

**POTENTIAL IMPACT OF INTRODUCTION OF
MARGINAL TRADING SYSTEM (MTS) IN
ISLAMABAD STOCK EXCHANGE**



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Program: MBA

This project is submitted in accordance of the degree requirements for the Master of Business Administration, Department of Management Sciences

Bahria University, Islamabad

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Viva-Voice Examination

Approval Sheet

Date: __/__/2011

Topic: "Potential Impact of Introduction of Marginal Trading System on Islamabad Stock Exchange"

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Abstract

Stock market may be considered as an important indicator of economic system. For effective operation every stock market requires to have liquidity which should facilitate investors, brokers and banks. Sometimes markets fall short of liquidity called liquidity crunch. How this liquidity crunch should be addressed? What measures can be taken in this respect? The only solution to the problem is to introduce a liquidity product in the market. What is a liquidity product? The basic purpose of a liquidity product is to integrate the financiers and financees to ensure liquidity. The financiers offer their idle money to the financees against interest charges. In this way the investors get money and the liquidity problem can be solved.

Pakistani stock market had also been operating with leverage products such as Carry over trade (COT) and Continuous Funding System (CFS). But after 2008 these markets are observing severe liquidity crisis as they are missing any such product. In order to address this problem, the regulatory authorities have taken a decision to introduce Marginal Trading System (MTS). The concept though has not yet been implemented but it is expected to be available in the market soon. After studying and knowing the opinions of all the stakeholders, we have come up with some of the advantages and disadvantages. On the basis of our research and keeping in view the disadvantages we have tried to recommend some solutions which may be beneficial for the market.

*IN THE NAME OF ALLAH THE
MOST BENEFICIENT AND
MERCIFUL*

Dedication

To our beloved and kind Parents who are personification of humility and affection. To whom our heads and hearts adore for their love to us.

ACKNOWLEDGEMENT

We are thankful to Almighty Allah who gave us courage and ability to encounter the problems that we faced in completing this project. Apart from that, we also thank to our most respected and kind supervisor **Ma'am Fatima Khushnud** for giving us a chance, confidence and responsibility to make this project successful. No doubt this chance is not only a gateway to Professional life, but it will also give us enlightenment and exposure of stock market in real sense.

List of Acronyms

MTS	MARGINAL TRADING SYSTEM
CFS	CONTINUOUS FUNDING SYSTEM
COT	CARRY OVER TRADE
CSF	CASH SETTLED FUTURES
UIN	UNIQUE IDENTIFICATION NUMBER
SECP	SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
CDC	CENTRAL DEPOSITORY COMPANY
NCCPL	NATIONAL CLEARING COMPANY OF PAKISTAN LIMITED
KSE	KARACHI STOCK EXCHANGE
ISE	ISLAMABAD STOCK EXCHANGE
AFS	AUTHORISED FINANCIERS
NBAF	NON BROKER AUTHORISED FINANCIERS
BAF	BROKER AUTHORISED FINANCIERS
NBFC	NON BANKING FINANCE COMPANY
CDS	CENTRAL DEPOSITORY SYSTEM
FPR	FINANCING PARTICIPATION RATIO
MTM	MARKET TO MARKET
KIBOR	KARACHI INTER BANK OFFER RATE
BOD	BOARD OF DIRECTOR
CM	CLEARING MEMBER
CEO	CHIEF EXECUTIVE OFFICER
BCM	BROKER CLEARING MEMBERS
NCSS	NATIONAL CLEARING & SETTLEMENT SYSTEM
MT	MARGIN TRADING

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