



#### INTRODUCTION TO THE INSTITUTE



#### IFMP ACTIVITIES



#### TERMS OF THE MONTH



#### BUSINESS AND ECONOMIC NEWSFLASH

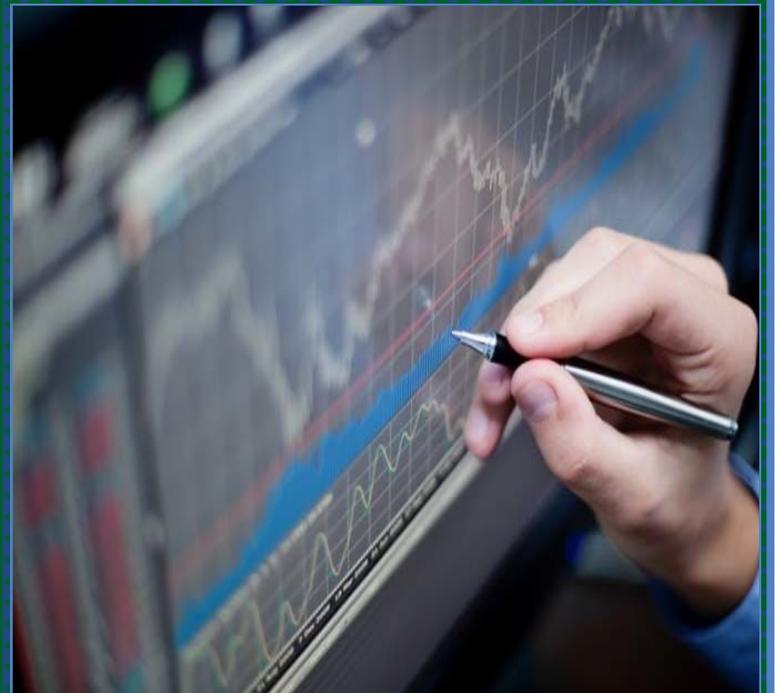


#### QUOTES AND JOKES



#### MARKETS IN REVIEW

#### INVESTING IN INDEX OPTIONS



The name of the institute has been changed from Institute of Capital Markets (ICM) to **Institute of Financial Markets of Pakistan (IFMP)**.

*IFMP's New Address and Telephone Number:*

Park Avenue Building, Suite No. 1009, 10th Floor,  
P.E.C.H.S Block No. 6, Shahrah-e-Faisal, Karachi.

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The last few years have seen a rapid growth in size, quality and sophistication of financial markets, because of changes in the policy and regulatory environment, the entrepreneurial initiatives of individuals and institutions, and the availability of trained manpower. The continuing growth of financial markets is further adding to the demand for well-trained professionals.



Mr. Muhammad Ali Khan

Institute of Financial Markets of Pakistan is dedicated to the professional development of financial markets and research on financial markets as well as the well being of financial markets by educating the professionals about the norms and ethics being practiced in the markets. IFMP has had a pioneering role in meeting the demand for educated manpower. It is Pakistan's first specialized institution devoted to the education and updating of knowledge of manpower for financial markets. It will provide high-quality educational standards for all types of financial market participants; investors, brokers, mutual funds, investment banks and policy makers.

The Institute's main activities are (1) Licensing the professionals working in the financial markets by certifications. The institute's key responsibility is to educate the professionals working in different financial markets of Pakistan through examining their knowledge in their relevant field of work; (2) Studying the latest developments in the financial markets in order to discover whether there is such a thing as an ideal market economy; and (3) Contributing to the development of financial markets in Pakistan. By means of these three activities the Institute seeks to communicate its ideas to the audience both at home and overseas. The Institute's research is intended, first and foremost, to be neutral, professional and practical. Rooted in practice, it aims to contribute to the healthy development of Pakistani financial markets as well as to related policies by conducting neutral and professional studies of how these markets and the financial system are regulated and organized and how they perform.

The economy is changing all the time. The Institute hopes that, by responding to these changes positively, it can contribute to the dynamic development of the country's financial markets as well as of the economy itself.

The Institute of Financial Markets of Pakistan (IFMP) (Formerly Institute of Capital Markets), Pakistan's first securities market institute, has been established as a permanent platform to develop quality human capital, meet the emerging professional knowledge needs of financial markets and create standards among market professionals. The Institute has been envisioned to conduct various licensing examinations leading to certifications for different segments of the financial markets. IFMP develops a pool of trained and certified professionals, skilled not only to deal in conventional instruments but also to trade in new and complex financial market products.

### -EXAMINATION SCHEDULE-

- Sun, 28 May, 2017
- Sun, 30 July, 2017
- Sun, 24 September, 2017
- Sun, 26 November, 2017



### INSURANCE CERTIFICATIONS

- ⇒ General Takaful Training
- ⇒ Family Takaful Training
- ⇒ Life Insurance Agent
- ⇒ Non-Life Insurance Agent

### LICENSING CERTIFICATIONS

- ⇒ Fundamentals of Capital Markets
- ⇒ Pakistan's Market Regulations
- ⇒ Stock Brokers Certification
- ⇒ Mutual Funds Distributors
- ⇒ Commodity Brokers Certification
- ⇒ Research Analysts Certification
- ⇒ Mutual Funds Basic Certification

### -FEE STRUCTURE-

Candidate Registration Fee (One-Time)	Rs.10,000
Examination Registration Fee	Rs.7,000
Membership Fee (Annual)	Rs.5,000
Study Guide (Hard Copy)	Rs.800

### PROGRAMMES

#### OTHER CERTIFICATIONS

- ⇒ Financial Advisors Certification
- ⇒ Financial Derivative Traders Certification
- ⇒ Compliance Officers Certification
- ⇒ Clearing and Settlement Operations Certification
- ⇒ Risk Management Certification
- ⇒ Capital Budgeting and Corporate Finance Certification
- ⇒ Investment Banking and Analysis Certification
- ⇒ Islamic Finance Certification

For more information, please visit our website: [www.ifmp.org.pk](http://www.ifmp.org.pk)

### RESEARCH ANALYSTS CERTIFICATION LAUNCHED

The Institute of Financial Markets of Pakistan has launched the “*Research Analysts Certification*” for equity analysts.

The certification is aimed to improve the skill set needed in the areas of investment research, analysis, valuation and recommendation of equity securities while working at brokerage firms. Professionals working at banks and asset management companies engaged in the activities of investment analysis, financial modeling and equity valuation for augmenting their investment decision can also benefit from this certification.

For more details, please follow the link below:

[http://ifmp.org.pk/research\\_analyst\\_programme.php](http://ifmp.org.pk/research_analyst_programme.php)



### MUTUAL FUNDS BASIC CERTIFICATION LAUNCHED

“*Mutual Funds Basic Certification*” has been launched by the IFMP. The certification offers candidates with the knowledge, recognition, and tools to advance the advisory practice. It is specifically designed to meet the minimum qualification needs of the mutual fund distributors working either directly with a fund management company or through a distribution agent.

Candidates will be able to develop the ability to assess mutual funds against other investment vehicles and new approaches to deepen client relationships.

For more information, please follow the link below:

[http://ifmp.org.pk/mfc\\_basic\\_certification.php](http://ifmp.org.pk/mfc_basic_certification.php)



### TRAINING SESSIONS

Training sessions for HBL employees were held on 3rd and 4th of April in Lahore, 5th and 6th of April in Islamabad and 7th and 11th of April in Karachi.



## Introduction

Investors who are willing to invest in financial markets can choose from a broad range of financial instruments. Stocks, bonds, bank deposits, mutual funds, etc. are a few of the most common instruments widely preferred by investors. Among these financial instruments, derivatives form an important category.

Derivatives have evolved over the years as effective tools for risk management. When asset prices fluctuate, the trader who holds the asset is subject to risk. He may either gain or lose money due to the price change. Derivatives have helped traders to overcome this challenge. These instruments are financial contracts that are settled at a future date. These instruments have helped traders fix a price at which they are willing to buy/sell their asset in the future and carry out their trade operations without hassles, which may arise due to price fluctuations. Various types of derivative instruments are available in the markets. These derivatives vary on the basis of asset class, nature of instruments, trading platform, etc.

Index options are derivative instruments that derive their value from an index. The underlying asset for index options is the index. Index refers to a statistical measure of change in a securities market. In the case of financial markets, stock and bond market indices consist of a hypothetical portfolio of securities representing a particular market or a segment of it. An index can be constructed from

a number of variables like group of stocks, group of real estate company stocks, group of banking stocks, group of prices on consumer products, group of large capitalization stocks, etc. The value of Index Options fluctuates depending upon the change in the underlying index. They offer the investor to buy or sell a given value of the index at a future date. So, if the investor has invested in a large number of securities, he/she can use index options to hedge or manage any risk arising from price fluctuations in these securities.

The concept of options is not new to the Pakistani market, as market participants have historically been known to trade on the market sentiment on the indices and listed securities termed as Tezi, Mandi.

## History of Index Options

Indices have been used by the market participants for more than a century. One of the oldest stock indices is Dow Jones Transportation Average, which was launched in 1884. Options were first known to have been used in the 7th century BC when Thales of Miletus made huge profits by selling options on olive presses. He had



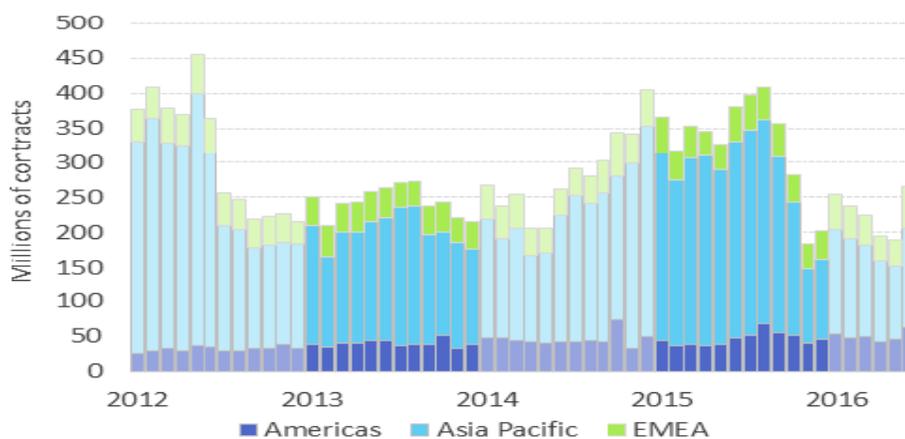
speculated that there would be a rise in demand for olive presses. When the harvest for olives was huge, the demand for these presses skyrocketed. Index options began trading in 1983 only, when Chicago Board Options Exchange (CBOE) launched index options on S&P 100 and, later, on other indices. Soon, other exchanges launched these contracts on their platforms due to the growing demand for these instruments.

### Performance of Index Options

Futures trading has been growing steadily in all regions and hit a record of 15.89 billion contracts in 2016. In contrast, trading of options has been declining since 2011. In 2016, the total number of options contracts traded on exchanges was 9.33 billion, down 9.6% from the previous year and down 27.3% from 2011. In fact, the 9.33 billion options traded was the lowest annual amount since 2007. In 2016, Index Options volume fell 19.2% to 4.45 billion, roughly the same level as 2013.

Figure 1 highlights the trading of equity index options contracts. The equity index based options saw volumes decline by 16.6%. Divergent trends were witnessed across regions. The Asia-Pacific region experienced a sharp drop in volumes traded in index options (down 43%), whereas the EMEA and Americas regions saw a pickup in number of contracts traded in these products versus 2015.

*Figure 1: Equity Index Options Trading (Jan 2012 - June 2016)*



Source: Market Highlights, World Federation of Exchanges

### How to Invest in Index Options?

It is essential for the investors to first understand the need to invest in the product before they enter a trade. Index options can be purchased by paying a small amount of the entire contract value, which is termed as the premium. If the underlying index moves by a small value the index option contract will change by a huge value. An investor is exposed to high risk due to change in the underlying asset even if he/she enters the contract by

making a small investment. There are different types of contracts available in the market, which vary in their strike prices, expiry date, premium rates, etc. The investor has to choose a contract that suits his/her investment requirements and matches the underlying portfolio of securities.

Index options are mainly traded on exchanges. The investors can easily trade these instruments by logging on to the trading portal offered by the exchange or broker. They can monitor their investments by watching the price movements shown by the live tickers. A live ticker is a streaming quote offered by an exchange, which offers the given instrument for trading. Broking firms purchase license to access live quotes of prices to provide information about prices to their clients.

### Index Option Regulations in Pakistan

SECP approved the Regulations governing Index Option Contracts in order to strengthen the capital market in Pakistan. It aimed to develop the derivatives market segment and provide investors with more diversified range of investment.

Chapter 15 of Pakistan Stock Exchange Rule Book covers the regulations of Index Option Contracts. Figure 2 shows the specifications of contract for Index Options. All Option Contracts shall be on the format given below. Upon opening of any Option Contract, the Exchange shall notify the name of the Option Contract, the date of opening and closing of such Option Contract, the date of settlement and other relevant details governing such Option Contract.

*Figure 2: Contract Specification for Index Option Contracts*

<b>Contract/Index Multiplier</b>	Rs.5.00 per index point or any other amount as may be determined by the Exchange from time to time with the prior approval of the Commission.
<b>Contract Description</b>	European Style, Index Calls and Puts
<b>Minimum Fluctuation (Tick Size)</b>	One Index Point
<b>Exercise Style</b>	European
<b>Currency</b>	Pakistan Rupee
<b>Exercise Price Interval</b>	50 Index Points (3-1-3) (3 OTM, 1 ATM, 3 ITM)
<b>Period of Contract</b>	90 days
<b>Opening of Contract</b>	First trading day of the next week following the close of the Option Contract.
<b>Expiration Day/ Last Trading day</b>	Last Friday of the calendar month in which the Option Contract is to expire, if last Friday is not a trading day, then immediate preceding trading day.
<b>Trading Hours</b>	As may be notified by the Exchange from time to time.
<b>Margin Requirements</b>	Exposure Margin shall be in accordance with Underlying Index VaR as provided in NCCPL Regulations governing Risk management, as amended from time to time.

Source: Annexure-A, Pakistan Stock Exchange Rule Book

## Factors that Affect the Price of Index Options

### ◆ Current Index Value/Spot Price

The value of the index plays a fundamental role in determining the option price. Any change in the value of the index affects the option contract. For example, if the spot price of the index increases over the strike price of the option, the call option becomes more valuable.

### ◆ Strike Price

This is the price at which the option can be exercised. The buyer purchases an option by selecting a strike that is favourable to him. Any change in the strike price will affect the option price and the trader's decision to exercise the option.

### ◆ Expiration Date

This is the date at which the option contract expires and ceases to exist after this day. As the expiry date of the option nears, the time value of the option declines.

### ◆ Index Volatility

Volatility of the index implies fluctuations in the value of the index. As the volatility increases the value of the call or put option increases.

### ◆ Risk-free interest rate

As the risk-free interest rate increases, the expectation of the investors from their investments also increases. This decreases the value of the put options and increases the value of the call options.

### ◆ Expected Dividends

The dividend gains on stocks of the indices impact the value of the option contract. If there are any dividend gains on the index stocks, it will decrease the value for the call option and increase the value for the put option.

## Benefits of Investing in Index Options

Following are the benefits that the investors can enjoy by investing in Index Options:

### ◆ Risk Management through Hedging

By trading in index option contracts, investors can hedge their price risk in the underlying portfolio of secure

ties provided the underlying portfolio is correlated to the index of the option contract. Hedgers can transfer their risk to other market players and can minimize their risk arising out of any price fluctuations.

#### ◆ Diversification

Index options help in diversifying portfolio by providing exposure to the broad equity market or towards a specific industry. Investor can reduce the risks due to individual stock price fluctuations. Index options help insure a portfolio from falling in value.

#### ◆ Lower Transaction Costs

Index options help in reducing the transaction costs as the investors don't need to purchase any additional insurance product to manage your investment risk. Also, they can purchase the options with smaller amount of capital, offering leverage and enabling transactions at lower costs.

#### ◆ Defined Risk Limit

Index options limit the risk as the risk is known. This limits losses to a great extent. Hence, if the investors do not wish to exercise the option, they may do so and their loss will be limited to the option premium.

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## References

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## Securities &amp; Future Advisers (Licensing &amp; Operations) Regulations, 2017

**Advertisement**

Dissemination or conveyance of information, or an invitation or solicitation, in respect of the services that the securities adviser/futures adviser is licensed to carry on, by any means or in any form, including by means of, —

- (i) Publication in a newspaper, magazine, journal or other periodical;
- (ii) Display of posters, notices, billboards, hoardings etc.;
- (iii) Circulars, handbills, brochures, pamphlets, books or other documents;
- (iv) Letters addressed to individuals or bodies;



- (v) Photographs or cinematograph films;
- (vi) Sound broadcasting, television, the Internet or other media; or
- (vii) Tele-marketing and SMS marketing.

**Asset Management Company**

An NBFC licensed by the Commission to provide asset management services.

**Futures Act**

The Futures Market Act, 2016.

**Ordinance**

The Companies Ordinance, 1984 (XLVII of 1984).

**NBFC**

Non-banking finance company which includes company licensed by the Commission to carry out any one or more forms of business as specified in clause (a) of section 282A of the Ordinance.

**Securities Act**

The Securities Act, 2015 (III of 2015).

**GET YOURSELF REGISTERED!**

**7th July, 2017**

Last Date for Registration for  
*July 30, 2017 Examination*

**REGISTRATION**



### Private Equity and Venture Capital Fund approved by the SECP

The Securities and Exchange Commission of Pakistan has approved the first private equity and venture capital fund worth \$100 million under Private Funds Regulations, 2015.



Ijara Capital Partners Limited has been allowed to undertake private equity and venture capital fund management. According to the SECP's document of approval, the commission has registered Pakistan Emerging Market Fund-1, which is categorized as a private equity and venture capital fund.

Growth in capital will generate economic activities and add new jobs, ensure capacity building and enhance foreign exchange earnings by increasing exports. It is designed to give accredited local and foreign investors easier access to private equity investment opportunities. It will eventually exit through a secondary market sale or initial public offer (IPO), thus reaping high returns to investors. It will also help those companies and entrepreneurs who have limited access to capital from banking channels or capital market.

### First Global Islamic Bond Issue

Saudi Arabia raised \$9 billion in its first global Islamic bond issue. The country has also sold domestic bonds

and drawn on its accumulated reserves, all in an effort to reform the economy and address budget deficits caused by a collapse in oil revenues since 2014.

According to the Saudi Press Agency, the ministry of finance received significant interest with an order book from investors in excess of \$33 billion. There will be two



tranches of \$4.5 billion, one maturing in 2022 and another in 2027, reflecting the strong fundamentals of the Saudi economy.

### Enforcement of Research Analysts Certification

The SECP aims to enhance the quality standards of research analysts operating in the capital market of Pakistan. Therefore, a directive has been issued for all the analysts to obtain the 'Research Analysts Certification' from the Institute of Financial Markets of Pakistan (IFMP).



The Commission said all existing research analysts have been given six months to obtain the certification, while new entrants will be required to obtain

such certification within six months of intimation to the SECP as a research analyst/ research entity.

The SECP maintains the objective of mandatory certification for the analysts is to inculcate good governance practices, promote investor protection and groom skilled personnel providing recommendation to investors in capital market because there are currently more financial market social media analysts operating in the country compared to the research analysts registered with the SECP.

The certification requirement will also be applicable to chief executive or head of research function of the entities involved in research report publication.

### Petroleum Products Prices remain Unchanged

Finance Minister of Pakistan turned down the recommendations by the Oil and Gas Regulatory Authority.

The OGRA had suggested hike of Rs.10 per litre in light diesel oil (LDO), Rs.15 per litre in kerosene, and reduction of Rs 1.10 per litre in prices of petrol and Rs 1.20 in high speed diesel (HSD).

The finance minister said that price will remain unchanged. He further said the government would give subsidy to maintain the prices. The petroleum prices would remain same with diesel at Rs.84, petroleum Rs.74, and kerosene oil and light diesel oil at Rs.44 rupees per liter.



OGRA's recommendations of hike in prices of kerosene and LDO have been declined by the ministry in last three months. However, consumers have been facing partial increment in oil prices during the past several months due to fluctuations in global oil prices.

## URDU GLOSSARY

Adequacy	کفایت
Authorized Capital	منظور شدہ سرمایہ
Bonded Debt	تمسکی قرضہ
Body Corporate	اجتماعی ادارہ
Categorize	درجہ بندی کرنا
Effective Cost	موثر لاگت
Good Governance	عمدہ نظم و نسق، گڈ گورننس
Implications	مضمرات
Latent Ambiguity	مخفی ابہام
Mechanism	طریق عمل
Part Payment	جزوی ادائیگی
Self-regulation	خودضابطگی



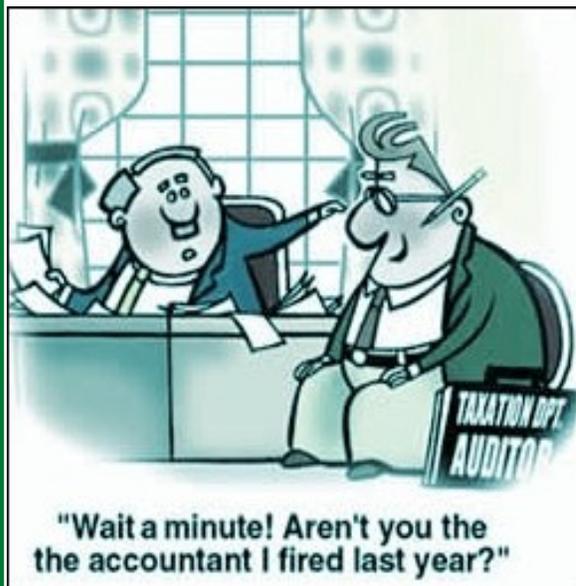
"Before you can become a millionaire, you must learn to think like one. You must learn how to motivate yourself to counter fear with courage. Making critical decisions about your career, business, investments and other resources conjures up fear, fear that is part of the process of becoming a financial success."

- Thomas J. Stanley



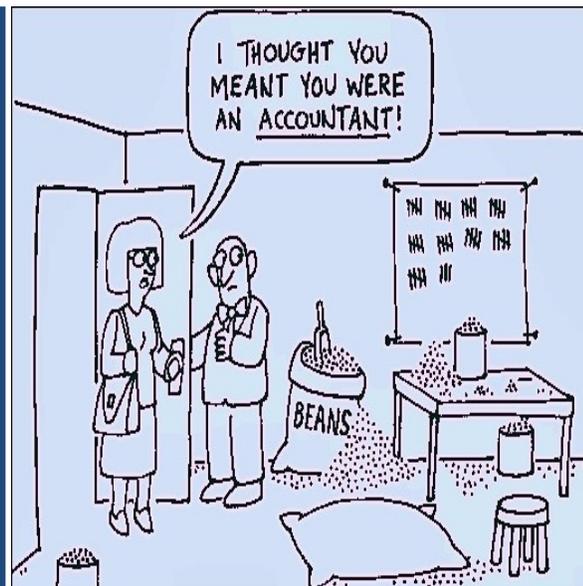
"Do not get pressurized or pushed into making an investment decision on the spot or on immediate basis. Always check the authenticity of the investment product and verify the license status of company before making an investment."

- Anonymous



A good financial plan is a road map that shows us exactly how the choices we make today will affect our future.

- Alexa Von Tobel



Monthly Review

	<b>Crude Oil</b>	
	(WTI)	
	Beginning	50.55
	Ending	48.46
Change		-2.09

	<b>KIBOR</b> (6 Months)		
	Bid %	Offer %	
	Beginning	5.91	6.16
	Ending	5.91	6.16
Change		0	0

	<b>Pakistan Stock Exchange</b>	
	100 Index	
	Beginning	48,155.93
	Ending	48,689.42
Change		+533.49

	<b>Gold</b>	
	10 Grams	
	Beginning	Rs.43,414
	Ending	Rs.43,328
Change		-86

	<b>Silver</b>	
	10 Grams	
	Beginning	Rs.642.85
	Ending	Rs.625.71
Change		-17.14

Source:  
forex.com.pk  
sbp.org.pk

	<b>Foreign Exchange Rates</b>					
	Interbank Market					
	GBP (£)		EURO (€)		USD (\$)	
	Buying	Selling	Buying	Selling	Buying	Selling
Beginning	Rs.130.03	Rs.130.28	Rs.112.35	Rs.112.57	Rs.104.50	Rs.104.70
Ending	Rs.134.87	Rs.135.13	Rs.114.06	Rs.114.27	Rs.104.50	Rs.104.70
Change	+4.84	+4.85	+1.71	+1.7	0	0

DETAILS: ● [www.ifmp.org.pk](http://www.ifmp.org.pk)



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