

**“Brokerage account opening to be made online soon”. Business Recorder interviews PSX MD, Richard Morin. FEB 15, 2019**

Richard Morin took charge as the CEO of PSX in January 2018. He has 30 years of experience spreading across various emerging markets, and in Canada. Throughout his career, Morin has contributed in various segments of financial markets including formulation of securities markets regulation and supervision mechanisms, market development, operations, risk management, derivative markets, central depositories, clearing systems, and government securities markets. He has also been on the other side of the markets, as Managing Director of Canada's investment industry association, and founded two private wealth management companies in the past.

One year into the job, Richard has made a new team, and looks all set to rollout the next phase of PSX reforms. Those reforms revolve around an aggressive marketing and awareness campaign, the launch of new indices and ETFs, ease of brokerage account opening, and changes in investor protection fund. Below are edited transcripts of his recent discussion with BR Research.

BR Research: Last time we met, you said, 'you couldn't share the details of your strategic plan, because you had yet to present it to your board'. Can you walk us through that plan now, beginning with the increase in investor penetration?

Richard Morin: The central focus of our strategic plan is to penetrate Pakistan's middle class, which is largely absent from our stock market. We are laying the groundwork for this very important long term goal, which will transform our capital market and Pakistan's economy. Much of the work will be done during my 3 years' mandate but bringing to our market a significant number of the 50 million middle class Pakistanis is going to take several years.

If we look at markets that were historically underdeveloped and became successful stock markets, like Bangladesh, Thailand, Vietnam, then from that perspective, doubling our number of investors to half a million in the next three years, would be a huge success story.

**BRR: What are other key objectives of your strategic plan?**

RM: Increasing the number of investors is the central objective. As I said, it will transform our market. If we penetrate the middle class Pakistan, we will considerably increase market cap, because this will bring an influx of capital into the stock market.

It's illogical that our companies trade at 7-8 times their earnings. They should be trading at 11-12 times earnings. They trade on such low multiples, in great part because there is insufficient demand for the shares of our listed companies.

**BRR: How do you plan to achieve that goal?**

RM: There are many things that need to be done in order to achieve that goal. Some of them are pretty squarely in our control at PSX and our affiliates - the CDC and NCCPL. A number of other things require collaboration and agreement with the SECP and Ministry of Finance, and we have a very good working relationship with them. We agree on many of the impediments to market development and we increasingly agree on a common plan to remove these impediments.

**BRR: Many of these middle-class Pakistanis are saving in other asset classes. How do you plan to route them to the PSX?**

RM: One of the areas that is not under our control but where we are lobbying with the Ministry of Finance, is the reform of the National Savings Scheme (NSS).

It has become increasingly obvious that one of the reasons why our capital market is underdeveloped is because the NSS is creating distortion in the market. Millions of investors should be investing in Pakistan's capital market - both stocks and bonds - but many of them are currently investing in the NSS. We are arguing that the distortions created by the NSS need to be addressed.

**BRR: A lot of money in Pakistan is parked as dead capital in the form of real estate, and it offers a lot of competition to capital market. A recent central bank report showed that plots in Karachi have given a return of 129 percent during 2013-2018, whereas KSE-100 given return of 100 percent and equity funds 131 percent. Do you plan to lobby with provincial governments to roll out urban property tax reforms?**

RM: The money driving the real estate market in Pakistan is the informal sector; money that has never paid taxes. Plots and real estate are part of the problem. But this is an issue for tax authorities to resolve. I think measures that limit non-tax filers' ability to invest in real estate is one way to deal with the issue. There are other ways as well.

**BRR: Still the fact is that a lot of capital is lying in the informal sector. Can you bring that capital into the PSX?**

RM: We understand that a lot of capital is in the informal sector, but we know that given an opportunity it will come to listed equities and bonds.

We have proposed to Asad Umar, the Minister of Finance is to introduce what I call 'savings and investments' accounts with brokers and AMCs that would allow capital to flow out of the informal sector and join the formal sector in the form of brokerage or AMC accounts for investments in stocks and bonds.

**BRR: Could you shed more light on this?**

RM: These 'savings and investments' accounts exist in many markets, both developed ones like the Canada and the US, and emerging markets like Chile where they were introduced a couple of decades ago. Pakistan has a similar type of scheme - the Voluntary Pension Scheme - but it only appeals to the salaried class.

'Savings and investments' accounts with brokerage houses in Canada are equivalent to 60 percent of its GDP. That kind of money exists in Pakistan, largely in the informal sector. When that money flows to the capital market, it would not only drive the market but also the economy of Pakistan.

We are proposing that these 'savings and investments' accounts be so attractive that the informal money will be directed to the capital market. And in the process, you reduce pressure from the real estate market; because at present there is no logic to real estate prices in Pakistan in relation to average household income.

**BRR: Is this proposal leaning towards the Canadian model or the Chilean model?**

RM: It would be the Canadian model adapted to Pakistan. It would be structured specifically to suit Pakistan's unique situation where a bunch of capital is in the informal sector.

**BRR: What are the other contours of the strategic plan?**

RM: We are just about to send to the SECP a new set of rules for investor protection fund that would provide a firm amount of protection for each investor and eliminate delays in disbursement.

We have about Rs3 billion in our existing investor protection fund, which structured properly, would be sufficient to reimburse completely about 90 percent of claimants in case a brokerage house goes bankrupt.

Bigger investors can find other ways to protect themselves through insurance policies, which the broker can also subscribe to for larger accounts. But if a basic investors' protection fund can fully cover 90 percent of the investor accounts then it becomes a very powerful tool to penetrate the Pakistan middle class.

**BRR: Are you thinking about relaxing the KYC requirements for brokerage account opening? There is really no use for stringent KYC for brokerage houses if investor transfers to and from brokerage houses is made cashless, and thereby rely on the KYC of bank accounts which are also now biometric verified.**

RM: We are working on ease of doing business through online account opening, which anyone can do on their laptop or through cell phone. We are very close to making that a reality in Pakistan, because there is no reason why investors should go through that hassle. We are going to make it as easy to open a brokerage account in Pakistan as it is anywhere else.

**BRR: How long will it take to transition to that?**

RM: We will announce a timetable in due course

**BRR: Let's switch to the ETFs. Has that Chinese AMC, True Value gotten the approval from China to launch its ETF?**

RM: They have developed a China-listed Pakistani ETF to be subscribed by Chinese investors. Everything is in place, the prospectus, the AMC and the market maker is in place.

The only thing required is the state approval. The issue is not the regulation of the ETF, but the state approval is required for the money to flow out of China and be invested in a foreign country. That approval is pending because China is currently restricting capital outflows.

**BRR: What about domestic market ETF?**

RM: The news is much better on that front. We have agreed on a final set of rules that are going to the SECP for their final approval. We are hopeful that it will be cleared since we kept the SECP in the loop

throughout the designing process of these rules.

We also have a verbal commitment with an AMC that wants to launch this ETF in Pakistan as well as a market maker. Hopefully there will be good news on this front shortly.

**BRR: What new indices are you working on for these ETFs?**

RM: We have started to take a look at our index business; we have already done some preliminary research and it points to a great potential for the development of indices to cater to a broader audience. The typical stock exchange in the world has around 30 indices that they publish; we have only seven, which means we have room for more.

It is quite possible that the indices that we need to introduce is the index that will underlie the first ETF in Pakistan because we are not convinced that all the stock in the KSE-30 have the liquidity level that we desire to be tracked by an ETF. So we may have a narrower index of truly large cap liquid investable index.

**BRR: Do you have any deadlines for constructing these indices?**

RM: It's an ongoing process. We are not going to launch all indices at the same time. The priority may be an investable large cap index to become an index tracker, but we are also looking at sector indices, some Shariah indices, or maybe even factor indices such as value, quality, high dividend indices. That kind of analysis is currently underway, because we do need to have consultation with the industry before we can move forward with a final plan.

**BRR: What about third-party indexation with the likes of FTSE?**

RM: We have had discussions with them, but so far it doesn't look like we are going to work with third party suppliers. It may be best for us to do it in-house, but we are not entirely excluding the third-party option at this moment.

**BRR: Making new indices and launching ETFs is good but how exactly are you planning to penetrate Pakistan's middle class?**

RM: You are going to see branding, awareness, education, and marketing campaign coming from the PSX, starting in early second quarter of the ongoing calendar year.

Ideally, by the time we roll out these marketing, awareness and other activities, other things would converge; the new investor protection fund, online account opening, ETFs, a more update brand new website, which is already up and running - all of these will hopefully be in place before we make the big marketing push. We also have teams in Karachi, Lahore and Islamabad actively conducting seminars and awareness sessions on regular basis with investors and potential listed companies.

**BRR: But those investor seminars have been happening for some years, yet new direct UINs have been falling. Clearly, something needs to change?**

RM: The sessions held in that past did not achieve desired results, because it was trying to sell the wrong thing to the wrong people. Those sessions aimed at making active traders and short-term investors out

of people, whereas typical middle-class Pakistanis don't have the time or the understanding of the market. Typical middle-class Pakistanis want to save for children college education, pension, retirement, down payment for the house, and so forth.

The new focus of our awareness campaigns revolves around the importance of long-term financial planning, and discipline in saving and investments, which is why the AMCs are our natural allies in these campaigns.

**BRR: According to PSX's 2018 annual report, you plan to set up mutual fund platform in collaboration with the NCCPL, the CDC and MUFAP. Tell us more about it.**

RM: If you go to developed markets, brokers are the main distributors of mutual funds, aside from banks who also distribute mutual funds through their network of branches. In Canada for example, brokerage accounts have about \$1.5 trillion assets under management and about half of that is made up mutual funds.

Mutual fund platform allows brokerage clients to buy or sell any mutual fund managed by any AMC. This is not possible today; because if you want to buy or sell a mutual fund today you have to buy, redeem or convert them by going to the office of each AMC, or sending them the scanned copies of your signed purchase, redemption or conversion forms.

If you have three or four AMCs, then you have to deal with them individually.

But when this mutual fund platform is up, investors will be able to buy or sell any open-ended mutual fund in nominee form (the client details will not be shared with the AMC) within their brokerage account. The platform will capture all the purchase and redemption orders and send them to the relevant AMC. The orders will remain pending and eventually settled within the brokerage account at the close of business once the AMCs announce their NAVs.

For investors, it gives them an ease of making investments because they don't have to run around across AMCs. All they need is one brokerage account through which they can buy or sell their equities, their ETFs, their bonds, and their mutual funds.

It will also transform the brokers business models because the broker will be no longer relying solely on trading commission; they will also earn by selling mutual funds, whereas in the existing model brokers view AMCs as competition. And it will also help AMCs scale up their business because all of a sudden they will have acquired a new distribution network.

**BRR: What are you doing about new listings?**

RM: The best way to attract more companies is by increasing investor penetration. If I am a CFO considering listing at the PSX, one of things I will consider is what pricing do I get - eight times earnings doesn't excite me, I can probably get eight times earnings from venture capital or a private equity firm.

However, increasing the number of investors will not necessarily increase listing, since we also have to review cost of listing and ease of listing regulations.

**BRR: What is your understanding of Pakistan's corporate and government debt market and how do**

**you plan to fix the PSX side of that equation?**

RM: There are many structural issues impeding the development of the bond market.

Government of Pakistan needs to review how it manages the structure, the approach and strategy of its debt issuance; it needs to review the role of the central bank as a clearing agency; it needs to make it easier for intermediaries to become players in that market; it needs to open up primary dealer designations to a greater number of institutions.

We also need to fix the bond trading mechanism, because a bond doesn't trade in a centralized order book the way we have tried to it.