PRESS RELEASE

PAKISTAN STOCK EXCHANGE LIMITED

PSX Top Management & Other Key Capital Market Stakeholders Meet Federal Finance Minister

Karachi, August 9, 2022: Pakistan Stock Exchange (PSX) hosted a meeting with the Federal Minister for Finance & Revenue, Dr. Miftah Ismail, where Chairperson PSX, Dr. Shamshad Akhtar; Chairman SECP, Mr. Aamir Khan; MD & CEO PSX, Mr. Farrukh H. Khan; Chairman FBR, Mr. Asim Ahmad; Deputy Governor SBP, Dr. Inayat Hussain; Special Secretary Finance, Mr. Awais Manzoor, and key stakeholders including Chairman Arif Habib Group, Mr. Arif Habib; Chairman Pakistan Stock Brokers Association (PSBA) & AKD Group, Mr. Aqeel Karim Dhedhi; CEO Bank Alfalah Limited, Mr. Atif Bajwa; CEO NBP Funds, Dr. Amjad Waheed; Director Arif Habib Corporation, Mr. Nasim Beg, and CEO Pakistan Business Council (PBC), Mr. Ehsan Malik, participated.

The meeting involved discussion on proposals presented by PSX to the Finance Minister for the sustainable development of the capital markets. This follow up meeting came on the heels of the visit of the Finance Minister to PSX on Friday, August 5, 2022. The MD PSX welcomed the Finance Minister and other participants and thanked them for their presence at this follow-up meeting. The MD PSX re-emphasised that the situation in the capital markets needs to be addressed on a war-footing.

Some immediate steps that can be taken include increasing dividends by the profitable SOEs. Presently, while some of the SOEs are extremely profitable, their payout ratio is a meagre 18 percent. The participants urged that this should be raised to 50 percent. Given the imminent board meetings, there was an urgency for guidance for SOEs to declare healthy dividends, which would result in dividend income and taxation revenue for the government, giving it fiscal space towards reducing circular debt as well. The finance minster agreed and directed that a meeting be held immediately with the relevant ministry and all relevant stakeholders to consider this matter.

The participants also pointed out that the market valuations presented compelling opportunities for entities like State Life Corporation and EOBI to invest in listed equities for the benefit of their policy holders and pensioners.

The key points addressed at the meeting included matters related to Pakistan's macro-economy, capital markets, taxation and non-tax measures. In terms of the macroeconomic situation prevailing in the country, the participants emphasised that government's funding should be strong and taxation measures should be equitable. Movements in PKR/USD exchange rate have been too volatile and changes to this effect should be gradual. With regard to the interest rates, it was pointed out that interest rates in almost all countries of the world are negative and that this must be taken into account in context of interest rates in Pakistan.

On his part, the Finance Minister clarified that, "Macro economic stability was forthcoming with the IMF programme resuming before end of August as all conditionalities have been met. Furthermore, the balance of payments position is now well under control. With increased hydel power, lower energy demand and lower oil prices, Pakistan may even have balance of payments surplus in coming months". With regard to tax measures, the Minister stated, "Fiscal discipline will be strictly followed and all additional expenditures will be fully funded by tax measures. 10 percent Super Tax is only imposed for one year while alternative revenue streams are developed. ADR linked tax on banks will not be imposed retrospectively and tax revenues from the retail sector are expected to be significantly more compared to last year."

With respect to the capital markets, it was discussed in the meeting that urgent actions be taken to mitigate the impact of macro developments for sustained and secular growth of the capital markets. As perhaps the largest stakeholder in the market, the government will benefit directly by developing better funding alternatives, improved documentation and higher tax revenue, as well as avail the broader benefits that accrue to an economy on account of having developed capital markets. It was emphasised that the two biggest obstacles to capital markets growth are tax incentives given to other asset classes and KYC requirements in the stock market, which are not consistently applied to other asset classes. These obstacles are resulting in an AML and tax driven distortion amongst asset classes which is detrimental to efficient allocation of scarce resources in Pakistan; hence creating challenges on both demand and supply sides for the capital markets.

In terms of taxation, the participants of the meeting pointed out that even though the stock market is undoubtedly one of the most documented sectors of the economy, however, income of listed companies is subject to double tax, at the company level and later on dividends distribution level as well, whereas unincorporated businesses are subject to substantially lower taxes. It was emphasised that this inequity in taxation is discouraging corporatisation and documentation.

The points made to encourage corporatisation and documentation included tax rate for unlisted companies and AOPs be logically higher than for listed companies, restoration of tax credit for newly listed companies as the immediate revenue impact is very small. In the medium term this will be a revenue positive measure since FBR will collect both CGT and higher income tax from both the listed companies and other companies in the supply chain of the listed companies, provide a small tax rebate to any listed company that pays more than 50% of profits as dividends, reinstate exemption on inter-corporate dividend under clause 103c for group relief which will significantly improve capital formation and investments, and grandfather tax position of companies at the time of new listing on PSX, particularly for smaller companies listing on the GEM Board of PSX. A key concern expressed at the meeting was the treatment of CGT. The Finance Bill 2022 addressed this issue through introduction of reduced rates based on holding period. However, the final Amended Finance Bill 2022 has again created tax disparity between securtities and immovable properties. This was termed unfair and against the stated policy of GoP.

In terms of non-tax measures, it was emphasised that SOEs like State Life, DFIs like Pak Kuwait, PPP, and CPEC projects be encouraged to list and raise debt from the capital market. This will allow the GoP to release their equity and reinvest it in new projects, while growing the size of the market, a key matric to be included in the MSCI Emerging Markets Index. Additionally, it was pointed out that Direct Listing procedure developed by SECP and PSX can be used to achieve this without any significant sale of shares by GoP. The participants in the meeting further emphasised that all measures/ schemes introduced by GoP, MoF, FBR and SBP should be available on better terms for listed companies such as concessional financing schemes for SMEs, that GoP use the capital markets for further Sukuk and debt issues for itself and other GoP controlled entities, that the term ‘Advances’ for the purpose of calculating ADR under the Income Tax Ordinance, 2001 must include investment in all kinds of Corporate Sukuks/ TFCs, that investment limit for small retail investors, with easier AML requirements in Sahulat Accounts be increased to Rs.2.5 million with SECP fully clarifying AML requirements for Sahulat Accounts, that reforms in NSS are extremely important to eliminate distortions in the financial sector and to create significant savings for the GoP.

The Finance Minsiter was highly receptive to all the points discussed. In particular, he asked the FBR to immediately review any discrepancies in the CGT regime and the issue of tax credit for newly listed companies. He asked SECP to review the investment limit and AML requirements for Sahulat Accounts. He also directed the MoF to review listing of DFIs, procedure for issuance of debt/ Sukuks in the capital markets and interest rate setting of NSS instruments.

Infact, for a thorough review of all the above matters, the Finance Minister set up three committees. The first committee was set up to share the perspective of the private sector with SBP and the MPC on interest rates, the second one was set up to coordinate with PBC and PSX on all the tax issues and the third committee was set up to coordinate the review of listing of DFIs, debt & Sukuk issuance, reform of NSS and explore development of a market for exchange rate forward dealing which all market participants can access. In the first committee, the Deputy Governor SBP, Dr. Inayat Hussain will coordinate with representatives of PSX and PBC. In the second committee, Member Tax Policy, Mr. Afaque Qureshi will coordinate with PBC and PSX on all tax issues whereas in the third committee, Special Secretary Finance, Mr. Awais Manzoor will coordinate along with Mr. Nasim Beg from the private sector.

The Finance Minister further committed to review progress and meet with the stakeholders again within two weeks. On behalf of all stakeholders, PSX thanked the Finance Minister and his team on the positive and constructive discussion, expressing confidence in materialisation of concrete actions in the next two weeks.