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# **FINANCIAL MARKET DEVELOPMENT ACTIVITY**

## **LAUNCH OF AN SME BOARD BY THE PAKISTAN STOCK EXCHANGE (PSX) – ROADMAP & RECOMMENDATIONS**

31 December 2016

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# **LAUNCH OF AN SME BOARD BY THE PAKISTAN STOCK EXCHANGE (PSX) – ROADMAP & RECOMMENDATIONS**

REPORT COVERING 2 DEC 2016 – 31 DEC 2016

USAID FINANCIAL MARKET DEVELOPMENT ACTIVITY, PAKISTAN  
31 DECEMBER 2016  
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## **DISCLAIMER:**

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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## EXECUTIVE SUMMARY

This report documents the progress and engagement achieved during the first month of the Pakistan Stock Exchange's (PSX) efforts to launch an SME listing platform. This listing platform will expand access to finance to a subset of SMEs seeking to diversify their capital structures as well as to avoid excessive interest charges and cash flows.

The 1 month engagement launched on December 3, 2016 and this report summarizes the progress, findings, and initial recommendations formed during December 2016. This report will be updated, improved, and revised based on stakeholder feedback, comments, input and direction.

Significant recommendations and findings are prioritized below:

- The PSX should refine their focus for SME listing candidates to approximately **980 “unlisted public company” SMEs<sup>1</sup>** with paid-up capital between Rs7.5m (US\$69,000) to Rs100m (US\$929,000). These SMEs represent firms that will most quickly and effectively list on the SME Board. (The monetary and non-monetary cost of listing for these firms is substantially less than for these SMEs vs. the more than 3.2 million SMEs in Pakistan.)<sup>2</sup>
- **PSX should partner with one or more international development organizations to create an SME Listing Support Fund.** If an SME seeks application to the list on the SME Board, that company can tap into this fund to pay advisory services such as prospectus preparation, financial valuation, legal advisory services, and broker services. SMEs would be incentive to list due to the availability of an interest free loan to fund the costs of listing on the SME Board. Once listed, the list company would repay 100% of the principal amount so that the funds may be used to incentive future SMEs to list.
- **Institutional investors, market participants and development organizations should partner with the Mutual Funds Association of Pakistan (MUFAP) to foster cooperation with finding SME listing candidates.** Such advocacy and cooperation will align the interests of all shareholders and stakeholders to identify and raise capital for the most valuable and desirable unfunded SMEs.<sup>3</sup>

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<sup>1</sup> These 980 SMEs are segmented from the more than 70,000 SMEs registered with the SECP. See Sections 4 & 5 for details.

<sup>2</sup> “Progress Analysis: SMEs vital to long-term sustainability of Pakistan,” The Express Tribune, August 20, 2014.

<sup>3</sup> The Securities & Exchange Commission of Pakistan (SECP) approved a provision in November 2015 that allows mutual funds (collective investment schemes) to invest up to 15% of portfolios in “pre-IPO” companies. Further discussion & options are detailed in Section 5.

- The PSX should **improve its marketing function**. Also, marketing at the SME Board needs to be specifically funded, managed, and its effectiveness measured. (Marketing is more than simply printing, distributing and conducting awareness campaigns. Effective marketing includes processes, measurement, refinement and focus.) The project will continue to engage with the PSX and encourage use of an improved logo and tradename.

The report is structured as follows:

- a. Section 1 contains an overview of the history of the PSX, recent divestiture developments at the PSX.
- b. Section 2 provides the background and history of SME Stock Exchanges as well as information about the progress to date that has been made to launch the PSX SME Board.
- c. Section 3 contains Legal & Regulatory recommendations to improve the performance, functioning, and operations of the SME Board. This section along with **Appendix I** specifically meets the bullet point deliverable #1 for the TOR ending 31 December 2016:

***A full-text set of regulations for establishing/effectively operationalizing a transparent and functional SME listing platform, and establishing qualifications for listing purposes. SECP has already made substantial progress towards this goal. The consultant will be providing final review and edits.***

- d. Section 4 contains an SME company listing business development plan designed to improve the performance, functioning, and operations of the SME Board. This section specifically is designed to meet the bullet point deliverable #2 for the TOR ending 31 December 2016:

***A comprehensive SME and Private/growth companies listing business development plan for PSX.***

- e. Section 5 contains a PowerPoint “road map” for development of a robust segmented SME listing development plan in PowerPoint format to improve the performance, functioning, and operations of the SME Board. This section specifically is designed to meet the bullet point deliverable #3 for the TOR ending 31 December 2016:

***A comprehensive PowerPoint presentation that sets forth a “road map” for development of a robust segmented SME listing board.***

- F. Section 6 contains a Summary of the recommendations made in this report and a short listing of next steps.

# I. BACKGROUND & OVERVIEW

The USAID-financed Financial Market Development (FMD) Project is a five-year technical and training collaboration program, designed to promote the development of competitive, deepened and diversified debt capital markets in Pakistan.

The principal Pakistani counterparts for the project are the Securities & Exchange Commission of Pakistan (SECP) as well as the management of the Pakistan Stock Exchange (PSX). Pragma Corporation began implementing the USAID FMD Project in March 2016.

## **Pakistan Stock Exchange (PSX) Overview and History**

The Karachi Stock Exchange (KSE) was incorporated on March 10, 1949. The exchange serves to a wide spectrum of participants, such as companies, individual and institutional investors, the trading community and listed companies.

In 2012, the KSE, along with Pakistan's two other stock exchanges (the Islamabad Stock Exchange and Lahore Stock Exchange) were demutualized into a public companies limited by shares. In 2016, Pakistan's three stock exchanges namely, Karachi Stock Exchange (KSE), Lahore Stock Exchange (LSE) & Islamabad Stock Exchange (ISE), were combined into a public company named Pakistan Stock Exchange Limited (PSX).

The PSX currently has 556 companies listed on the exchange with a market capitalization of US\$ 77.7 billion.<sup>4</sup> The PSX lists an increasing number of financial instruments, including equity, corporate bonds, government bonds, mutual funds, and real estate investment trusts.

The investors on the exchanges include 1,886 foreign institutional investors and 883 domestic institutional investors along with about 220,000 retail investors. There are also about 400 brokerage houses which are members of the PSX as well as 21 asset management companies that manage more than 200 mutual fund and pension assets.

PSX is the among the world's best performing stock market's, for the 10 years ending December 31, 2016. For the year ended December 31, 2016 the KSE-100 rose 46% (45% in USD terms) and was the 5<sup>th</sup> best performing stock exchange in the world.

For the 10 years ending December 31, 2016, the PSX raised an average of 21.3% per year and was the best performing stock market in the world.

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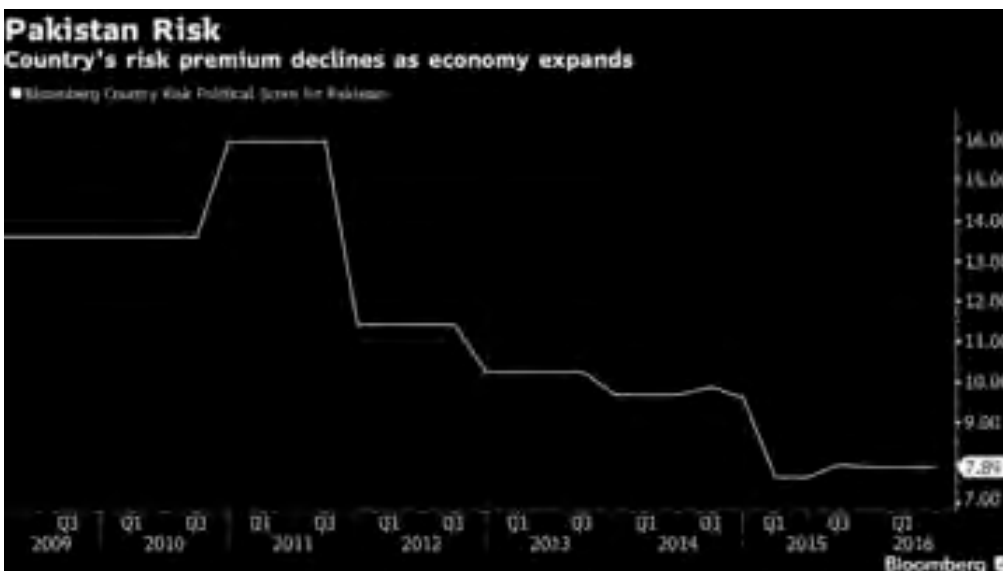
<sup>4</sup> October 30, 2016



Bloomberg: Performance of KSE 100, MSCI Emerging Markets, and MSCI Frontier Market Indexes from January – October 31, 2016

Several important developments that have contributed to PSX’s exceptional performance this year:

- i. Reduced Country Risk Premium
- ii. China’s engagement with Pakistan to create CPEC
- iii. Upgrade of PSX from MSCI Frontier to Emerging Market status
- iv. Stable exchange rates
- v. Improvement in Pakistan’s security situation
- vi. Increased confidence of IMF, USAID, World Bank and ADB.



The SECP's capital market development (CMD) plan 2016-18 highlights the importance of setting up an SME counter on PSX. The concept is to attract quality listings from potential SMEs to provide them a major source for capital formation. Market makers will be introduced for generating activity on the SME counter. Also, CMD suggests that incentive plans may be introduced for the SME counter to waive exchange related costs, tax benefits, volume based incentives, no requirement of minimum inventory.

### **SME Board at the PSX**

The idea to setup the SME counter relates back to the existing over-the-counter (OTC) market which facilitates listing of SMEs. This OTC market remains inactive due to gaps in the operational and regulatory framework. To address this issue, the idea to launch a SME Board has been introduced. Qualified Institutional Buyers (QIBs) are allowed to trade on this board. Regulations have been formulated for the SME Board and the PSX and broker community are making efforts to attract SMEs for listing.

### **Developments at the PSX in 2016**

The Securities and Exchange Commission of Pakistan (SECP) in January 2016 directed the creation of a single Stock Exchange in the country called Pakistan Stock Exchange (PSX). It also required the PSX to:

- i) Divest forty percent 40% of shares to a strategic investor
- ii) Sell another 20% of shares to the public for a total divestment of 60% of shares
- iii) That PSX establish an SME counter with a view to facilitate the listing of SMEs
- iv) Require that more than fifty percent of the directors on the board of the PSX to be independent and nominated/approved by the SECP.

On December 22, 2016 the Divestment Committee of the PSX announced a consortium of 6 entities won the auction for 30% ownership of the PSX. The consortium included three exchanges in of China: (a) China Financial Futures Exchange: 17%, (b) Shanghai Stock Exchange: 7%, (c) Shenzhen Stock Exchange 5%. Two local Pakistani firms were sold 5% of shares each for a total divestment of 40% of the PSX. The 40% share ownership attracted a price of US\$85.5 million.

The current and future composition of the PSX's Board of Directors is summarized below:

Type of Directors Composition	Current Composition	Future
• SECP nominees:	6	2
• Broker Directors:	4	4
• Consortium Directors:	-	4
• CEO/MD:	1	1



In addition to the above, the SECP will continue to designate one of its appointed directors as the Chairman of the Board of the stock exchange. A ceremonial Share Purchase Agreement (SPA) is scheduled to be signed on Jan 20th in Karachi.

The above facts demonstrate that control and governance of the PSX will not accrue to the 30% consortium of Chinese investors. Moreover, the Chairman of the PSX Board of Directors will continue to be appointed by the SECP.

### **Rational for Chinese desire to modernize Regional Financial Markets**

The Chinese continue to boast in the media that a “Chinese Consortium” now owns 40% of the PSX despite the fact that the Chinese consortium of 3 stock exchanges together own only 30% of the PSX.

The purchase of a minority share of the PSX will allow China to positively influence enhance investment along CPEC and to stimulate investment cooperation among the counties impacted by OBOR. Multiple sources highlight the Chinese concern that there is a divergence in social systems, culture and language among the OBOR route’s countries. By stimulating and improving the investment climate and infrastructure among these OBOR-impacted countries, China intends to align the interests of disparate stakeholders along OBOR to build and complete the various components of OBOR & CPEC.

It is widely reported that the China’s rationale for purchasing of a minority interest in the PSX may also reflect its interest in further supporting and enhancing the financial markets of countries along the CPEC and OBOR corridors. Hundreds of billions of USD are needed to build infrastructure projects alone along the OBOR/CPEC routes. China cannot singlehandedly afford the hundreds of billions of dollars needed to build OBOR and CPEC. In this sense, China appears to be focused on mobilizing the seed capital needed to further development the financial systems of countries along the OBOR/CPEC corridors.

### **Commitment to Expanding SME Access to Finance**

USAID and the international donor community remain committed to expanding SME access to finance to support further development and growth of the Pakistan economy. Indeed, China’s investment in the PSX is a loss-leading investment made by the Chinese to help ensure development of Pakistan’s financial markets and economy. The Chinese monetary investment in the PSX has the potential of boosting Pakistan’s market with increased capital investment, modernized trading and reporting systems, and a more robust overall financial market environment.

## 2. OVERVIEW OF SME BOARDS & STOCK EXCHANGES

### The Global Evolution of SME Stock Exchanges

The New York Stock Exchange was formed in 1792 as a result of individuals meeting to buy and sell stocks under a buttonwood tree near today's Wall Street. The exchange's location, more than anything else, led to the dominance that the NYSE quickly attained. It was in the heart of all the business and trade coming to and going from the United States, as well as the domestic base for most banks and large corporations. By setting listing requirements and demanding fees, the New York Stock Exchange became a very wealthy institution.

On the international scene, London emerged as the major exchange for Europe, but many companies that were able to list internationally still listed in New York. Many other countries including Germany, France, the Netherlands, Switzerland, South Africa, Hong Kong, Japan, Australia and Canada developed their own stock exchanges, but these were largely seen as proving grounds for domestic companies to inhabit until they were ready to make the leap to the LSE and from there to the big leagues of the NYSE.

Globally, stock exchanges have multiplied in many countries. Most international stock exchanges develop listing rules and government regulations based on the frameworks of the NYSE or LSE. New stock exchanges continue to evolve with older stock exchanges focusing on larger, more liquid corporations. Often, larger exchanges foster and encourage the development of stock exchanges for small and medium size enterprises (SMEs).

For example, the NASDAQ was the brainchild of the National Association of Securities Dealers (NASD) - now called the Financial Industry Regulatory Authority (FINRA). The acronym NASDAQ stands for "National Association of Securities Dealers Automated Quotations."

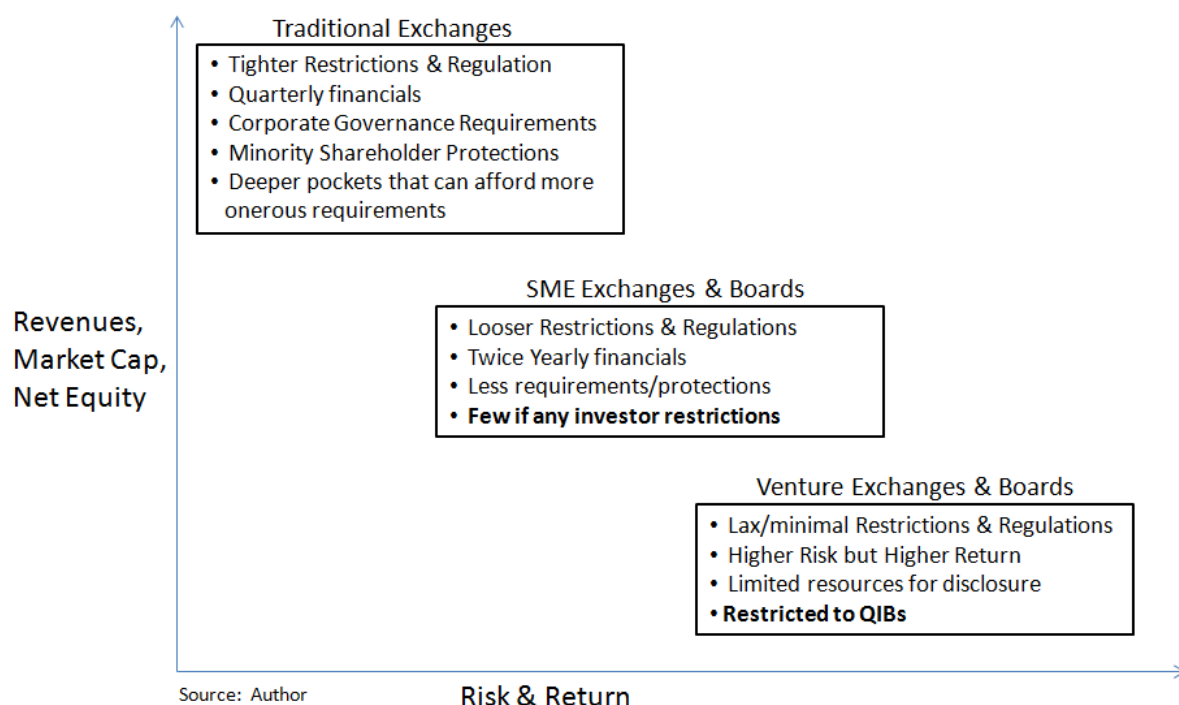
From its inception in 1971, NASDAQ has been a different type of stock exchange that focuses on smaller growth enterprises. Smaller companies lack the breadth and scale of larger companies listed on the NYSE. Thus, NASDAQ created listing requirements, disclosures, and governance requirements that were more relaxed than those of large-cap stock exchanges. Indeed, the competition from NASDAQ has forced the NYSE to evolve, both by listing itself and by merging with Euro next to form the first trans-Atlantic exchange.

A third segment of stock exchanges has evolved with the introduction of venture stock exchanges. These exchanges have even less rigorous listing requirements, disclosure requirements, and governance requirements. Because of the higher risks associated with buying and selling stock in venture capital, micro companies, trading on these exchanges are

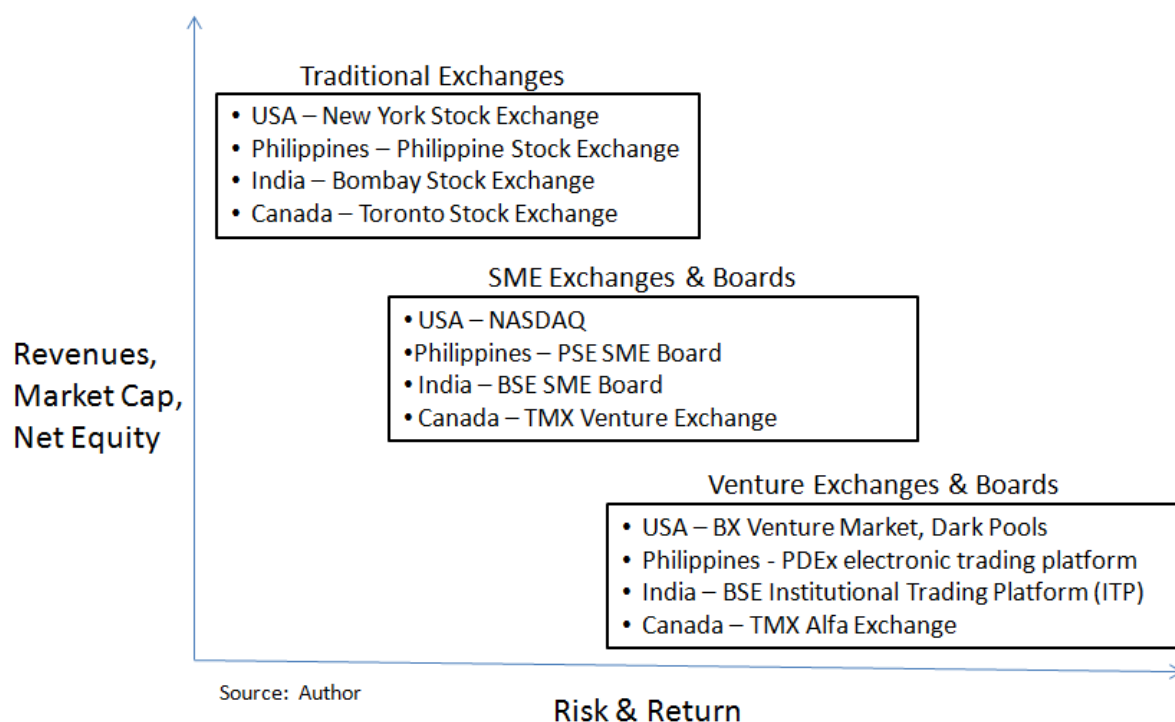
restricted to Qualified Institutional Investors (QII) or Qualified Institutional Buyers (QIB). These stock exchanges focus on high-potential, high-growth companies, often having venture or private equity ownership.

Companies that are eligible to be listed on the NASDAQ Stock Market do not have the option to list on the BX Venture Market. This provision is in place in order to ensure that companies meet the higher listing standards and do not seek less strict guidelines and lower fees. BX Venture Market listed companies will not be able to state that they are listed on a NASDAQ market to avoid investor confusion. Listing requirements will be monitored and are enforced by NASDAQ as a self-regulatory organization (SRO).

The figures below depict the positioning of 3 segments of stock exchanges: traditional stock exchanges, SME Exchanges and SME Boards, and Venture Exchanges and Boards. SME exchanges exist in larger economy countries because the trading of SME stocks generates sufficient revenue to create a separate trading system. SME Boards, on the other hand, segment smaller SME companies from the larger traditional exchange. Such separation is important so that investors are aware that SME stock investments have greater risk than those on traditional stock exchanges.



## Relative Positioning of Exchanges



### **Global SME Exchanges and SME Boards**

Internationally, many countries have provided for a separate SME exchange to facilitate listing of securities of high-growth companies. Examples include the Alternative Investment Market (AIM) in London, the Growth Enterprises Market (GEM) in Hong Kong, and MOTHERS in Japan. Out of these, the GEM is a separate dedicated stock exchange whereas the AIM and the MOTHERS are trading platforms of their respective main stock exchanges. The Nairobi Stock Exchange (NSE) has also established a Small and Medium Sized Exchange (SMEs). The move is to provide small and medium sized companies to raise funds. Companies listed on the SMEs have lower application, listing and annual fees; comply with corporate governance guidelines with a focus on disclosures; and have a sponsor or advisor who will ensure compliance of the company with the continuing listing obligations.

AIM provides for ease of entry and less onerous disclosure requirements but appropriate level of regulation for smaller companies. It also provides faster admission process and no pre-vetting by the regulator. GEM operates on the philosophy of "buyers beware" and "let the market decide" based on a strong disclosure regime. Here the rules and requirements are designed to foster a culture of self-compliance by the listed issuers in the discharge of their responsibilities.

In the case of MOTHERS, the emerging companies applying there must have the potential for high growth though there are no specific numerical criteria for determining growth potential. Further, the applicant company is mandated to make a public offering of at least 500 trading units. At the time of listing, it should have at least 2,000 trading units and the market capitalization of its listed shares should be more than 1 Billion Yen. The applicant must also have a continuous business record of not less than 1 year dating back from the day on which it makes listing application.

The Bombay Stock Exchange (BSE) is an example of a traditional stock exchange. The BSE is the world's 11th largest stock exchange with an overall market capitalization of \$1.43 Trillion. More than 5,500 companies are publicly listed on the BSE. Unlike countries like the United States where 70% of the GDP is derived from larger companies and the corporate sector, the corporate sector in India accounts for only 12-14% of the national GDP. Of these, as of November 2016, there are only 7,800 listed companies of which only 4000 trade on the stock exchanges at BSE and NSE. Hence the stocks trading at the BSE and NSE<sup>5</sup> account for only about 4% of the Indian economy.

Bombay Stock Exchange of India started a separate platform for the small and medium-size (SME) enterprises called the BSE SME Board. In India, SMEs are defined by law as companies with investment in plant and machinery not exceeding INR 100m (US\$1.5m).

The Main Board of National Stock Exchange (NSE) requires a corporation to have minimum paid up capital of INR 100m (US\$1.5m) while the BSE requires corporations to have a minimum paid up capital of INR 30m.

Interestingly, the BSE Board has established minimum paid up capital between INR 100m (US\$1.5m) to INR 250m (US\$3.75m). Hence, those companies with paid up capital between INR 100m (US\$1.5m) to INR 250m (US\$3.75m) has the option of migrating from SME Exchange to the Main BSE Exchange. The companies listed on the SME exchange are allowed to migrate to the Main Board as and when they meet the listing requirements of the Main Board.

The table below shows a graphical depiction of the listing requirements of the SME Board, the BSE SME Board, and the BSE ITP.

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<sup>5</sup> The National Stock Exchange (NSE) is a separate stock exchange located in Mumbai, India.

Particulars	Note	Pakistan SME Board	Bombay [BSE SME]	Bombay [BSE ITP]
1. Capitalization requirements (CR)		PKR 25m < CR <= 200m	INR 10m < CR < 250m	Max INR 250 m
2. Initial subscribers and % of their holding		Minimum 5 QIBs & HNWI. Initial subscribers buy at least Rs. 1 million shares each.	IPO...Min 50 Subscribers	Info NA
3. Eligible Investors		QIBs and HNWI.  No IPO, only private placements	General Public allowed	PE & VC Firms
4. Sponsor capital lock in period		100% to be frozen in CDC for 1 year.  25% to be frozen in CDC for 3 years.	100% sponsors' share is to be retained by sponsors for at least 3 years.	More than 20% of post listed capital held by promoters. Lock in 3 years
5. Fee – Listing		<b>Initial</b> = 0.05% of the total paid-up capital max. PKR 50K  <b>Annual</b> = PKR 20k to 50k (based on Paid-up Capital)	<b>Initial</b> = INR 20K <b>Annual</b> = Higher of, INR 25K or .01% of market capitalization.	Info not available
6. Lot size		PKR 100,000	INR 100,000	INR 1,000,000
7. Trading Fee (Laga)		No Fee for 1 year	NA	NA
8. Free Float		20% of the paid up capital	NA	NA
9. Intermediaries		No. of inter. = 2; Market Advisor and Market Maker	No. of inter. = 2: Merchant banker and Market Makers	
10. Circuit breakers		Higher of 10% or Rs. 2	Info not available	Circuit filter at 10%
11. Audit Requirements		Annual FS ... audited; Half yearly FS ... Limited Scope review Quarterly FS... not required	Annual FS ... audited; Half yearly FS ... Limited Scope review Quarterly FS... not required	

## The SME Board at the Pakistan Stock Exchange

The idea of creating an SME Board in Pakistan was first discussed in 2002. In January 2004 the SECP approved draft regulations for the SME Board. While the project has been unable to locate a copy of those 2004 draft regulations, those regulations were considered out of date when stability in Pakistan allowed the KSE to draft a Concept Paper in November 2011. This Concept Paper outlined the benefits of an SME Board along with an initial view of listing regulations, disclosure requirements, and governance standards.

### Pakistan SME Platform Key Milestones



Shortly thereafter in January 2012 the SECP formed a technical committee to review regional SME boards and exchanges including those in India, Turkey, and elsewhere.

The technical committee concluded that drafting regulations for the SME Board that are based in part on the regulations of the BSE Board was the best path forward. Over the next two years, the technical committee drafted and re-drafted SME Board regulations that were eventually approved by the SECP in December 2013.

The rules and regulations drafted for the SME Board in Pakistan underwent additional updates based on collaborations between the SECP, PSX, and other capital market participants. The SME Board rules and regulations now are part of the 196 page PSX Rule Book with the latest amendment approved in November 2016. Specifically, the SME Board requirements are listed in Chapter 5A of the Rule Book on pages 59 to 70 (11 pages).

On November 8, 2016 the SME Listing Platform Working Group

### 3. LEGAL & REGULATORY ANALYSIS & RECOMMENDATIONS

The Project reviewed the legal & regulatory framework enabling and regulating the Pakistan Stock Exchange's SME Board, which includes:

- Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2015
- Companies Ordinance (Amendment) Act, 2015
- Securities and Exchange Commission of Pakistan (Amendment) Act, 2016
- Limited Liability Partnership Bill, 2016
- Rule Book of the Pakistan Stock Exchange, v1 (2016)

In addition, the project reviewed the Securities & Exchange Commission of Pakistan's comprehensive **Capital Market Development Plan (2016-18)**, outlining the future roadmap for the capital market, including reforms for issuers and capital market intermediaries, reforms for product and market development and reforms for investors' awareness and facilitation.

In consultation with the PSX, the core focus of our analysis review was given to Chapter 5A, Rule Book of the Pakistan Stock Exchange Limited (PSX). An initial analysis was performed, and the results have been summarized in **Appendix I**. Some of our main recommendations are provided below for review/discussion purposes. It should be noted that this analysis and the related recommendations continue to be refined, and the results will be part of the February 11, 2017 TOR report.

**Background I:** Rule 5A1.1.(d) defines a HNWI as "High Net Worth Individual Investor (HNWI)" means an individual investor who applies or bids for shares of the value of rupees one million or above;

Rule 5A.1.(i) defines a QIB as "Qualified Institutional Buyers (QIBs)" for the purpose of these regulations means:

- (i) Any of the following entity:
  - a. a financial institution as defined in the Companies Ordinance, 1984.
  - b. an insurer as defined in the Insurance Ordinance, 2000.
  - c. a company licensed by the Commission as securities broker under the Securities Act, 2015.
  - d. a fund established under the Collective Investment Scheme under the Non-Banking Companies (Establishment and Regulation) Rules 2003.
  - e. a pension fund as defined in the Voluntary Pension System Rules, 2005.
- (i) Any other company as defined in section 2(1)(7) of the Companies

Rule 5.A.1 states, "The Information Memorandum, to be circulated to QIBs and HNWI's for issuance/offer of equity securities of an SME, shall contain at least such information as provided in Schedule-I of this chapter."

**Discussion:** The SME Board now restricts issuance and trading of SME equity securities to QIBs and HNWI's. As illustrated in the "Relative Structure of Stock Exchanges" and "Stock Exchange Characteristics," **restricting buying and selling to QIBs and HNWI's normally applies only to "Venture Boards."**

**Legal Recommendation I:** The SME Board rules ought to be relaxed to allow all investors (retail, international, individual, institutions, etc.) to trade on the SME Board. There is a concern that small investors be protected from the risks of the SME Board. The Rules are now structured so that the minimum investment size to participate in an IPO to be \$10,000.



Also, trading of securities is restricted to lot purchases of \$1,000 or more. These restrictions will inherently prevent small investors from participating in the SME Board's buying and selling.

Considering the segmentation of SME Stock Exchanges/Boards discussed in Chapter 2, the initiatives of the PSX to create a "Qualified Investors Only" exchange is supported. However, such a "Qualified Investors Only" board is properly termed a "Venture Board." The development of a "Venture Board" is in line with international best practice. This leads to our project's 2<sup>nd</sup> legal recommendation below.

**Legal Recommendation 2:** Subsequent to the successful listing and trading of SME corporations on the SME Board, the PSX and SECP should consider creating a Venture Board similar to the BSE's "Institutional Trading Platform.

The project analyzed and reviewed numerous legal provisions where it is not clear if a provision, requirement, or restriction ought to exist. For example, requirement that "Market Makers" be required to be engaged after the launch of an IPO on the SME Board.

First, let's review some context and background. Stock markets may be classified as either a quote-driven market or an order driven market.

The difference between these two market systems lies in what is displayed in the market in terms of orders and bid and ask prices. The order driven market displays all of the bids and asks, while the quote driven market focuses only on the bids and asks of specific market makers.

Market makers compete for customer order flows by displaying buy and sell quotations for a guaranteed number of shares. The difference between the price at which a market maker is willing to buy a security and the price at which the firm is willing to sell it is called the market maker spread. Because each market maker can either buy or sell a stock at any given time, the spread represents the market maker's profit on each trade. Once an order is received, the market maker immediately sells from its own inventory or seeks an offsetting order. In cases where there are multiple market makers, a single market maker is designated as the DMM or "designated market maker." At the New York Stock Exchange, the DMM is termed a "specialist" for the security.

Market makers play an important role in the secondary market as catalysts, particularly for enhancing stock liquidity and, therefore, for promoting long-term growth in the market. Market makers must maintain continuous two-sided quotes (bid and ask) within a predefined spread. A market is created when the designated market maker quotes bids and offers over a period of time. They ensure there is a buyer for every sell order and a seller for every buy order at any time.

With this background, there was intense discussion about whether a market maker ought to be required for stocks listed on the SME Board. If a market maker is required at the time of the IPO, should that market maker be required to conduct market making for a minimum

period of time. Within this context the project recommends that all equity listings at the SME Board ought to be backed by at least one Market Maker, consistent with the goal of maximizing the efficiency of the price discovery process, and ensuring sufficient liquidity in this nascent market.

## 4. SME LISTING DEVELOPMENT PLAN FOR PSX

The terms of reference for this project specified to deliver “**A comprehensive SME and Private/growth companies listing business development plan for PSX.**”

My arrival at the PSX coincided with negotiations with various strategic investors concerning the acquisition of 30% of shares offered to a strategic investor (s). Also, the SME Board did not yet have an operating team fully focused on implementing a marketing campaign. A tentative marketing campaign was articulated that entails having SME Board surrogates meet with SMEs gathered by Regional Chambers of Commerce around Pakistan.). While such awareness seminars and campaigns would raise the awareness of the SME Board (**See Appendix IV and V**), the materials for distribution were more suitable for market participants and regulators rather than for leaders of SME enterprises.

The project therefore focused on performing an assessment of the marketing function at the SME Board along with working with the PSX and SME Board staff to better segment SMEs to identify a more focused target market.

### **Marketing Function Analysis at the SME Board**

Virtually all stock exchanges in the world share important similarities. A stock exchange enables matching of buyers and sellers of securities. The importance of the marketing function associated with a stock exchange cannot be overstated. (Marketing is more than simply printing, distributing and conducting awareness campaigns. Effective marketing includes developing processes, measurement tools, refinement and focus.)

There are multiple stakeholders associated with a stock exchange. The primary stakeholders are corporations that list shares on the exchange. Secondary stakeholders include institutional investors, retail investors, governments, and others that are directly and indirectly involved with stock market operations.

**Appendix IV** contains a 6 panel marketing brochure developed by the PSX. This brochure is distributed to SMEs to educate, inform, and attract SME listings to the SME Board.

**Appendix V** contains a 17 page PowerPoint Presentation highlighting the listing requirements, disclosure and reporting responsibilities, listing fees, and trading fees of the SME Board.

Both **Appendix IV** and **Appendix V** communicate volumes amounts of information and provide significant disclosure of the costs, requirements, and methodology an SME must follow to become listed.

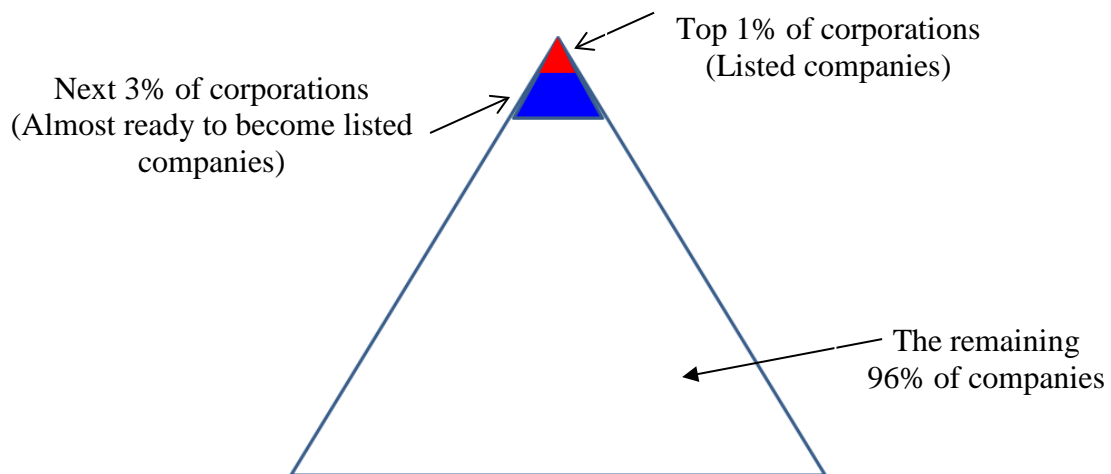
Consider the reaction of an SME manager to **Appendix IV** that goes to work daily working to contain costs, meet the increasing expectations and demands of the manager’s customers... This individual’s strength is knowledge of an industry, process, geography, society, and/or process. Often, the SME manager may not have enjoyed the benefit of a college education. That SME manager likely has not had a real “day off” for years or decades. That individual is

the backbone of our society and deserves our best efforts to communicate the benefits of an SME exchange to that manager.

Consider instead the benefits of a multi-step marketing campaign. The marketing professional invests the time and effort necessary to better understand the needs of the small locus of individuals that lead SMEs in Pakistan.

The first step would involve identifying as tight a target market of potential customers as possible. Consider a large triangle to represent the universe of corporations in Pakistan. In the figure below, listed firms would be represented the top red triangle. The blue triangle may represent those firms that are a few process steps away from joining the elite few that are “listed corporations.”

In this case, a beneficial targeted marketing campaign will allow resources to be focused on a specific subset of firms that could graduate to “listed firm” status while not directing time and resources to the 96% of corporations that “are not yet ready for prime time.”



Over the past month, the project has engaged with SME Board leaders to identify characteristics of corporations that align very closely to the triangular figure below.

The table below illustrates the segmentation of the approximately 71,000 stock corporations in Pakistan. Besides these corporations, there exists between 25,000 and 35,000 sole proprietorships.

The capitalization table that follows is contained in the 2016 Annual Report of the SECP. The smallest segment (<1% of corporations in Pakistan are the “Listed Public Companies” which include 557 as of June 2016.

### Capitalization Breakdown as on June 30, 2016

	Listed companies	Unlisted public companies	Private companies	SMCs	Total	%age
Paid-up capital up to Rs100,000 (~US\$1,000)	0	417	25,079	1,554	27,050	38%
Paid-up capital from Rs100,000 to 500,000.\n(~US\$1,000-\$5,000)	0	293	10,210	424	10,927	15%
Paid-up capital from Rs500,001 to 1,000,000 (~US\$5,000 - \$10,000)	0	111	7,417	234	7,762	11%
Paid-up capital from Rs1,000,001 to 10,000,000 (~US\$10,000 - \$100,000)	13	341	17,229	204	17,787	25%
Paid-up capital from Rs10,000,001 to 100,000,000 (~USD\$100,000 - \$1m)	138	639	4,745	71	5,593	8%
Paid-up capital from Rs100,000,001 to 500,000,000 (~USD\$1m - \$5m)	197	357	908	4	1,466	2%
Paid-up capital from Rs500,000,001 to 1,000,000,000 (~USD\$5m - \$10m)	71	81	117	1	270	<1 %
Paid-up capital from Rs1,000,000,001 to above (~USD >10m)	138	145	101	0	384	<1%
	557	2,384	65,806	2,492	71,239	100%
	<1%	3%	92%	3%	100%,2	100%

Source: SECP Annual Report 2016

**Recommendation:** The PSX should refine their focus to the approximately 980 “unlisted public company” SMEs with paid-up capital between Rs7.5m (US\$69,000) to Rs100m (US\$929,000). These SMEs represent firms that will most quickly and effectively list on the SME Board. (The monetary and non-monetary cost of listing for these firms is substantially less than for these SMEs than the 3.2 million SMEs and 70,000 corporations that now exist in Pakistan.)<sup>6</sup>

These firms are registered in the SECP database – so the next step is to obtain a database containing these approximately 1,000 firms to analyze. A preliminary analysis of this data shows that 95% of the 1,000 SMEs possess headquarters in Karachi, Lahore, and Islamabad in that order of popularity. (This makes intuitive sense, which is always a positive outcome!)

These facts will be useful for scheduling outreach seminars discussed later in the report. Note that some SME Board seminars were scheduled in more remote parts of Pakistan. The PSX,

<sup>6</sup> “Progress Analysis: SMEs vital to long-term sustainability of Pakistan,” The Express Tribune, August 20, 2014.

Pragma, and USAID will work to ensure consensus is reached regarding the location of these seminars as well as the content of the awareness seminars.

**Recommendation:** The PSX ought to consider a multi-step marketing approach when refining its target market database.

In other words, do not attempt to communicate 100% of the information about the SME Board in one meeting, one seminar, or one discussion. Then, engage this target market through repeated planned, executed, and repeated activities. Awareness would be the first encounter.

In an awareness event, the challenges facing leaders of SMEs could be the focus of the event. For example, the challenges SME face with managing the finances, cash flows, and rising cash resources needed by growing firms. In other words, a seminar similar to SME Finance 101 that educates the leaders about the various choices available to an SME as well as honest, practical, and useful comparisons of the pros and cons of each choice.

Before, during, or after the awareness session, the aim of the seminar is to gather data about the firms that each of the participants represents. This data may then be compared to the target list of 980 target firms.

Then, work to educate the leader of these 980 firms about the various financing alternatives to SMEs. This would include educating SME leaders about bank loans, but importantly it will also include examples of how listing a SMEs shares on the SME Board would greatly benefit the company, shareholders, employees, and customers.

**Recommendation:** Embark on a structured marketing campaign with the objective of ranking the 980 firms in the target market from “most likely to list” to “least likely to list.” This ranking can be accomplished by gathering, saving, comparing and updating the database of companies.

Note the first step above is creating a new SME Board website (v2.0) splash page. The site navigation needs to be designed, approved and launched. This new splash page needs to be in place quickly. This “registration page” will be the tool used to measure and manage the progress of the target 980 target SMEs along the listing process. This is vital. **Any delay here would potentially delay and/or impact all future marketing efforts.**

The v2.0 SME Board website will collect 6 key pieces of data and information:

- Name of person and firm seeking to list on the SME Board.
- Business structure of SME (Sole Proprietorship, SMC, private company, unlisted public company, listed public company).
- Estimated Annual Revenue of SME (Pull down Menu)
- Estimated Total Assets (Pull Down Menu)
- Estimated Total Liabilities (Pull Down Menu)
- Estimated profitability (check box)

The data collected from the above website will enable segmenting the SMEs into several different groupings such as: (1) Most likely to list (the 980 firms), (2) SMEs that are from 1 to 2 years from being able to list, \*and (3) SMEs that have little hope of listing in the nearest future.

### **Short List of SMEs with the highest likely to list within the next 6 months**

The project conducted numerous discussions with broker dealer firms in Karachi. A handful of broker dealers shared that each had one or two unique pre-IPO candidates for the SME Board. Over the coming weeks the project will identify which candidates ought to be identified as the top 2-3 firms (from a sound governance, organizational and financial viability, and growth potential standpoint) primed to be the initial listings on the SME Board.

The project received the **Appendix II** “Business Development Plan for PSX’s SME Board” from the SME Working Group at the PSX. An improved and updated listing business development plan is contained in the table below. This plan will continue to be socialized, updated, and discussed with the PSX and stakeholders in January & February 2017. The plan is based on comprehensive interactions, analysis and assessment of Pakistan’s capital market as it continues to engage globally. The comprehensiveness of these plans is based on the fact that each of the 6 areas of engagement seeks to provide a 360 degree perspective of relevant factors affecting the SME Board. The plan includes 6 areas of engagement and focus:

1. Institutional SME Awareness
2. Creating an Investor Base
3. Educating PSX TREC Holders to become advisors for SMEs
4. Awareness campaign through media and various exhibitions
5. Coordination with Other Stock Exchanges
6. SME Listing Targets

	Particulars	November 2016 Plan	Recommended Plan on December 31, 2016
I.	Creating awareness among SMEs through institutions	<ul style="list-style-type: none"> <li>• Meeting with Chamber of Commerce &amp; Industries of various cities like Faisalabad, Gujranwala, Sialkot, Gujarat, Lahore, Karachi, etc. Further meetings are also planned with Federation of Pakistan Chamber of Commerce and Industry (FPCCI). There will be two phases of activities: Phase 1 ... Interaction with federation heads and relevant sub-committees Phase 2 ... Awareness session to raise equity at PSX's SME segment will be held with member SMEs of selected Chambers. Our target will be to have 25 - 30 SMEs per awareness session.</li> <li>• Similarly meetings are also planned with specialized institutions like SMEDA, SME Bank, accountancy associations &amp; firms etc. to obtain benefits not only from their experience but also use their network to target SMEs.</li> <li>• Hosting of awareness/briefing sessions in the following cluster of cities through the respective Cities Chambers of Commerce, in order to attract SMEs for listing on the SME Board: <ul style="list-style-type: none"> <li>○ Bahawalpur, Multan and Sahiwal</li> <li>○ Lahore, Sheikhpura and Faisalabad</li> <li>○ Gujranwala, Sialkot and Wazirabad</li> <li>○ Karachi and Hyderabad</li> <li>○ Islamabad and Rawalpindi</li> <li>○ Peshawar and rest of KPK</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The target profile for future SME listings ought to be refined and limited to those unlisted public company SMEs with paid up capital between Rs 7.5m and Rs. 100m.</li> <li>• Analysis of the “unlisted public company” 980 SMEs that meet the target profile shows that virtually all of these SMEs are located in or around Karachi, Lahore, and Islamabad.</li> <li>• An improved communications strategy continues to be refined with the project's counterparts. The elements of this strategy will include a database of all target market SMEs that is continues to be updated for the benefit of all market participants and regulators.</li> <li>• A handful of SMEs are already engaged with some broker dealers and continue to make progress towards listing. These firms will be the primary source of initial listings. The project will continue to engage and provided assistance and input as needed and as requested.</li> <li>• The marketing function at the SME Board needs to be upgraded. Work will continue in this area and specifically highlight the need for a branding logo and trademark for the SME Board consistent with international best practice.</li> </ul>



2.	Creating investor base	<ul style="list-style-type: none"> <li>Awareness sessions will be held with TREC Holders to entice high net worth clients of brokers to invest in PSX's SME segment.</li> <li>Meeting with DFIs to promote PSX's SME segment by encouraging DFIs to provide equity funding to listed SMEs.</li> </ul>	<ul style="list-style-type: none"> <li>Conducted awareness sessions with xx institutional investors.</li> <li>Additionally, identified mutual funds as an untapped source of institutional investment. Discussions are underway to leverage a new provision allowing investment funds to invest up to 15% of assets into SMEs preparing to list shares on the stock exchange.</li> <li>Recommended that USAID and/or other DFIs to create an SME Listing Support Fund to directly assist SMEs seeking investment capital.</li> </ul>
3.	Educating PSX TREC Holders to become advisors for SMEs	<p>As per approved SME Regulations, SME shall, through an agreement in writing, appoint an Advisor and Consultant to the issue for a period till the date of its formal listing.</p> <p>Corporate brokerage houses, CA firms, investment banks etc. licensed by SECP could act as an Advisor and Consultant.</p> <p>Advisor and Consultant shall appraise the SME &amp; its project and submit the feasibility report containing financial plan to the Exchange.</p> <p>SME Board awareness session for brokerage houses will be conducted. Specialized trainings of relevant staff of brokerage houses may be conducted by PSX in order to prepare brokerage houses to act as SMEs' advisor. PSX then place names of brokerage houses who attended training session on its SME segment web site.</p>	<ul style="list-style-type: none"> <li>Engaged with TREC Holders to improve a formalized process for SME engagement.</li> <li>Conducted SME awareness sessions with a half dozen brokerage houses. Additional consultations and awareness sessions will continue in January and February 2017.</li> <li>Continued engagement with the PSX to further develop the SME Board website.</li> </ul>
4.	Awareness campaign through media and various exhibitions	<p>Targeted awareness campaign will be conducted both through print &amp; social media and through participating in exhibitions involving SMEs. Initially, short 2-3 minute videos will be developed by PSX for promotion of SME segment on social media.</p>	<ul style="list-style-type: none"> <li>Awareness sessions were conducted on December 19, 2016 at the SME Expo/Seminar for Promotion of SME Financing as well as the Rotary Club of Karachi.</li> <li>Additional awareness sessions will be conducted and updated.</li> </ul>

5.	Coordination with Other Stock Exchanges	Efforts are being made to obtain guidance from other stock exchanges on promotion of PSX's SME segment.	<ul style="list-style-type: none"> <li>• PSX's engagement with USAID has effectively stimulated outreach and sharing of lessons learned with other SME Stock Exchanges</li> <li>• The possible creation of an SME Listing Support Fund is one example of the success of this initiative.</li> </ul>
6.	SME Listing Targets	<ul style="list-style-type: none"> <li>• Listing of 5 SMEs by 30 JUN 2017</li> <li>• Listing of 25 SMEs by 30 JUN 2018</li> </ul>	<ul style="list-style-type: none"> <li>• These targets are under discussion and will be revised downward. Current analysis indicates that listing 1 SME by mid 2017 is likely the most accurate estimate of the first SME Listing.</li> </ul>

## 5. PPT ROAD MAP FOR DEVELOPMENT OF SME BOARD

The Project continues to gain insight and consensus on a draft “roadmap” for the development of the SME Board. The “roadmap” will be updates, refined, and improved through February 11, 2017.

### Through February 11<sup>th</sup> 2017

- a. Because the SME Board is operated in parallel with the PSX, a less robust financial plan is needed. The largest and most important expenses will be marketing expenses. Thus, a 1 year marketing budget ought to be drafted that identifies the cost of maintaining a separate web page, the cost of producing up to 9 SME awareness seminars, and the cost of printing and distribution of marketing materials. The location(s) of these seminars ought to be dictated by planned well in advance.
- b. A new SME Board website (v2.0) splash page and site navigation needs to be designed, approved and launched.<sup>7</sup> This new splash page needs to be in place quickly. This “registration page” will be the tool used to measure and manage the progress of the target 980 target SMEs along the listing process. This is vital. **Any delay here would delay and/or impact all future marketing efforts.**
- c. The trading, settlement, depositary functions associated with the SME Board ought to be tested, verified, and audited.
- d. Continuing discussions and direction with regard to (1) Creation of an SME Listing Fund, and (2) Creating a formal strategy to partner with the Mutual Fund Association of Pakistan.
- e. The business plan for the SME Board will be expanded consistent with the needs and desires of our PSX counterpart.

### Feb 11<sup>th</sup> through March 30, 2017

- a. It is reasonable to expect that at least one and perhaps two SMEs will go through the listing process in 2017. It is important to be aware that the difficulty and risk of listing the first few SMEs is disproportionately high. The fact supports the creation of an SME Support Listing Fund. Subsequent listings will carry much lower risk because pathway will have been established for SME Listings.

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<sup>7</sup> See the end of Section 4 for details.

- b. A time-bound plan for transitioning management of the SME Board from a technical committee of up to 18 individuals to a set of leaders empowered to lead the SME Board. Those leaders need to be exclusively employed by the SME Board and possess a clear set up objectives and deliverables.
- c. Continuing discussions and direction with regard to (1) Creation of an SME Listing Fund, and (2) Creating a formal strategy to partner with the Mutual Fund Association of Pakistan.

### **March – June 2017**

- a. We project one to two SME listings are achievable by mid 2017. The “top 3” SMEs that are in the process of listing ought to be tracked informally by the SME Board’s leadership. These are the Gold, Silver, and Bronze medal contenders and need to be given proportional attention, focus, and priority among all stakeholders. If possible, FMD advisors may be deployed to provide additional technical assistance if needed.

### **June 2017 – December 2017**

- Design and launch the PSX Listing Support Fund and associated marketing. This PSX Listing Fund will generate additional buzz and generate additional activity and engagement with the SME Board.

### **2018 Forward**

- Report, revise, and update marketing process and strategy
- Align PSX and SME Board strategies, measures, targets, and scorecards
- Revisit business plans and marketing strategies based on additional tactical information
- Begin a working group to investigate and analyze the practicality of launching a Venture Exchange or Board similar to the Bombay Stock Exchange’s Institutional Trading Platform (ITP).

**Appendix VII** contains the road map discussed above in PowerPoint format.

## 6. SUMMARY RECOMMENDATIONS & NEXT STEPS

The recommendations listed below can be further expanded, developed, and more fully explained and justified in later reports. The recommendations are based on the logic that an SME will list its shares on the SME Board only when the **benefits of listing** are greater than the **costs (monetary and non-monetary) of listing**.

The project performed an initial legal and regulatory analysis of Chapter 5A, Rule Book of the Pakistan Stock Exchange Limited (PSX). This initial analysis was performed with the results summarized in **Appendix I**. The analysis and recommendations will be further socialized with market stakeholders with a view to coming to a consensus to be documented in the project's February 11<sup>th</sup> TOR report.

**#1 Recommendation:** The PSX should refine their focus for SME listing candidates to approximately **980 “unlisted public company” SMEs**<sup>8</sup> with paid-up capital between Rs7.5m (US\$69,000) to Rs100m (US\$929,000). These SMEs represent firms that will most quickly and effectively list on the SME Board. (The monetary and non-monetary cost of listing for these firms is substantially less than for these SMEs vs. the more than 3.2 million SMEs in Pakistan.)<sup>9</sup>

The rationale and explanation for this recommendation is contained in Section 4.

**#2 Recommendation: PSX should partner with one or more international development organizations to create an SME Listing Support Fund.** If an SME seeks application to the list on the SME Board, that company can tap into this fund to pay advisory services such as prospectus preparation, financial valuation, legal advisory services, and broker services. SMEs would be incentive to list due to the availability of an interest free loan to fund the costs of listing on the SME Board. Once listed, the list company would repay 100% of the principal amount so that the funds may be used to incentive future SMEs to list.

The article below summarizes and illustrates how such a Listing Support would be structured.

### AfDB funds SMEs to list on GAX

The African Development Bank (AfDB) is to support the listing of Small and Medium Scale Enterprises (SMEs) on the Ghana Alternative Exchange (GAX) with an interest-free funding of US\$600,000 over a two-year period.

The amount, which is to be channeled to the Listing Support Fund established by the Ghana Stock Exchange (GSE) -- with assistance from the Venture Capital Trust Fund with seed money of GH?760,000 -- will facilitate the pre-listing processes for interested companies.

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<sup>8</sup> These 980 SMEs are segmented from the more than 70,000 SMEs registered with the SECP. See Sections 4 & 5 for details.

<sup>9</sup> “Progress Analysis: SMEs vital to long-term sustainability of Pakistan,” The Express Tribune, August 20, 2014.

Mr. Kofi Yamoah, Managing Director of the GSE said: “AfDB decided about two years to join. All the paperwork is in place. Between October 2015 and April 2017 it is making available US\$600,000.

“The idea is that it will come to the Listing Support Fund established by the Exchange and Venture Capital Trust Fund with GH?760,000. If any company comes seeking application to the GAX, it can tap into this fund to pay advisory services; these are essentially the financial valuation, legal advisory services, and sponsoring brokers so that they can prepare such companies to list. At the end of the day, the company repays the amount into the fund at no interest so that others can tap into it.”

The concept of the alternative market is to address complaints by SMEs about the stringent criteria which make it impossible to use the main stock market to raise equity for their businesses.

Source: Business & Financial Times Online, October 15, 2015,  
<http://thebftonline.com/business/economy/15639/AfDB-funds-SMEs-to-list-on-GAX.html>

One of the largest impediments for an SME to list is the pre-paid cost associated with investing into the listing process. An SME Listing Fund would provide interest-free loans to firms that commit to completing the listing process. Safeguards ought to be put in place so that only firms that meet a minimum set of criteria qualify for the assistance. Also, prior to final approval the SME’s application may be reviewed by the donor agencies and approved if required.

**#3 Recommendation: Institutional investors, market participants and development organizations should partner with the Mutual Funds Association of Pakistan (MUFAP) to foster cooperation with finding SME listing candidates.** Such advocacy and cooperation will align the interests of all shareholders and stakeholders to identify and raise capital for the most valuable and desirable unfunded SMEs.<sup>10</sup>

The Securities & Exchange Commission of Pakistan (SECP) approved a provision in November 2015 that allows mutual funds (collective investment schemes) to invest up to 15% of portfolios in “pre-IPO” companies.

Conversations have already taken place and the MUFAP is interested in the opportunity for its member investment funds to benefit from investing in pre-IPO SME companies.

This is a uniquely important allowance by the SECP that can focus market activity on identifying, improving, and subsequently listing the SMEs poised for explosive growth and success.

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<sup>10</sup> The Securities & Exchange Commission of Pakistan (SECP) approved a provision in November 2015 that allows mutual funds (collective investment schemes) to invest up to 15% of portfolios in “pre-IPO” companies. Further discussion & options are detailed in Section 4.

A copy of the SECP NBF1 regulation is below:

**55. Investment policy and diversification.-**

(3) A Collective Investment Scheme shall not invest in Unlisted Equity Securities unless an application for listing of such securities has been accepted by the stock exchange: Provided that a Collective Investment Scheme may make total investments in a pre-initial public offering (Pre-IPO) up to fifteen percent of its net asset value, subject to the investment limits prescribed under these Regulations.

The stakeholders reading this report should consider creating a development project to align with the MUFAP to jump start and strengthen the outreach incentivized by the allowance. The view is that mutual funds are eager to achieve impressive returns by owning equity pre-IPO. In return for that pre-IPO investment, the mutual fund collaborates with a broker and the PSX to embark on the listing process.

**Recommendation #4:** The PSX should continue to create and implement an improved marketing function. Also, marketing at the SME Board needs to be specifically funded, managed, and its effectiveness measured. (Marketing is more than simply printing, distributing and conducting awareness campaigns. Effective marketing includes processes, measurement, refinement and focus.) The contents of Chapter 4 illustrate the progress that is now underway.

In addition to the four primary recommendations above, the two legal and regulatory recommendations are included here for completeness.

**Legal & Regulatory Recommendations:**

**Recommendation:** The SME Board rules ought to be relaxed to allow all investors (retail, international, individual, institutions, etc.) to trade on the SME Board. There is a concern that small investors be protected from the risks of the SME Board. The Rules are now structured to that the minimum investment size to participate in an IPO to be \$10,000. Also, trading of securities is restricted to lot purchases of \$1,000 or more. These restrictions will inherently prevent small investors from participating in the SME Board's buying and selling.

**Recommendation:** Subsequent to the successful listing and trading of SME corporations on the SME Board, the PSX and SECP should consider creating a Venture Board similar to the BSE's "Institutional Trading Platform.

The table below summarizes the meetings that were conducted in December 2016. Meetings were scheduled with market participants, SMEs, banking institutions, the mutual fund association, and others.

The table below summarizes the meetings attended by the Consulting during December 2016.

<b>Date</b>	<b>Time</b>	<b>Company</b>	<b>Person met</b>	<b>Designation</b>
5-Dec	11:30 AM	Karandaaz	Ali Janjua	Principal
			Hammad Umer	Senior Associate
5-Dec	1:00 PM	USAID	Sarah Pervez	Economic Growth Advisor
6-Dec	9:30 AM	PSX	Nadeem Naqvi	Managing Director
7-Dec	10:30 AM	PSX	Shafqat Ali	Chief Regulatory Officer
7-Dec	11:00 AM		Mohammad Abdullah	Head of Special Projects
			Muhammad Imran Lakhani	Officer Special Projects
7-Dec	4:00 PM	JS Global	Kamran Nasir	CEO
			Khurram Schehzad	Chief Commercial Officer
			Rizwan Khan	Head of E-Trading
			Ovais Ahsan	Head of International Equity Sales
8-Dec	9:30 AM	BMA	Nadir Rehman	CEO
			Umair Aijaz	Head of Investment Banking
8-Dec	11:00 AM	PSX	Mohammad Abdullah	Head of Special Projects
			Muhammad Imran Lakhani	Officer Special Projects
9-Dec	9:30 AM	PSX	Haroon Askari	Deputy Managing Director
	10:00 AM		Nadeem Naqvi	Managing Director
	11:00 AM		Abbas Mirza	Chief Compliance Officer
	12:00 PM		Mohammad Abdullah	Head of Special Projects
			Muhammad Imran Lakhani	Officer Special Projects
14-Dec	10:30 AM	USAID	Greg Leon	Deputy Office Director, EGA
			Nadia Dawood	Senior Economic Growth Advisor
			Sarah Pervez	Economic Growth Advisor
	3:00 PM	PSX	Abbas Mirza	Chief Compliance Officer
	3:30 PM		Sani-e-Mehmood Khan	GM - Market Development
15-Dec	10:00 AM	SBP	Basit Aly	Director SME Finance
	12:00 PM	NCCPL	Muhammad Lukman	CEO
			Rehan Saif	Head of PD and Marketing
			Muhammad Asif	Head of Operations
	2:00 PM	PSX	Ajit Kumar	Manager Regulatory Affairs
			Mohammad Abdullah	Head of Special Projects
Muhammad Imran Lakhani			Officer Special Projects	



16-Dec	10:00 AM	SECP	Akif Saeed	Comissioner Securities Market
			Amir Khan Afridi	Executive Director Securities Market
			Musarat Jabeen	Executive Director Securities Market
			Mateenullah Khan	Joint Director Securities Market
			Asif Iqbal	Joint Director Securities Market
19-Dec	9:30 AM	SBP	Saeed Ahmad	Deputy Governor SBP
			Basit Aly	Director SME Finance
20-Dec	11:00 AM	MUFAP	Mashmooma Zehra Majeed	CEO
	12:30 PM	Topline Securities	Sohail Khan	CEO
			Omar Ahmed	Head Corporate Finance
	3:00 PM	JS Pvt Equity	Asad Shafqat	Partner
			Asad Nasir	Director
Faisal Ismail	CFO			
21-Dec	11:30 AM	Karachi Chamber of Commerce	Shamim Ahmed Firpo	President
			Muhammad Younus Soomro	Vice President
			Tanveer Ahmed Barry	Member Manageing Committee
			Uzma Taslim	Director Research
			Aamir Hassan	Director Public Relation
			Abdul Sattar	Assistant Public Relations Officer
22-Dec	10:30 AM	USAID	Sarah Pervez	Economic Growth Advisor
		US Consulate	Frank Talluto	Economic Officer
			Fahd Zaidi	Economic Specialist
	3:00 PM	AKD	Farid Alam	CEO
28-Dec	10:30 AM	Karachi Chamber of Commerce	Ateeq-ur-Rehman	Advisor
			Zohaib Kaka	Reporter
			Farooq A. Choudry	Executive
		USAID	Sarah Pervez	Economic Growth Advisor
29-Dec	10:00 AM	PSX	Nadeem Naqvi	Managing Director
			Mohammad Abdullah	Head of Special Projects
			Asmaa Saleem Malik	Manager Companies Affair
30-Dec	11:30 AM	Pakistan Business Council	Fuad A. Hashimi	Executive Director
		USAID	Sarah Pervez	Economic Growth Advisor
2-Jan	10:30 AM	PSX	Mohammad Abdullah	Head of Special Projects

The engagement thus far with the SME Board stakeholders is summarized below.

- The Bank of Pakistan hosted an “Expo/Seminar for Promotion of SME Financing” on December 19, 2016. Chris Johnson from the USAID Project was invited to give an awareness presentation about the SME Board of the PSX. A copy of the Powerpoint presentation is contained in **Appendix V**.
- A second SME awareness presentation was conducted on January 4, 2017 for the Rotary Club in the Karachi Marriott. This event was attended by Denise Herbol, Deputy Mission Director Karachi, USAID/Pakistan.
- Meetings were conducted with PSX leadership, SME Board staff members, institutional investors, SMEs, and banks. A recent amendment was enacted in Pakistan that allows mutual funds to invest up to 10% of their assets in pre-IPO companies. This provision is rare and represents a unique opportunity to and resources aligned to accelerate SME listings.

### **Next Steps:**

- A. This current project assignment was extended by approximately one month through February 11, 2017. At that time, a final report will be completed and shared with all stakeholders. The work through February 11<sup>th</sup> will include further development of the business development plan, additional awareness campaigns, and continued improvements to the marketing function.
- B. Align and socialize creation of an SME Support Listing Fund.
- C. Align and socialize support and technical advice to the Mutual Fund Association of Pakistan to leverage the assets of 200+ collective investment schemes.
- D. Implementation, refinement, and further development of the Business Development Plan & Post 2016 Roadmap (Sections 4 & 5) for the SME Board will continue.

## APPENDIX I – INITIAL LEGAL ANALYSIS/RECOMMENDATIONS

Existing Regulation	Proposed Change/Recommendation	Rationale
<p>5A.1. DEFINITIONS:</p>	<p>A new sub clause is proposed to be added as under:</p> <p>(d) "Due Diligence Report" means a comprehensive appraisal of a business to be undertaken by the appointed Advisor and Consultant to the Issue of an SME, which focuses on the quality of assets and liabilities and the evaluation of the commercial potential of an SME;</p>	<p>This is in line with FMD's recommendation for changing the scope of the technical report required to be prepared by an Advisor and Consultant to the Issue from the currently required "feasibility report" to "Due Diligence report"</p>
<p>(d) "High Net Worth Individual Investor (HNWI)" means an individual investor who applies or bids for shares of the value of rupees one million or above;</p>	<p>This sub-clause is proposed to be renumbered and reworded as under:</p> <p>(e) "High Net Worth Individual Investor (HNWI)" means an individual investor who has a sufficient level of investable capital available to him"</p>	<ul style="list-style-type: none"> <li>• The definition of HNWI should not be linked to any minimum level of bid for the purchase of shares.</li> <li>• Such a condition could result in a much smaller number of potential investors in the SME market.</li> <li>• This condition would also result in low market liquidity in the SME market leading to the complaints of poor price discovery from the SME owners.</li> </ul>

<p>5A.2. ELIGIBILITY CRITERIA FOR LISTING OF EQUITY SECURITIES OF SMEs:</p> <p>An SME shall be eligible to apply for listing of its equity securities under this chapter provided that:</p> <p>(a) the Memorandum and Articles of Association of the SME authorize it to list its equity securities/raise capital on/through stock exchanges;</p>	<p>Proposed to be deleted.</p>	<ul style="list-style-type: none"> <li>• The inclusion of such kind of requirement in the constituent documents (Memorandum and Articles of Association) of a company serves no purpose. Just the way that a business enterprise can seek funding/financing from any financial institution without the need of having such a permissibility in its constitution documents, the raising of funds from the capital market should not be treated differently.</li> <li>• This condition would mean that if a company does not already have such a permissibility in its existing constituent documents, then the company would have to spend almost one month for completing the process of seeking the approval of such a change from its shareholders. This would unnecessarily lengthen the time-period of listing for the potential companies.</li> <li>• This may also expose the potential company to undue blackmailing from any minority shareholder who may be interested only in created unnecessary roadblocks for the majority shareholders. This happened in case of the listing of M/s</li> </ul>
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		HASCOL on the main board of PSX, when a minority shareholders objected to the listing of the company, due to which both the PSX and SECP had to advise the company concerned to remove the objection of the concerned shareholder before the formal consideration of the listing application of the company.
<p>© the offer is made through fixed price method, the book building method or any other method acceptable to the Exchange.</p> <p>Provided that the book building method shall only be allowed in case the post issue paid up capital of the SME is not less than Rs. 100 million and the offer size is not less than 2 million shares and 20% of the post issue paid up capital of SME.</p> <p>For the book building of equity securities of SMEs, book building system of the Designated Institution shall be used in accordance with the criteria prescribed by the Exchange in Annexure-II of this Chapter.</p>	<p>© the offer is made through fixed price method, the book building method or any other method acceptable to the Exchange.</p> <p>Provided that the book building method shall only be allowed in case the post issue paid up capital of the SME is not less than Rs. 100 million and the offer size is not less than 2 million shares and 20% of the post issue paid up capital of SME.</p> <p>For the book building of equity securities of SMEs, book building system of the Exchange shall be used.</p>	<p>In order to bring standardization in the system of share offer through the book building process, it is recommended that a standardized book building system of the Exchange should be used for all kind of IPOs.</p> <p>The Exchange provided book building system would enable the Exchange to monitor the order placement data, frequency and liquidity of the order flow in the market.</p> <p>It would lead to a greater transparency in the book building system.</p> <p>It would also lead to reduced IPO costs for the SMEs as the potential IPO companies would not have to bear the cost of book running fees charged by the book running institutions.</p>

<p>(e) the bid size for each initial subscriber is not less than rupees one million;</p>	<p>Should be dispensed with.</p>	<ul style="list-style-type: none"> <li>• The bids should be accepted on the basis of lot size of the shares (500 shares per lot) similar to the main board bid sizes, instead of the value of the bid.</li> <li>• This would lead to a better order flow in the market.</li> </ul>
<p>(f) its sponsors retain their entire shareholding in SME and subsequent right and bonus shares issued thereon for a lock-in period of not less than twelve months.</p>	<p>“its sponsors retain their entire shareholding in a blocked account with CDC, together with any subsequent right and bonus shares issued thereon for a lock-in period of not less than twelve months.”</p>	<ul style="list-style-type: none"> <li>• All sponsors should be required to hold their shares in a blocked account in CDC.</li> <li>• This would create a system of checks on the movement of shares held with the sponsors of the SME companies preventing them from quietly selling their shares in the market.</li> </ul>
<p>5A.5. CONTENTS OF INFORMATION MEMORANDUM:</p> <p>5A.5.2. The SME shall place the Information Memorandum on its own website and ensure that the Information Memorandum is also placed on the websites of the Exchange and the Advisor and Consultant to the Issue.</p>	<p>5A.5.2. The SME shall place the Information Memorandum on its own website and ensure that the Information Memorandum is also placed on the websites of the Exchange and the Advisor and Consultant to the Issue. The Exchange shall offer a comment period of 10 days to receive investors feedback, and on receipt of any comments, will ask the SME to rectify/respond to those comments within 5 working days.</p>	<p>This suggestion is in line with the comment period being envisaged to be introduced for the Prospectuses in case of larger listings to be covered in the under development Public Offering framework.</p> <p>The purpose of offering a comment period on IM is to enable the investors to raise their questions/concerns/objections in a timely manner, and to also afford an opportunity to the SMEs to respond accordingly.</p>

<p>5A.6. APPOINTMENT AND DUTIES OF ADVISOR AND CONSULTANT TO THE ISSUE:</p> <p>Prior to applying for listing on the Exchange, the SME shall, through an agreement in writing, appoint an Advisor and Consultant to the Issue till the date of its formal listing. The Advisor and Consultant to the Issue shall perform the following duties:</p> <p>The Advisor and Consultant to the Issue shall appraise the SME and its project, either on its own or in consultation with other expert(s), and submit a feasibility report containing financial plan, if required, and at least five years financial projections to the Exchange and state in the feasibility report that the Advisor and Consultant to the Issue:</p> <p>has examined the technical, managerial, commercial, economic and financial aspects of the project and/or the SME;</p> <p>has reviewed all the material contracts/agreements relating to issue/offer of equity securities by the SME;</p> <p>has reviewed all the contents of the Information Memorandum and found them true and complete to the best of its knowledge and belief;</p>	<p>5A.6.1 APPOINTMENT AND DUTIES OF ADVISOR AND CONSULTANT TO THE ISSUE:</p> <p>Prior to applying for listing on the Exchange, the SME shall, through an agreement in writing, appoint an Advisor and Consultant to the Issue till the date of its formal listing. The Advisor and Consultant to the Issue shall perform the following duties:</p> <p>The Advisor and Consultant to the Issue shall appraise the SME and its project, either on its own or in consultation with other expert(s), and submit a Due Diligence report containing financial plan, if required, and at least five years financial projections to the Exchange and state in the Due Diligence report that the Advisor and Consultant to the Issue:</p> <p>has examined the technical, managerial, commercial, economic and financial aspects of the project and/or the SME;</p> <p>has reviewed all the material contracts/agreements relating to issue/offer of equity securities by the SME;</p> <p>has reviewed all the contents of the Information Memorandum and found them true and complete to the best of its knowledge and belief;</p>	<p>This change is consistent with best practice, and with relevant regional standards.</p> <p>Due Diligence report are deemed to be more detail-oriented than the feasibility reports.</p> <p>The minimum information/analysis to be contained in the Due Diligence Report is also being provided so that all due diligence reports are structured in a manner consistent with the expectations of the investors.</p>
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<p>is satisfied that the SME has or will have the necessary operational infrastructure to carry out its business;</p> <p>is satisfied that the SME and its project are viable and investment worthy;</p> <p>ensures that the SME complies with its obligations under this chapter;</p> <p>shall act honestly, impartially and with due care and skill; and</p> <p>shall comply with the applicable regulatory and contractual obligations.</p>	<p>is satisfied that the SME has or will have the necessary operational infrastructure to carry out its business;</p> <p>is satisfied that the SME and its project are viable and investment worthy;</p> <p>ensures that the SME complies with its obligations under this chapter;</p> <p>shall act honestly, impartially and with due care and skill; and</p> <p>shall comply with the applicable regulatory and contractual obligations.</p> <p>5A.6.1 Contents of the Due Diligence Report</p> <p>The Due Diligence Report shall, on a minimum, contain the following information:</p> <p>Industry and Business Overview Section</p> <p>Ownership and Governance Structure</p> <p>Legal, Regulatory and Statutory Compliance Status and Litigation, if any.</p> <p>Products/services, Operations and Control</p> <p>Finance and Accounts</p> <p>Key Human Resources (Company Secretary, CFO, Head of Operations/Production)</p>	
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	<p>Material contracts and Agreements</p> <p>Objectives for IPO and Pricing</p> <p>Risk factors and mitigation</p>	
<p><b>5A.7. APPOINTMENT AND FUNCTIONS OF MARKET MAKERS:</b></p> <p><b>5A.7.1. APPOINTMENT OF MARKET MAKER:</b></p> <p>The SME may, through an agreement in writing, appoint a Market Maker for a period of not less than three years from the date of listing of the SME.</p> <p><b>5A.7.2. FUNCTIONS OF MARKET MAKER:</b></p> <p>The Market Maker shall be responsible for performing the following functions:</p> <p>The Market Maker shall provide two-way quotes in all equities securities of SMEs for which it is appointed as a Market Maker.</p>	<p><b>5A.7.1. APPOINTMENT OF MARKET MAKER:</b></p> <p>The SME shall, through an agreement in writing, appoint one or more, but not exceeding 5, Market Makers for a period of not less than three years from the date of listing of the SME. These Market Makers shall fulfill the criteria of becoming Market Makers as may be specified by the Exchange from time to time.</p> <p><b>5A.7.2. FUNCTIONS OF MARKET MAKER:</b></p> <p>The Market Maker shall be responsible for performing the following functions:</p> <p>The Market Makers shall provide two-way quotes in all equities securities of SMEs for 75% of time in a trading day, for which they are appointed as a Market Maker. The compliance with this requirement shall be monitored by the Exchange.</p>	<p>This recommendation is also in line with regional standards (including for the Bombay Stock Exchange).</p> <p>The appointment of more than one market maker is being recommended to allow market makers to compete against each other.</p> <p>The requirement for market makers to quote their bids and offers for 75% of time ensure more order liquidity in the market.</p> <p>Since the Market Makers shall be expected to hold a substantial quantity of shares of an SME, therefore they are recommended to be exempted from the application or restrictions from the SECP's exiting or any future regulations in respect of Substantial Acquisition of Voting Shares and Takeovers.</p>

	(vi) Market Makers shall be exempted from the applicability of Listing Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations 2008.	
<p>5A.8. TRADING OF SECURITIES ON EXCHANGE, RISK MANAGEMENT AND ALLIED MATTERS:</p> <p>5A.8.2. MINIMUM ORDER SIZE (MARKETABLE LOT):</p> <p>The minimum order size for trading in equity securities of SME on the Exchange shall be Rs. 100,000/-</p>	<p>5A.8.2. MINIMUM ORDER SIZE (MARKETABLE LOT):</p> <p>The minimum order size for trading in equity securities of SME on the Exchange shall be the standardized market lot of 500 shares, or as may be prescribed by the Exchange from time to time.</p> <p>5A.8.9. TRADING IN ODD LOTS</p> <p>All Odd lots shall be saleable to the appointed Market Makers of an SME scrip.</p>	<p>The change in marketable lot from the fixed amount of Rs 100,000/- to a lot size of 500 shares is being suggested to attract more order flow and liquidity in the trading of the SME shares.</p> <p>Odd lots get created because of corporate actions of a company from time to time, like issuing bonus shares, warrants and rights issues.</p> <p>For SMEs, it is recommended that all odd lots should be saleable only to market makers and all investors of SMEs should be required to sell the odd lot of a particular SME scrip to their designated market makers only.</p>
5A.9. NON-APPLICABILITY OF THE LISTING OF COMPANIES AND SECURITIES REGULATIONS OF THE EXCHANGE:		In order to promote good corporate governance culture practices within the SMEs, it is being proposed that a separate Code of Corporate Governance (CCG) for SMEs may

<p>An SME listed under this chapter shall not be subject to compliance with the provisions of chapter 5 relating to "Listing of Companies and Securities Regulations" of the PSX Regulations including the Code of Corporate Governance (CCG). The SME shall be required to disclose this fact in the Information Memorandum and all the subsequent annual and half- yearly financial reports.</p>	<p>An SME listed under this chapter shall not be subject to compliance with the provisions of chapter 5 relating to "Listing of Companies and Securities Regulations" of the PSX Regulations. However, it shall be subject to the prescribed Code of Corporate Governance (CCG) for SMEs as may be introduced by the Exchange from time to time. The SME shall be required to disclose this fact in the Information Memorandum and all the subsequent annual and half- yearly financial reports.</p>	<p>be introduced by the Exchange, and all SMEs should be required to comply with the same.</p> <p>This recommendation is not only in line with the international best practices for the SME listings, but also because of the fact that even the Private Equity investors require their investee companies to comply with the best standards of corporate governance and financial disclosures.</p>
<p><b>5A.10. APPLICABILITY OF SUBSTANTIAL ACQUISITION LAWS:</b></p> <p>Any person who, directly or indirectly, intends to acquire voting shares of an SME, shall be subject to compliance with the provisions of the Securities Act, 2015 and with all the relevant requirements laid therein including the requirements laid in the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2008.</p>	<p>Any person who, directly or indirectly, intends to acquire voting shares of an SME, shall be subject to compliance with the provisions of the Securities Act, 2015 and with all the relevant requirements laid therein including the requirements laid in the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2008. However, this restriction shall not be applicable to the Market Makers appointed under Regulation 5A.7.1 of these regulations.</p>	<p>For the purpose of consistency in these regulations, the exemption from the substantial acquisition regulations to Market Makers is being provided in the relevant section again.</p>
	<p>General Recommendation:</p>	<ul style="list-style-type: none"> <li>• This recommendation is in line with the international best standards for many successful SME exchanges around the</li> </ul>

	<ul style="list-style-type: none"> <li>• The SME Board regulations ought to be relaxed to allow all investors (retail, international, individual, institutions, etc.) to trade on the SME Board.</li> </ul>	<p>World.</p> <ul style="list-style-type: none"> <li>• SME Exchanges should thrive to attain a reasonable liquidity and offer a greater price discovery. This can only be possible if all kind of investors are allowed to operate in the SME market.</li> </ul>
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# **APPENDIX II – SME BOARD BUSINESS DEVELOPMENT PLAN, NOV 2016**



**November  
2016**

## Introduction

Small and Medium Enterprises (SME) segment constitutes nearly 90% of all the enterprises in Pakistan. SMEs employ 80% of the non-agricultural labor force and SMEs share in the annual GDP is approximately 40%.

To enable SME financing through capital market, PSX has taken an initiative to create an SME segment where SMEs could raise funds and get listed. A public company with post issue paid up capital of not less than Rs. 25 million and not more than Rs. 200 million can be listed on PSX's SME segment.

## Efforts for Success of SME Board

Our efforts for success of SME Board are focused on following areas:

	Particulars	Detail
7.	Creating awareness among SMEs through institutions	<ul style="list-style-type: none"> <li>• Meeting with Chamber of Commerce &amp; Industries of various cities like Faisalabad, Gujranwala, Sialkot, Gujarat, Lahore, Karachi, etc. Further meetings are also planned with Federation of Pakistan Chamber of Commerce and Industry (FPCCI). There will be two phases of activities:               <ul style="list-style-type: none"> <li>Phase 1 ... Interaction with federation heads and relevant sub-committees</li> <li>Phase 2 ... Awareness session to raise equity at PSX's SME segment will be held with member SMEs of selected Chambers. Our target will be to have 25 - 30 SMEs per awareness session.</li> </ul> </li> <li>• Similarly meetings are also planned with specialized institutions like SMEDA, SME Bank, accountancy associations &amp; firms etc. to obtain benefits not only from their experience but also use their network to target SMEs.</li> <li>• Hosting of awareness/briefing sessions in the following cluster of cities through the respective Cities Chambers of Commerce, in order to attract SMEs for listing on the SME Board:               <ul style="list-style-type: none"> <li>○ Bahawalpur, Multan and Sahiwal</li> <li>○ Lahore, Sheikhpura and Faisalabad</li> <li>○ Gujranwala, Sialkot and Wazirabad</li> <li>○ Karachi and Hyderabad</li> <li>○ Islamabad and Rawalpindi</li> <li>○ Peshawar and rest of KPK</li> </ul> </li> </ul>
8.	Creating investor base	<ul style="list-style-type: none"> <li>• Awareness sessions will be held with TREC Holders to entice high net worth clients of brokers to invest in PSX's SME segment.</li> <li>• Meeting with DFIs to promote PSX's SME segment by encouraging DFIs to provide equity funding to listed SMEs.</li> </ul>

	<b>Particulars</b>	<b>Detail</b>
9.	<b>Educating PSX TREC Holders to become advisors for SMEs</b>	<p>As per approved SME Regulations, SME shall, through an agreement in writing, appoint an Advisor and Consultant to the issue for a period till the date of its formal listing.</p> <p>Corporate brokerage houses, CA firms, investment banks etc. licensed by SECP could act as an Advisor and Consultant.</p> <p>Advisor and Consultant shall appraise the SME &amp; its project and submit the feasibility report containing financial plan to the Exchange.</p> <p>SME Board awareness session for brokerage houses will be conducted. Specialized trainings of relevant staff of brokerage houses may be conducted by PSX in order to prepare brokerage houses to act as SMEs' advisor. PSX then place names of brokerage houses who attended training session on its SME segment web site.</p>
10.	<b>Awareness campaign through media and various exhibitions</b>	<p>Targeted awareness campaign will be conducted both through print &amp; social media and through participating in exhibitions involving SMEs. Initially, short 2-3 minute videos will be developed by PSX for promotion of SME segment on social media.</p>
11.	<b>Coordination with Other Stock Exchanges</b>	<p>Efforts are being made to obtain guidance from other stock exchanges on promotion of PSX's SME segment.</p>
12.	<b>SME Listing Targets</b>	<ul style="list-style-type: none"> <li>• Listing of 5 SMEs by 30 JUN 2017</li> <li>• Listing of 25 SMEs by 30 JUN 2018</li> </ul>



## PPENDIX III – LISTING DEVELOPMENT PLAN FOR PSX’S SME BOARD

	Particulars	November 2016 Plan	Recommended Plan on December 31, 2016
I.	Creating awareness among SMEs through institutions	<ul style="list-style-type: none"> <li>• Meeting with Chamber of Commerce &amp; Industries of various cities like Faisalabad, Gujranwala, Sialkot, Gujarat, Lahore, Karachi, etc. Further meetings are also planned with Federation of Pakistan Chamber of Commerce and Industry (FPCCI). There will be two phases of activities: Phase 1 ... Interaction with federation heads and relevant sub-committees Phase 2 ... Awareness session to raise equity at PSX’s SME segment will be held with member SMEs of selected Chambers. Our target will be to have 25 - 30 SMEs per awareness session.</li> <li>• Similarly meetings are also planned with specialized institutions like SMEDA, SME Bank, accountancy associations &amp; firms etc. to obtain benefits not only from their experience but also use their network to target SMEs.</li> <li>• Hosting of awareness/briefing sessions in the following cluster of cities through the respective Cities Chambers of Commerce, in order to attract SMEs for listing on the SME Board: <ul style="list-style-type: none"> <li>○ Bahawalpur, Multan and Sahiwal</li> <li>○ Lahore, Sheikhpura and Faisalabad</li> <li>○ Gujranwala, Sialkot and Wazirabad</li> <li>○ Karachi and Hyderabad</li> <li>○ Islamabad and Rawalpindi</li> <li>○ Peshawar and rest of KPK</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The target profile for future SME listings ought to be refined and limited to those unlisted public company SMEs with paid up capital between Rs 7.5m and Rs. 100m.</li> <li>• Analysis of the “unlisted public company” 980 SMEs that meet the target profile shows that virtually all of these SMEs are located in or around Karachi, Lahore, and Islamabad.</li> <li>• An improved communications strategy continues to be refined with the project’s counterparts. The elements of this strategy will include a database of all target market SMEs that is continues to be updated for the benefit of all market participants and regulators.</li> </ul>

2.	Creating investor base	<ul style="list-style-type: none"> <li>Awareness sessions will be held with TREC Holders to entice high net worth clients of brokers to invest in PSX's SME segment.</li> <li>Meeting with DFIs to promote PSX's SME segment by encouraging DFIs to provide equity funding to listed SMEs.</li> </ul>	<ul style="list-style-type: none"> <li>Conducted awareness sessions with xx institutional investors.</li> <li>Additionally, identified mutual funds as an untapped source of institutional investment. Discussions are underway to leverage a new provision allowing investment funds to invest up to 15% of assets into SMEs preparing to list shares on the stock exchange.</li> <li>Recommended that USAID and/or other DFIs to create an SME Listing Support Fund to directly assist SMEs seeking investment capital.</li> </ul>
3.	Educating PSX TREC Holders to become advisors for SMEs	<p>As per approved SME Regulations, SME shall, through an agreement in writing, appoint an Advisor and Consultant to the issue for a period till the date of its formal listing.</p> <p>Corporate brokerage houses, CA firms, investment banks etc. licensed by SECP could act as an Advisor and Consultant.</p> <p>Advisor and Consultant shall appraise the SME &amp; its project and submit the feasibility report containing financial plan to the Exchange.</p> <p>SME Board awareness session for brokerage houses will be conducted. Specialized trainings of relevant staff of brokerage houses may be conducted by PSX in order to prepare brokerage houses to act as SMEs' advisor. PSX then place names of brokerage houses who attended training session on its SME segment web site.</p>	<ul style="list-style-type: none"> <li>Engaged with TREC Holders to improve a formalized process for SME engagement.</li> <li>Conducted SME awareness sessions with a half dozen brokerage houses. Additional consultations and awareness sessions will continue in January and February 2017.</li> <li>Continued engagement with the PSX to further develop the SME Board website.</li> </ul>
4.	Awareness campaign through media and various exhibitions	<p>Targeted awareness campaign will be conducted both through print &amp; social media and through participating in exhibitions involving SMEs. Initially, short 2-3 minute videos will be developed by PSX for promotion of SME segment on social media.</p>	<ul style="list-style-type: none"> <li>Awareness sessions were conducted on December 19, 2016 at the SME Expo/Seminar for Promotion of SME Financing as well as the Rotary Club of Karachi.</li> <li>Additional awareness sessions will be conducted and updated.</li> </ul>

5.	Coordination with Other Stock Exchanges	Efforts are being made to obtain guidance from other stock exchanges on promotion of PSX's SME segment.	<ul style="list-style-type: none"> <li>• PSX's engagement with USAID has effectively stimulated outreach and sharing of lessons learned with other SME Stock Exchanges</li> <li>• The possible creation of an SME Listing Support Fund is one example of the success of this initiative.</li> </ul>
6.	SME Listing Targets	<ul style="list-style-type: none"> <li>• Listing of 5 SMEs by 30 JUN 2017</li> <li>• Listing of 25 SMEs by 30 JUN 2018</li> </ul>	<ul style="list-style-type: none"> <li>• These targets are under discussion and will be revised downward. Current analysis indicates that listing 1 SME by mid 2017 is likely the most accurate estimate of the first SME Listing.</li> </ul>

# **APPENDIX IV – PSX MARKETING BROCHURE FOR SME BOARD**

# **APPENDIX V – PSX PPT MARKETING DECK FOR SME BOARD**

# **APPENDIX VI – BOP “FINANCING SME’S” CONFERENCE PRESENTATION**

# **APPENDIX VII – PPT ROAD MAP FOR PSX’S SME BOARD**