEARING HOUSE DEPARTMENT

Clearing House is established in the Stock Exchange for routing the share transactions executed on the trading floor of the Exchange through the Stock Exchange Clearing House. There is a set procedure for cleaning the share transactions through Clearing House which is called the Clearing House Manual. The Clearing House prepares the clearing house schedule of the Exchange transactions and deliver to the working members. The clearing took place every week on Monday. The brokers deposits their shares and cheques for the sale/purchase of shares to the clearing house during banking hours, the Clearing House staff made the deliveries according to their schedule to the respective brokers.

1. Clearing House

The clearing house arranges the delivery and payments on settlement date. All transactions except spot are cleared through the clearing house. The settlement days are specified in advance and are notified by the clearing house.

At the end of accounting period, the clearing house works out the net position of every member of every script in which the member has dealt with. The transactions are reported to clearing house on the members daily statements, which contains complete detail of transaction such as name of script, quantity, rate, amount, buyers name and code of the members with whom the business has been done.

2. Ready Board Quotation

The function of ready board quotation is to arrange the business on Ready Counter and to propose the daily quotation of Stock Exchange.

3. Staff Matters

This section handles the personal Matters, e.g., leaves, business, provident fund, etc.

4. Despatch Section

Despatch Section despatches the daily correspondence. It also despatches the daily quotations to different organizations who require it.

5. Company Affairs Section

This part of exchange assists the company affairs committee in considering, in listing of new companies. It provides and arranges the information regarding the company affairs like Annual General Meeting, Allotment of Shares, timely despatch of share certificates and dividend warrantee by the companies.

6. Forward Section

This section handles the matter regarding the business on the forward section.

7. Accounts Section

The all Matters of exchange's accounts are dealt with in this section. The personal dealing of exchange is accounted for this section.

8. Research and Statistical Section

The research Matters and statistical Matters are dealt under this section.

READY BOARD QUOTATIONS DEPARTMENT

Ready Board Quotations Department of the Exchange is responsible for the Daily Trading activities of the Exchange. The supervisor of the Ready Section Department daily open the market at 10.00 a.m. and record the daily transactions executed by the members in the Trading Hall, this Department in the evening prepare daily market report based on the daily activities and prepare the daily market report and make changes in the daily Ready Board Quotation sheet, and prepare the daily fluctuation sheet.

RECEIPT AND DESPATCH SECTION

The receipt and despatch section of the Exchange is responsible for the despatch of outgoing mail and diary of daily incoming mail of the Exchange and keeps record in despatch register and diary register of all the mail.

PUBLIC RELATIONING

Public relations Department is responsible for up-keep of image of Stock Exchange, it keeps liaison with the National Press, Radio and Television Corporation or dissementing the Exchange information to these institutions. Public relations organize the different visits to the Exchange and arrange lectures etc. on the importance of the Exchange and Role of Stock Market.

MANAGERIAL POLICIES OF THE STOCK EXCHANGE

The Stock Exchange has following management objectives:-

MANAGEMENT OBJECTIVE	*MANAGEMENT PHILOSOPHY*
1. Realism 2. Precision 3. Flexibility 4. Standardization 5. Prudential Liaison.	What man is what he should be? What management can do to member him what he should be? Conduct on the job at all levels to inculcate enthusiasm.

The Stock Exchange make constant endeavor with a resolute determination to keep its pursuit.

Stock Exchange Growth Objectives

1. The concept of corporate investments.
2. Boarding the capital market in the Punjab and NWFP.
3. Providing best services to members, listed agencies and investments.
4. Marketing training to possess good professionals.

Functions of Personnel

Members of the Stock Exchange are governed under Articles and General Rules for the members of the Exchange. The appointment was sole disanction of the Board and their officers are continuously mentioned under rules of the exchange.

Procedure of Membership

Any person can become a member of the Stock Exchange provided he is considered fit and is qualified according to the rules and regulations laid down and is acceptable as a member of Board of Directors of Exchange and nominate any person in his place.

Membership Requirements

A citizen of Pakistan, he is a man of considerable means and his net worth is not less than 2 lacs of rupees, not being less than 21 years old, can become a member of the exchange by paying the entrance fees of Rs.7,500/-.

Once registered, he has to pay the annual subscription as determined by the Board members are subjected, from time to time, to rules and regulations determined by the Board.

Qualification for Membership

The board of directors of the exchange may admit a person to become a member of the exchange provided he has satisfied the board on the following:-

a) He is a man of considerable means and his net worth is not less than 2 lacs of rupees.

b) He has a good business standing in the knowledge of the business community.

c) He has been paying income tax regularly.

d) He provides the bank reference, etc. to the satisfaction of the board.

e) He is not less than 20 years of age.

f) He is a citizen of Pakistan.

g) He has not been convicted by any offence involving fraud.

h) He has not been declared as a defaulter by a stock exchange.

i) He is not a lunatic or a person of unsound mind.

j) He has experience of the business of securities for a period of not less than 2 years previous to his application.

<u>Net Capital Requirements</u>

1. Every member shall at all times maintain a net capital balance in the capital account not less than Rs.15,000/-

2. Provided that a member who is also a member of any stock exchange shall maintain a net capital balance of not less than Rs.50,000/-.

3. Provided further that, in the case of a firm, the amount of the net capital balance to be maintained shall be the amount obtained by multiplying Rs.50,000/- or Rs.50,000/-, as the case may be, by the member of such partners of the firm as are members of the stock exchange.

Resignation

A member may resign from the exchange by giving one month notice in writing to the secretary of the exchange of his intention to resign. The secretary, on receipt of such notices, shall forthwith past it on the notice board for a period not less than 15 days for any objections that may be raised and received by the secretary shall place the resignation with any objection received, before the board who may accept the resignation at their discretion. The board shall not be bound to give any reasons for their refusal to accept any resignation.

Suspensions

The board may be a resolution suspend any member of the exchange, who within fourteen days after notice in writing has been served upon him by the secretary of the exchange fails to pay any subscription or fine or penalty imposed upon him by the board in accordance with any rule for the time being in force or any other money due to him to the exchange and the board shall expel any such member who within a further period of thirty days fails to pay such subscriptions or fine or penalty.

MARKETING SYSTEM OF STOCK EXCHANGE

MARKETING SYSTEM OF STOCK EXCHANGE

i) Services

Stock Exchange provides various services to the prospective investors. The Stock Exchange has a network of stock brokers which provides the services of sale/purchase of shares, FEBCs, WAPDA, Bonds, Government Boards and Bankers Equity, COI. The prospective investors contact the stock brokers, they provide him with tip sheet and guide him to make right decision at the right time for the sale/purchase of shares. The Stock Exchange in itself provides the Annual and Half yearly financial statement of the listed companies to the prospective investors to study the financial position of the companies before making an investment decisions.

ii) Price

The market price of the shares are determined by the market price, that is demand and supply of shares in the market the blue chips are in high demand and so earning higher price. The end price of the shares purchased from the market is also included the brokers commission which is generally 1% of the market price of a share. The motive of the investor to invest in the shares is to share the profits of the listed companies in the shape of price appreciation.

iii) Distribution

Stock Exchange is only a regulatory body and it has only supervisory role to control the listed companies and stock brokers to execute their businesses according to the rule of the game. It never do any business, so it has no customer, any how we provide information to the investors by providing current rates of listed companies and company information to the investors, distribution of the profit was made by the listed companies to their shareholders. Stock Exchange is a non-project organization and nothing is distributed among its members except providing service to them.

iv) Promotion

The Stock Exchange is constantly striving for the promotion of Stock and shares business in the central areas; for this purpose we widely distribute forms and prospectuses of new public flotations to the General Public free of cost. We provide every information about new issues. The Daily Stock market report is provided to the press, radio and television which also help to promote the stock market activities. We arrange lectures and seminars to promote the stock and share business, the Stock Exchange has also printed the posters, titled 'explore the opportunities for investing in a prosperous future at the Stock Exchange'. The Stock Exchange every year publish a diary containing useful information covering listed companies, Members, and Financial Institutions. The Daily Ready Board Quotations sheet and Stock Exchange Annual Report also provide useful information to the investors.

CAUSES OF DOWNFALL OF ECONOMY

CAUSES OF DOWNFALL OF ECONOMY

ECONOMY OF MISMANAGEMENT

Annual Development Plan (ADP) 1995-96

All this is being done in the backdrop of some negative trends: the economy has not yet come out of the rut of low productivity, and the growth rate for this year, though positive, would not be sufficiently high. Inflation now in double-digit of 15 per cent, is eroding the purchasing power of the poor salaried class, devastating the common man. The situation in foreign trade is no different; both exports and imports are declining. Then there is the problem of growing unemployment and the number has swelled to over two million. This is beside the problem of under-employment that is affecting millions of people.

A host of internal and external factors, some economic and others non-economic, have brought this deteriorating situation. One is the conditionalities imposed by the donors, especially by the multilateral. Their quantum and present pace of implementation is certainly insensitive to the genuine needs of the common man. The price spiral, to a great extent, is attributable to the interventions of the donors.

Then there is the law and order situation and political instability, which has taken a heavy toll on Pakistan's economy and affected the investment. According to a study conducted by Prof. Dr.S.Nawab Haider Naqvi and Dr.Ashfaque H Khan of the Pakistan Institute of development Economics (PIDE), a two percentage point of the national income is affected by the law and order situation, and political instability. The growth trends of the economy during the past few years prove the point.

The recent struck of the business community indicate the seriousness of the situation. Under such conditions, **how and why would foreign investors bring in their capital into Pakistan**? The situation seems ripe either for a flight of capital or shift in the investment pattern, making physical assets the most preferred choice.

Coming to the economic matters and policy making environment, the policy makers in our centralized decision making environment need to be provided with a feedback on the existing state of the economy. Similarly, they need to be provided alternative policy options. The atmosphere in different blocks of the Pakistan Secretariat is too cosy and comfortable. It seldom allows the bureaucrats and policy makers to look beyond the scenic beauty of Margalla hills and air-conditioned comforts of the secretariat building, official transport and houses. The general complaint that this 'iron wall' distances our policy makers and their policies from the pressing needs and aspirations of the grassroots, carries a grain of true. There are, however, some noticeable and appreciable exceptions. The pre-budget meetings of the policy makers with a cross section of the people, and especially with the private sector, are occasions when this iron wall disappears. The strike of the private sector following the announcement of budget 1994-5, indicates the extent of responsiveness of our policy makers to the feedback.

There is always a need and room for an objective assessment of the situation and for alternative policy options. Islamabad was recently the venue of a one-day seminar on 'State of Pakistan's Economy'. It was organised jointly by the Islamabad Chapter of the Society for International Development (SID) and the Pakistan Office of the German Friedrich-Ebert-

Stiftung (FES). Some of things discussed at the seminar deserve attention. In case of the manufacturing, especially at the medium and large scale, the situation is not at all satisfactory. Karachi which used to contribute 40 per cent to the value added six to eight years ago, has come down to about 30 per cent. This decline has not been accompanied by a commensurate rise in the manufacturing value added in other parts of the country. The political uncertainties surely lead to a 'wait and see' attitude of an investor.

The decline in the manufacturing value added is also attributed to the infrastructural bottleneck. Electricity is the major culprit. One sincerely hopes that memorandums of understanding (MOUs) signed and so much trumpeted are really translated into installation of ventures (IOVs). And hopefully, rate of power supply would not act as a development contribution to the value added in manufacturing is the activities undertaken by the small scale sector. Despite a step-motherly treatment meted out to it, and the policies especially fiscal and trade which act as a constraint on its development, this sector has grown remarkably. Despite all the operational bottlenecks, it is thriving and provides employment to 80 per cent of the workers in the manufacturing sector.

In the agricultural sector, the most worrying is the continuation of a decline in the cotton production. Over the last few years, it has come down from 12 million cotton bales to just over 7 million bales. Indications are that this year's cotton production would not be more than 7.5 million bales. This is a grave situation since cotton and related contributes about two thirds to the exports. Cotton related manufacturing provide employment to two-fifth of the industrial work force. Moreover, one-fifth of value added of the agricultural sector is from this crop alone. This decline in output is attributed to bad weather and contain virus known as 'curl leaf'. One wonders as to what would be the function of agro related R&D institutions, some solely focusing on cotton, in the case of continuation of such virus attack, now in its third year.

The economy has other problems too. Absence of a cost-effective expenditure pattern has of late emerged as a major concern. The budget deficit continues to widen: This year it would not be less than 6 per cent of the gross national income.

Revenue targets are largely unmet. This has already reflected in the form of heaving commercial borrowing by the government. Defence and debt services are the major eaters of resources. A Beginning can be made in retiring the debt liabilities by utilizing the proceeds of the privatization of the state owned enterprises. It would be unfortunate to continue to direct thee proceeds for meeting the revenue expenditures. The donors will not like this situation but the consequence for the common man would be far serious.

Heavy reliance on monetary expansion, 16-17 per cent, in the event of poor performance of the commodity producing sector, is fuelling price hike. The situation is aggravated by the administered changes in prices. Of particular note and concern is the fact that two-thirds of the price increases are found in food items. This is followed by increase in price of utilities, especially that of electricity and natural gas. So far we have not given the Uruguary Round agreement any serious thought. This is true in particular of those related to intellectual property rights, tariffs, non-trade barriers on imports of those items that have been traditionally exported by the developing countries, including Pakistan.

MACRO-ECONOMIC IMBALANCES ARE INHIBITING PROGRESS ON THE PATH OF SELF-RELIANT GROWTH

Pakistan economy is currently confronted with baffling macro-imbalances, which unless effectively tackled on the basis of a well designed and properly integrated package of economic policies and programmes could pose a threat to socio-economic stability aside from disrupting the economy's momentum of growth. The principal imbalances are reflected in a significant savings-investment gap and huge fiscal and external current account deficits.

Savings and investment rates in Pakistan are unusually low (averaging 15.4 per cent and 19.7 per cent of GNP respectively during the five years ended June, 1995) in relation to historical growth of national output and relative to many other low income countries which have maintained rates in excess of 21 per cent. At these low rates of savings and investment, it would not be possible to support economic growth of 7 per cent year, visualized in the country's eighth five year plan (1993-98) on a sustained basis especially in view of Pakistan's neglected infra-structure and low levels of investment in social sectors. Efforts to maintain a high rate of growth without mobilizing more national savings would result in a rapid accumulation of external debt with ominous implications for future balance of payments position of the country.

On account of Pakistan's poor performance in mobilizing national resources to finance development, not only has investment been constrained, but our dependence on foreign resources in the form of loans and grants has increased to an extent that it now impinges on our economic sovereignty. In order to accelerate the rate of growth and wrest control over our economic destiny, it is essential, therefore, to not only increase the investment but to finance the bulk of it from out own resources.

Various reasons have been put forward to explain Pakistan's lackluster savings performance. These include: the existence of a large, unorganized black economy whose saving is not captured in the official statistics; a feudaloutlook characterized by wasteful expenditure; conspicuous consumption and ostentations living: a development strategy which has emphasized the production of consumer goods; rates of inflation higher than the rates of return on savings. The most frequently cited reason is, however, a culturallyinduced bias in favour of consumption. But while such a bias would affect the propensity to save, it cannot by itself explain all aspects of Pakistan's saving behaviour and by constantly citing this factor, the importance of other determinants tends to be either disregarded or discounted.

The findings of limited research studies in respect of the determinants of savings in Pakistan do however, establish that the rate of growth of income is a highly significant factor in household sector savings; furthermore, the real rate of return has also a pronounced effect on household savings through the acquisition of financial assets, i.e., on financial savings by the household sector. In our case, it is quite clear that inadequate returns on financial saving and unequal and inefficient distribution of credit have exercised an inhibiting impact on the process of savings and investment.

Admittedly, the real rate or return is not the only determinant of savings, but the evidence suggests that it is a far more important determinant than the bankers and policy makers acknowledged for a long time.

The main imbalance between savings and investment in Pakistan arises in the public sector. The issue of mobilization of domestic resources for the public sector, however, goes beyond that of raising the rate of public savings. In the public sector, domestic resources must be mobilized not only to raise the savings rate but also to meet the recurring cost of services.

In view of the magnitude and complexity of our macro-economic imbalances and rapidly changing international economic environment, we can no longer afford the luxury of functioning on the basis of ad-hoc policies, not infrequently influenced by short term political considerations.

PAKISTAN'S LARGE FISCAL DEFICITS: IMPACT ON THE ECONOMY

We have grown into a high consumption society, with indifference of level of savings.

At present, Pakistan's fiscal deficit is one of the most important problems of macro economic management. Pakistan is one of the few developing countries where government's current expenditures exceed it's ordinary revenues.

The consolidated deficit of federal and provincial governments (total revenues minus current and development expenditures) for 1994-95 is now estimated at Rs.105 billion or 5.6 per cent of the Gross Domestic Product (GDP) as against the budget target of 4 per cent. For the current fiscal year i.e., 1995-96, the consolidated fiscal deficit, it is hopes, would be scaled down to 5 per cent of GDP.

The consolidated fiscal deficit during the period 1980/81 - 1991-92 averaged around 7.2 per cent of GDP.

In 1992-93, the deficit was Rs.107.7 billion or 8 per cent of GDP; in 1993-94 it was brought down to 5.8 per cent.

The high budget deficits in recent years are an aspect of one of the chief weaknesses of our national economy, i.e., the low rate of savings. Unfortunately both at the national and individual levels we have grown into a high consumption society, with virtual indifference towards increasing the level of savings in the economy which at around 15 per cent of GDP are one of the lowest when compared with countries at the same stage of development. A higher rate of national savings will greatly assist in bringing down the fiscal deficit to a sustainable level and facilitate the shifting of some of the responsibilities of development of the private sector. Also, tax morality has not become a part of our national culture. Generally, we look for the ways and means to evade taxes and simultaneously expect that the government should provide us with all sorts of benefits and facilities.

These, no doubt, are long term problems, but we must recognise them and address them with the requisite seriousness and as effectively as we can.

SOURCES AND AMOUNTS OF FINANCING THE CONSOLIDATED BUDGET DEFICIT OF FEDERAL AND PROVINCIAL GOVERNMENTS

Years	Consolidated Budget deficit	Deficit as % of GDP	Banking system Amount	%	Non-bank Amount	%	External (Net) Amount	%
1980-81	14.6	5.3	2.4	16.1	4.5	30.9	7.7	52.9
1981-82	17.2	5.3	5.5	32.1	6.3	36.8	5.3	31.1
1982-83	25.7	7.1	6.1	23.9	14.4	56.0	5.2	20.1
1983-84	25.1	6.3	7.9	31.3	12.3	48.8	5.0	19.9
1984-85	36.8	7.7	18.7	50.9	12.9	35.0	5.2	14.1
1985-86	41.6	8.1	6.1	14.6	27.0	64.7	8.6	20.6
1986-87	46.7	8.2	10.9	23.4	27.4	58.6	8.4	18.0
1987-88	57.6	8.5	13.9	24.2	30.9	53.7	12.7	22.6
1988-89	56.9	7.4	0.8	1.4	37.9	66.6	18.2	32.0
1989-90	56.1	6.5	3.5	6.3	29.6	52.8	22.9	40.9
1990-91	89.2	8.7	43.4	48.6	23.7	26.6	22.1	24.8
1991-92	90.0	7.4	70.5	78.3	(3.1)	(3.4)	22.6	25.1
1992-93	107.7	8.0	62.6	58.1	19.7	18.3	25.4	23.6
1993-94*	90.7	5.8	12.9	14.2	55.0	60.6	22.8	25.1
1994-95**	105.0	5.6	18.6	17.7	30.8	29.3	55.6	53.0

* Prov. Actuals
** Revised Estimates

CAUSES OF DOWNFALL OF STOCK EXCHANGE

CAUSES OF DOWNFALL OF STOCK EXCHANGE

A) HESITANT DOMESTIC INVESTMENT

Why domestic investor hesitate to invest?

Due to imbalancement of our economy and some other reasons domestic investors shy/hesitate to invest, those causes are briefly discussed below.

LOW GROWTH RATE OF GNP & GDP CAUSES LOW INVESTMENT

<u>Total investment</u> in Pakistan is around 20 percent of GNP. During 1993-94, total investments in absolute terms were at the level of Rs.311 billion, out of which Gross Domestic Fixed Investment was of the order of Rs.287 billion. On an annual basis, the growth in gross fixed investments was recorded at the level of 11 per cent. This shows that not only investments as part of GNP are relatively low, but their growth rate is also conspicuously slow. This slow pace of investments growth is evident both in the private and public sectors. In the private sector, annual growth in 1993-94 was around 13 per cent, whereas in the public sector it trailed behind 10 per cent only.

More than 25 per cent of total investments are financed through foreign sources. In percentage terms it can be broadly stated that total investments in the country have been of the order of 20 per cent of GNP, out of which only 15 per cent are from domestic sources and 5 per cent from outside.

In a number of developing countries of Asia, having identical economic conditions, the investment level is between 24 to 28 per cent of GNP. It shows we are far behind. The more worrying aspect is that the share of domestic investment is relatively much less. <u>Why domestic investments in the private sector are not increasing, when highly liberal facilities to investors are provided?</u>

What one finds is that in spite of liberal investment policies enunciated by the government, the private sector's response is not very encouraging.

<u>What will be the possible effects of slow growth of domestic investments</u>? Obviously, the rat of GDP growth will be contained and along with that exports will as well slow down. This will adversely reflect on domestic services sector, which is largely providing employment and sustenance to the people.

If we look at the GDP growth figures of the previous few years, it comes out that even before 1992, the growth rate had been in the vicinity of 5 per cent per annum. As such, leaving the last two years, when climatic conditions were too adverse, the performance in the earlier years was also not much becoming.

What can be the possible causes of slower growth of domestic investments?

Generally, the private sector complains that in spite government assertions of introducing a liberal investment policy,, the de facto situation is quite different. Bureaucratic hurdles are still predominant, which stifle private sector's initiative for investment.

DOMESTIC INFLATION

The other reason is that domestic inflation has raised the costs all around. Not only energy, gas and transports costs have risen, but there is ostensible increase in the cost of acquiring domestic raw materials. Furthermore, the depreciation of the currency has raised the price of machinery and other intermediate goods required for new investment projects. This is a further draw-back for investors.

MACRO ECONOMIC POLICIES

Apart from this, the tightening of macro-economic policies have made it all the more difficult to invest in this country and expect reasonable investments. There are visible and concealed restrictions on commercial bank loans to the private sector. Mark-up rate has been in the range of 15 to 17 per cent for borrowers, and beside that, the conventional sources of financing industrial projects, through development financial institutions are getting increasingly squeezed.

The loans advanced by these institutions have mostly proved unproductive. Moreover their repayments could not be realised even after considerable effort. The result is that international financial agencies, like the World Bank and Asian Development Bank have discontinued granting lines of credit to these institutions. The other major source of financing has been the State Bank, which also became selective and restricted its accommodation to some development institutions.

As such there exists a credit squeeze in the market. It seems all sources of financing are drying up. Under the circumstances, it is hardly possible to expect any sizeable growth in investments.

LIBERAL IMPORT POLICY

Besides this, a very liberal import policy regime has been introduced which is facilitating the imports of most of the textile products, and electrical appliances. The result is that indigenous products fails in competing their products, both in quality as well as in terms of prices.

EASY ACCESS OF FOREIGNERS

Moreover foreign investors are getting easy access to our market. Most prominent areas are transport goods, food processing, especially juices edible oil and confectionery. Pharmaceuticals and chemicals are already dominated by them. This way we find that multi-nationals are pushing the shy domestic investor to a corner. Only cotton textiles and leather goods are left to them where a large number of imponderables exist.

GOVERNMENT POLICIES

All this shows that the private sector has not shown the required grit and determination to expand its economic activity. On the top of it, the <u>government policies</u> (and the way they are implemented) have made the task still more difficult. Perhaps, it is high time that ways may be found to make private sector more determined and effective. Government policies, likewise, need drastic revisions in detail.

B) FOREIGN INVESTORS PULLING OUT

Killing of US officials added poignancy to the continuing violence as a bolt from the blue to the stock exchange triggering panic selling. There were no buyers, only sellers in a panic-stricken market. Everyone wanted to lighten his burden fearing aggravation of the situation.

As selling originated from all quarters, a crash seemed imminent but strong institutional buying saved the situation. A hefty fall of <u>29 points</u> in Stock Exchange price index meant that no less than <u>5.8 billion</u> rupees had been wiped out of the aggregate market capitalisation which is already on a downhill course. Although the market collapse was averted due to short covering at falling prices, most of the investors were shaky. Their confidence in the future of market has been badly impaired. The local investors who have been taking the cue from their foreign counterparts were completely jolted.

Analysts said that the gory incident may scare away foreign investors who were lured into the Pakistan market following the economic reforms of the present government. Its deregulation, liberalisation and privatisation policies had fired their imagination. US investors had signed memoranda of understanding worth US dollar 6.5 billion for investment in the energy sector. In fact, foreign investment was the most fascinating success. The Stock Exchange had of late been put on the world map and it was considered as one of the emerging major capital markets of South Asian region. Over half a dozen foreign country funds had come into being which were showing keen interest in the equities of leading Pakistani companies, particularly multinationals.

Ghastly murder of two American officials may intensify this dangerous trend. The market was already quite depressed for the past many months. The tragedy has added a new dimension to the reckless killing going on in this city. The Japanese ambassador has rightly said that the growing lawlessness in this megapolis could hinder the flow of investment into Pakistan. He apprehended that worsening situation may discourage Japanese investment. That is true of other countries investment also. Particularly, the US investment may receive a serious setback.

A negative trend is already discernible in foreign investment on the Karachi Stock Exchange for the past many months. Between July, 1994 and January, 1995, there has been a net withdrawal of Rs.343.66 million worth of foreign investment. The latest incident may accelerate this trend. This is likely to have an adverse impact on the already committed investment of 15 billion dollars in the energy sector.

C) FOREIGN INVESTORS SHY DUE TO LAW AND ORDER SITUATION

The Taiwanese businessmen do not find investment climate in Pakistan conducive because of the present law and order situation and lack of guarantees from the government of Pakistan that their investments are safe.

This was stated by Ronie H.K. Huang, leader of the 23-member Taiwanese trade delegation and secretary general of China External Trade Development Council, Taipai.

Ronie said businessmen needed the assurance and the guarantee that their investment would not got waste due to political changes or the projects in which they have invested would be dropped because of such changes.

He said the present lawlessness in Karachi was signal that investors should keep away. He said 'we are perturbed at the situation and shy from making investment in such an important country of the region.'

He said Pakistan could become a production base for Taiwan to reach its clients in Middle East and South East Asia, he said his country was extending all kind of financial as well as managerial support in setting up joint ventures between the two countries in the small size and medium size industries.

Taiwan had invested about $ 20 billion in the mainland China and looking towards Asia and other countries for shifting its production base, and Pakistan, he said, could be a good place for this purpose.

D) BUDGET ERRORS COST MILLIONS TO INVESTORS

Investors lost millions of rupees at Stock Exchange in Pakistan because of some errors committed by budget makers in the 1995-96 Federal Budget, the investigations revealed.

For example:

The errors were committed without considering the fact that Pakistan Telecommunication Corporation is going to be converted into Pakistan Telecommunication Company Limited by the end of June this year. As a result, the budget makers mentioned some vital figures in an old fashion when PTC accounts used to be maintained through single book entry basis.

The mistake created a panic in the stock market, pushing the prices down from Rs.355.25 to Rs.33.80, vanishing millions of rupees on this count. The foreign institutions are also puzzled.

Inquiries showed, the Federal Budget 1995-96 has mentioned that government is seeking a payment of Rs.4.5 billion from PTC through the head of Non-Taxable Revenue Account, without considering that PTC would become PTCL.

As the head name showed the payment would be other than taxes that would be due on PTC.

Analysts at local and foreign institutes fear that dishing out such a huge amount would adversely effect the overall financial health of PTC in the coming fiscal year, despite a committed pledge by the government and Privatisation Commission that after conversion of PTC into PTCL all such arbitrary payments would be stopped.

E) CRACKDOWN IN KARACHI INSPIRE INVESTORS' CONFIDENCE

Panic selling was witnessed on the share market despite relative calm in the city in the sake of the crackdown on terrorists. Investors felt jittery as the situation was still fraught with grave dangers. Stray incidents of violence were still taking place. Only the other day, two Imambargahs were attacked in Gulbahar resulting in the death of one person and injury to several others. Commenting on the situation, a leading investors said that it was too early to say that peace and tranquillity have been restored. We are still sitting at the edge of a volcano which can erupt any moment.

Hence everybody is chary of making fresh investment. Discretion is the better part of valour, said a leading investor. He added that although the basic fundamentals are quite bullish and the situation is quite ripe for a technical rally, the investors were fighting shy of making fresh commitments in view of volatile law and order situation. In the present climate of uncertainty, everybody was prone to gossip and rumour.

On the way opening day, the rumour that a bomb had been planted in the trading hall gripped the market. As soon as the hoax bomb call was received, the bomb disposal squad was called which made a through search and then gave a final clearance. Trading remained suspended for two house and everybody ran for safety. The entire market was thrown into a tailspin. An analyst said that although such rumours may be baseless, but their psychological impact may be immense in the present climate.

Again he rumour got afloat that the MQM leader Dr.Farooq Sattar had been assassinated. This sent a shock wave through the market and investors resorted to panic selling. But ultimately the report was proved to be false and thus the investors took a sigh of relief. Heavy short covering surfaced on the opening of new account but the rally was too feeble to sustain itself. The lack of follow-up support led to a heavy decline in prices. The selling was accentuated in the wake of the report that foreign investors had started withdrawing from the local market. Although the selling was not as aggressive as feared earlier, it weighted heavily against the market sentiment.

The worst of the story is that even institutional intervention in a big way could not stem the rot. The general investors were conspicuous by their absence which did not allow the market to come out of the present impasse.

A serious development was slipping of the price index from the resistance level of 1800 points sending it down to 1736.76 from level of 1837.74, a loss of more than 100 points meaning thereby that Rs.20 billion had been wiped out of the aggregate market capitalisation. The figure had tumbled from Rs.352 billion to Rs.348 billion. It meant that the market will have to go a long way to recover the lost ground and touch the peak level of Rs.442 billion.

The market circles said that if there is a distinct improvement in law and order situation, the market will definitely perform better and may even stage a technical rally. Pre-budget buying is expected to surface which may help the market consolidate the gains.

However, the fear of more taxes and harsher budget kept haunting many an investor. They said that the mounting burden of tax had become unbearable for the business community and it is no more viable for them to operate in these conditions.

Meanwhile, the business community has demanded removal of the Sindh Chief Minister and the governor for their failure in controlling lawlessness and threatened to go on an indefinite strike and non-payment of taxes, including utility bills, if the situation does not improve. General strike will be observed on a nation-wide scale to register businessmen's protest against the deteriorating law and order situation.

The businessmen's convention expressed its deep concern and anguish over senseless killings, decoities,, car-snatching and extortion of money and decided that the businessmen would stop all normal advertisements on PTV, NTM and Radio Pakistan.

Thus to all appearances, the business community is on the war path. It wants that the army should be called out to control the situation for an initial period of three months with full powers under Article 245 of the Constitution. It has also underscored the aegis of the army.

In the situation marked by growing tension between the government and the businessmen, the investment climate may not improve and a technical rebound on the Stock Exchange may remain a fond hope.

Stock Exchange's price index stood at 1695.57 as against 1837.74 reflecting base shares with the hefty fall of over 100 points in the index.

F) MACRO ECONOMIC INSTABILITY

The country has despite balance of payment and fiscal deficit problems, macro economic instability and low GDP, growth rates are the big causes of down fall, because in the presence of the above mentioned point our economy also goes down and effects the individuals, firms even every one. So, in this situation investor pull their capital out and no new investor invests because investors ever take perceptions from the economical conditions of the country, So, this is an unfavourable trend for stock exchange.

G) RADICAL POLICY OF LIBERALISATION

There are no significant development, Govt has not been taken any step to:-

* Replace the old age system of administered interest rate structure.
* Quantitative control system by market oriented interest credit rate structure.
* Open market operations for the management of the monetary system in the country.
* The Government has still relying upon borrowing from the banking system at low administered rate of interest not trying to raise the financial resources.
* There are many regulatory sanctioning procedures for establishment of new industries.
* Government do not take any step to decontrol of deregulate the following.

* For establishing an industry in private sector needs many approvals from Government agencies.

* For making an investment in the new or existing industry need the approval of the controller of Capital issue.

* No one can issue or transfer the shares to foreigners without approval.

* The exemption limit for issuance of capital was US$ 1.216 million (Rs. 50 million)

* There is a fixation of price of new shares as well as shares being disinvested was not allowed. In the case of right issue others prices are not allowed to be fixed without the interference from the regulatory agencies.

* There are lengthy procedures prevailing in obtaining licences lengthy procedure of sanctioning and also difficult to get no objection certificates and also pricing of share.

H) EXCHANGE CONTROL

There are many controls and restrictions under which both national and foreigners cannot maintain foreign currency accounts in the country and foreign nationals cannot invest in new industries in equity of the company.

* Foreign banks had not been permitted to underwrite new issued either the issue or their own capital including reserves.

* Their are no secondary markets for the foreigners and foreign nationals.

I) NO TECHNICAL FACILITIES

There are no most recent technical facilities are available in stock exchange. Like cheque, clearing and computerized accounts, and also main trading functions like clearing and settlement of securities, retrieval services.

* Most of transactions take place on the proper.

* Current informations are not available due to un-computerisation.

* Stock exchange index is not easy to assess due to manual system.

J) GOVERNMENT POLICIES

When companies are growing then they must need the funds from public sector. But the downward trend in this situation linked overall economic downfall in economy. And the Government policies plays a vital role in it. For instance, Tax treatment of firms and partnerships are more favourable than the companies.

* There is a difference of 10% in the rate of listed and unlisted company.
* Capital gains are taxable now.
* Tax collected with the concept of with holding tax.
* Withholding tax imposed at the rate of 30% with the difference of NRP and RP.
* Different rates for assessment.
* Restriction on private sector to set up open ended and closed ended mutual funds.
* Restriction on setting the employees stock option.
* Tax on Modaraba companies at the rate of 25%.

K) POLITICAL INSTABILITY

Political stability in a country helps in creating confidence of an investor in the investment in general and stock exchange in particular. For instance, if there is political industry, the investor in the stock exchange will prefer to disinvest and hold his money with him. The creation of a stable

Government activities the volume of business and positive results are derived. The problem of political instability is a pertinent feature of the underdeveloped countries. Due to uneven distribution of economic resources, the disparity amongst various economic groups leads to a political extreme where emphasis is laid on state owned economy.

When in a country, the political sense is faced with such a situation the confidence of the investor in the future of his investment, shatters and he prefers to disinvest. On the contrary, in developed countries, political decisions, the stable government strengthens the confidence of the investor and he plays his role freely.

L) GLOBAL SITUATION

Apart from the political stability within the country, the global situation also effects the volume of business besides resulting in an increase or decrease in the prices of certain kind of stock. For instance, the Arab-Israel war will always effect the price of shares of fuel companies. In America the prices of fuel companies crashed when the Arab world threatened to use oil as weapon.

The country at war may be a raw material producing or finishing goods market for a particular company and its being at war any either effect supply of raw material which would mean stoppage production. Thus, leading to a loss and affecting the business of its shares, on stock exchange.

M) FISCAL POLICY

The fiscal policy of the government also plays a significant role in the prices of the shares. Tax exceptions to any industry. The individual investor will have a belief that an engineering unit will have more surplus to distribute amongst the shareholders, so in an expectation for higher rate of dividend the investor will purchase the shares and this increase in volume of transaction of shares will increase the market price.

Another important fiscal measure is that the pioneer industries for a particular industry always emphasis on the government either to be the identical product or increase the rate of the duty on the imported ones.

The government in their desire to cut their import bills exercise their right to ban the import or increase the rate of duty on import of particular commodity. This fiscal measure strengthen the position of domestic industry and the investor has lesser doubts regarding marketing viability of the company, he intends to invest.

This confidence results in increase in the transactions of shares and due to the forces of demand and supply prices increase. The best example is the home industry of air-conditioners, the production of locally produced air-conditioners increased subsequently resulting in increase in profitability of these units, thus, making an overall affect on the prices of shares of these units. On the contrary, if government permits today the import, it will have an adverse effect on the share market.

Another important fiscal measure effecting the stock market is devaluation or revaluation of currency. In stock exchange are mainly manufacturing units and since these countries lack technology, most of the industrial units are set up by way of imports of machinery or technology. Since most of the technology is imported through foreign currency loans, a slight devaluation will mean increase in the debt burden of the company.

Thus, effecting the financial position of the company. A change in the financial position results in a drastic change in the market price of shares of the company.

N) NATURAL CALAMITIES

Natural calamities also play an important role in the stock exchange. Their role is significant in those companies who are consumers of agricultural product i.e., the companies that consume the agricultural production as raw material. The best example in this context is the cotton textile industry. Since the textile industry depends upon the production of cotton in the country, a natural calamity or adverse weather conditions resulting in a damage to the cotton crop, will effect the prices of shares of the textile companies as availability of raw materials will create doubts regarding the operations of the companies. In such a situation, fiscal measure i.e., liberal import of cotton can help in restoration of public confidence in the industrial sub-sector.

O) INSTITUTIONAL POLICIES

Policies of some institutions also play an important role in the price structure of the stock market. This is especially very important with reference to those institutions which are considered patron of a particular industry.

For instance, ADBP, launched a scheme to advance loans to the farmers for the purchase of locally manufactured tractors. Introduction of this scheme strengthened the market position of the locally manufactured tractors, thus, promoting its operations. If at any juncture the ADBP decided to discontinue tractor loan, it will result in decline in the market price of shares of the tractor units, as the sales or profitability of the unit has become a controversial issue.

SUGGESTIONS & RECOMMENDATIONS

SUGGESTIONS & RECOMMENDATIONS

The capital market development strategies which have been successfully implemented by the country may be considered for replication by other regional countries through integration into specific country programs, subject to local adaptations.

A) INVESTORS PROTECTION

Investors' protection was considered to be of paramount importance for any scheme of capital market development. Because of the fact that a very large number of small savers are from low and middle income groups, provident fund and pension holders, they must be given full protection of their investments. It was the consensus that the reputation of the regulatory bodies set up for such purpose must earn total faith and trust of the people.

B) ACCOUNTABILITY AND TRANSPARENCY

(a) Regulation should be framed in such a manner that there should be public accountability reflected at all stages and this accountability should be made fully transparent to the people.

(b) The Securities Exchange Commission (SEC) must be made a fully autonomous and independent institution, answerable to the people without any interference from the government.

(c) To protect the stock markets from shocks, there must be instituted an early warning system. The SEC should constantly be vigilant against the behaviour of players of the market and be in a position to take corrective actions as a matter of routine. The regulatory bodies must ensure timely holding of AGMS, payment of dividends and compliance with relevant statutory provisions and other regulations. No individual or group should have the power to control the stock markets at any stage of time.

(d) Multiple regulatory system must be eliminated and over regulation, which might impede the process of capital market development, must be avoided.

C) ECONOMIC REFORMS

(a) The economy should be fully liberalised by abolition of cumbersome procedures and controls in the spheres of monetary, fiscal and foreign exchange procedures.

(b) Privatisation policy, widely acclaimed as a vehicle of economic developments should be vigorously pursued as a principal catalyst for giving new impetus to capital market development.

(c) Exchange control and banking reforms having favourable impact on boosting the investment environment and securities market should be vigorously pursued.

D) INTEGRITY OF THE PLAYERS

All players of the stock market must enjoy impeccable public confidence. Their public dealings, professional reputation and social acceptance must at all times be beyond any reasonable doubt. The regulatory bodies must pay particular attention to this aspect. Image problem of important players may seriously impact security market development. The recent scam of Bombay Security Market, Baring Brothers and the Mexican experience are cases in point.

E) ACCOUNTING & AUDITING STANDARDS

(a) The regulatory body must ensure that the Financial Statements presented at the AGMs strictly conform to the mandatory accounting treatment and disclosure requirements of the International Accounting Standards and the audit of quoted companies is conducted strictly in accordance with the requirements of the International Standards on Auditing. Prospectus issues, share premiums, valuation and market forecasts are areas which should receive special attention.

(b) The Accounting bodies of the SAFA region should consider developing an appropriate Accounting Standard on Capital Market Development or make representation to the international Accounting Standards Committee accordingly. This would ensure uniformity through harmonised reporting of Accounting for emerging capital markets of the region. An auditing Standard may also be developed accordingly, through the SAFA or by representation to the international Auditing Practices Committee of the International Federation of Accountants.

F) PUBLIC GRIEVANCES

There should be instituted in the SEC a cell which will receive and investigate into the complaints made by the investing public. These should be thoroughly examined and corrective actions as necessary should be taken while publicity for such malpractice be given in the national media.

G) ADMINISTRATION FOR STOCK EXCHANGE

Management of stock exchange should be entrusted to the people who enjoy public credibility. There should be mandatory rules for induction of new blood time to time. The participants strongly recommended that stock markets should never be allowed to develop into an oligarchic institution, controlled and managed by a handful of people. Persons with honesty, integrity and without conflict of interest should be selected for operating security markets.

H) FOREIGN VS. LOCAL INVESTORS

(a) The participants were unanimous in that there should be no difference between the local and foreign investors. Both must be treated on equal terms.

(b) In the event, where local and foreign investors operate on the same footing, no lock-in period for foreign investors or for that matter local investors would be necessary. It is only when a particular group of investors (foreign or local) is given a preferential allotment of Initial Public Offerings (IPO's) the question of lock-in period becomes relevant.

I) MARKET LIQUIDITY

The market should have easy access to liquid funds at reasonable costs. Private sector should be fully involved and allowed to operate freely in broadening the capital market base.

J) TECHNOLOGICAL IMPROVEMENTS

(a) The entire gamut of stock exchange activities should be computerised. Technological Modernisation, like automated cheque clearing, and computerisation of all transactions in the three main functions of trading, clearing and settlement of securities together with expanded retrieval service and accessibility to market information system should be practised. The introduction of Central Depository System (CDS), paving the way for paperless transactions should be encouraged.

(b) The Stock Exchange trading system should be adequately reformed to ensure regular flow of fair market information for existing shareholders and potential investors.

(c) The Stock Exchange index should be regularly reviewed and updated to ensure that its composition is properly linked to market capitalisation, trading volumes and other related factors.

K) PROMOTION OF CAPITAL MARKETS

(a) The SEC should include amongst its activities, the promotion of public awareness of capital markets both for the investors and the corporate sector for long term needs of their financial investments.

(b) A Favourable Perception of the Economy must be reflected to the investors-through attainment of reasonable degree of macro-economic stability', encompassing sustained GDP growth, satisfactory balance of payments and budget position, reduced current account deficit, low inflation, stable currency, comfortable foreign exchange reserves, currency convertibility, etc.

(c) Credit rating agencies should be promptly established and Merchant Banking facilities adequately extended, to provide necessary deepening and maturity of the market.

L) LEGAL SYSTEM AND LAWS

Legal System should be appropriately modified to promote capital market development. Corporate laws such as the Companies Act and Securities and Exchange Rules should be regularly updated. Bankruptcy laws should be adequately developed and enforced in practice.

M) AVAILABILITY OF TRADEABLE SECURITIES

(a) Sustained availability of tradeable securities like shares, debentures, mutual funds and unit certificates must be ensured through regular floatation of new issues and rights issues in primary market to supplement trading in secondary market.

(b) Government Securities Market and Forex Counter should be developed for trading in fixed income securities like government bonds, treasury bills and important foreign currencies.

(c) A Debt Securities Market should be developed for trading in corporate bonds, debentures, commercial papers and other innovative instruments, like Global Depository Receipts (GDR), aimed at providing maximum options and diversification to potential investors.

N) INVOLVEMENT OF PROFESSIONALS

(a) Professionals, Inter-Management Accountants, Chartered Accountants and business and financial experts should be appointed in important administrative and financial positions for dynamic rejuvenation of the capital market aimed at overcoming traditional bureaucratic system.

(b) Corporatisation of Investment Counsellors and Analysts should be encouraged to provide port folio management and investment counselling, share brokerage, issue management, capital structuring, corporate counselling, training and research.

CONCLUSION

CONCLUSION

Stock Exchange is a very important and sensitive market of the country. The economic conditions of the country can easily be determined by the activities of Stock Exchange.

In this present era, the economy of our country going downwards because of low savings of people, low GDP rate, low GNP, high rate of inflation, constant devaluation of our currency and many other reasons.

So, these downwards trends of our economy also have severe impact on Stock Exchange. Here we find out many reasons of down fall of Stock Exchange. Why domestic investors hesitate to invest? Why foreign investors pulling out? What is the impact of current budget on Stock Exchange, instability of Government and Government policies, present situation of Karachi, and also many reasons are there.

And then we write down some recommendations according to our mind. We have also tried to make this Project impressive and effective.