

The Man Behind the Turnaround

*Interview of Mr. Ejaz Ali Shah, MD, PMEX
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1. As the Managing Director, what is your vision for PMEX?

PMEX is a national institution and amongst the most prestigious institutions of the country. Though it may have a brief history, the volume of daily trade conducted at the Exchange often exceeds the value of shares traded at local stock exchange that marks potential of the Exchange. My vision is to make PMEX a household name by adding investment friendly products to the product portfolio as well as creating awareness about the Exchange as an alternate investment avenue. Moreover, we will strive to create opportunities for our members enabling them to expand their outreach and provide services that are commensurable to the best exchanges of the region.

2. PMEX today has turned around as a company and has become financially stable. Would you kindly elaborate on how you accomplished this feat?

I am glad to assert that Pakistan Mercantile Exchange has transformed into an efficient and vibrant exchange developing at a rapid pace. Financial turnaround has been achieved with an active support and patronage of the Securities & Exchange Commission of Pakistan along with the hard work of PMEX team. Further on, I firmly believe that we have been successful in creating a winning culture by religiously adhering to our core values such as merit and candor among others to create an environment that nurtures talent and commitment. After all, human resource is the life blood of any company, more so in case of a service providing company. We have raised the bar in virtually every area of operations, be it customer services or product designing, out of the box thinking is appreciated and encouraged. It is important to understand that small things make big differences as long as the value code is in order.



As a result of these efforts, the exchange is growing rapidly as more and more products are being introduced resulting in improved profitability for the exchange on month on month basis. Over the last two years, we have been successful in doubling the UIN base providing trading opportunities to a broader investor base, published daily & monthly research reports and quarterly newsletters, conducted over a 100 training sessions for existing & potential clients, enhanced the efficiency of our trading platform to fit the rapidly growing customers' demand by integrating the trading platform with internationally renowned trading systems and inducted new & inactive/dormant brokers onto the Exchange platform.

Having said the above, we are still at an initial stage and have a long way to go as PMEX has a vital role to play towards development of the country's economy, especially the agricultural sector.

3. What are the factors that would define the future growth of PMEX in your opinion?

I would say that creating a conducive environment is essential for long term growth and sustainability of PMEX. This is a huge task that entails

- Timely investment in the infrastructure like warehousing and certification, which is essential for trading of agricultural commodities
- Support of other related institutions like the Central Bank, the tax authorities and the ministry of agriculture etc. All such institutions must be on the same page so a coherent strategy can be developed and followed in the better interest of the country.
- Increased awareness of PMEX products among the masses especially the industry that can effectively use the exchange to hedge against the price risk.
- Elimination of the gray market which is creating an uneven playing field for the law abiding market participants.

4. Tell us about the upcoming products of PMEX

In order to realize the potential of PMEX and to define its universe of products, we have considered the commodities that Pakistan imports, exports or produces along with products listed on various leading international exchanges. In this respect, we have shortlisted over 70 products which meet the requirements to have viable futures contracts in our environment. These new products are a mix of Local / Physical Deliverable Futures and International / Cash Settled Futures, which we aim to introduce in the next 5 years.

Accordingly, the products which the Exchange is currently working on are: Brent Crude Oil, Mill Specific Sugar, Copper, Milli Ounce Gold Contracts denominated in Swiss Franc, Canadian Dollar and Australian Dollar, Platinum and Natural Gas.

5. What is PMEX's Business Strategy for the next 5 years?

Before I touch upon our plans for the next 5 years, it is important to note that almost all commodity exchanges around the world operate on a similar model having international products like gold, oil, currencies and silver being the core commodities or, in other words, the main income generators. Additionally, these exchanges list commodities which are produced locally in order to provide a transparent and efficient market place.

Considering the above, PMEX business strategy for the next 5 years is divided into three phases:

1. Products that can immediately be listed on the Exchange
2. Products that meet the criteria of listing but require minor work on some areas
3. Products that meet the listing criteria but require extensive work/infrastructure

In phase one, PMEX plans to induct products that can be listed with minimal effort. Most of these products are international products and therefore will serve the hedgers and speculators.

In phase two, we plan to induct all local products that have good revenue potential but require some work before we could list them on the Exchange. The idea is to start working on the shortcomings from day one in order to ensure that we are ready to induct them upon conclusion of phase one.

In phase three, we plan to add most of the agriculture commodities to the product suite. These products require extensive efforts both in terms of required infrastructure as well as convincing/preparing the stakeholders to trade on the Exchange platform. To achieve the above, it is imperative that all the stakeholders are on the same page and supporting the efforts of the Exchange.

To build on the turnaround and to achieve a level of self-sustaining volume growth which results in a clear path to profitability in the future, we will focus on the phases mentioned above and the global business model of cash settled futures. As evident from these phases, the first 2 phases will empower PMEX to offer a cash settled product mix which will bring sustainability while adding cash flow for business expansion i.e. human capacity, IT infrastructure and branch expansion. These steps will set the grounds for PMEX to play an active role in phase 3 where the market participants will have a comprehensive market available to either participate in a spot market, futures market, store their produce, obtain advances against storage receipts and trading such receipts on the Exchange platform.

6. What is the role of Regulatory Body in Pakistan and how would you compare similar bodies operating in similar economies.

For the successful and smooth operations of an exchange and protection of all the stakeholders, an active presence of a regulator is a must. In today's age, regulators and corporations are perceived as partners since the core objective of both is common. The organization's work becomes easier when the regulator is on the same wave length as it leads to more pragmatic regulatory framework and ensures smoother implementation. We are fortunate that SECP has been following a proactive and consultative approach and has created the regulatory space for the exchange to grow and prosper. The guidance and support of SECP is perhaps the primary reason for the recent transformation of PMEX into a more vibrant and robust organization.

7. You have briefly touched upon the culture at PMEX in the earlier question, would you like to further elaborate it in more detail?

I would love to. There has been a sea change in practically all areas of PMEX operations in a short span of time. Today we are a team that has created and implemented a winning culture having its foundation in candor, integrity, merit, respect, transparency and imagination. These efforts are enshrined in the belief that change starts from within. We have therefore created an environment where company's interest is supreme and protected collectively.

At PMEX, respect and workplace civility is a crucial element of the organizational structure. Employees are encouraged to show respect and courtesy in communication with each other as well as clients. Similarly, we also believe that collaboration is the key to achieving goals and results, timely and efficiently. Keeping this perspective in mind, teamwork is appreciated and being inculcated across the company to achieve one common goal, Success!

Open communication is another new norm at PMEX. The management has initiated an open forum where employees are briefed about the plans and achievements of the exchange at least every quarter and are then encouraged to share ideas, suggestions and feedback.

Last but not the least, the most important element of the new culture is merit. To grow and prosper, a level playing field is ensured for all employees. From hiring new talent to conducting annual appraisals, merit prevails throughout the organization which ensures that the efforts are rewarded and there is a clear demarcation between good resources and the ones who need to roll up their sleeves and work on their skills.

8. Recently you signed MOUs with other international exchanges. Tell us about them.

During 2015 PMEX signed Memorandum of Understanding (MoUs) with three international exchanges, namely, Borsa Istanbul & Izmir Commodity Exchanges of Turkey and Dubai Gold and Commodities Exchange (DGCX), UAE's leading derivatives bourse. These agreements will pave the way for PMEX to work in close coordination for the development and enhancement of derivatives and financial markets in Pakistan, UAE and Turkey by sharing market information and expertise with each other, introduce programs for cross training of staff and build upon each other's best practices and experiences.

I firmly believe these agreements will further consolidate our relationships with other regional markets and provide an important foundation for the development of futures markets in Pakistan. In line with this objective, we also intend to sign similar agreements with other mercantile exchanges of the region as well.

9. Can you tell us details of the new Islamic product PMEX is planning to introduce and what are the benefits of this Islamic product?

The Islamic Financial System is increasingly making its mark as global Islamic finance has grown at the rate of 20 percent from being a niche market to a global vibrant industry of over US\$ 1.6 trillion. When it comes to Islamic banking in Pakistan, the sector is growing at the rate of over 30 percent annually and its asset base has crossed PKR 1 trillion. Surplus liquidity, being a by-product of this growth, has become a problem for the Islamic finance industry. While deposits are on the increase, Islamic Financial Institutions (IFIs) have limited lending/investment options compared to a conventional banking industry.

In addition, there is an acute shortage of Islamic Money Market related instruments which are necessary to efficiently deploy the liquidity being generated due to increase in deposits. Although these IFIs have developed certain means by which the liquidity is currently being managed, there is no standardized product available to completely and efficiently meet the need of the industry. Considering the above, IFIs are looking for more trustworthy and efficient vehicle to efficiently deploy their liquidity.

In the light of the above, PMEX has taken the initiative to develop an online Murabaha contract to facilitate the IFIs in line with International commodity exchanges such as London Metal Exchange, Bursa Malaysia & Jakarta Futures Exchange, which are also facilitating Murabaha transactions to support Islamic Banking liquidity management.

While developing the contract, PMEX lead multiple discussions with financial institutions and industry stakeholders and concluded that High Speed Diesel (HSD) would be the ideal underlying asset for the Murabaha Market. The product is completely sharia compliant and meets all the key requirements of Sharia i.e. abundant supply, non-perishable nature, adequate infrastructure for the storage and handling, sold by all the OMCs operating in the country and certified quality standards of the product.

This proposed Murabaha product would greatly strengthen the Islamic financial sector of Pakistan by bringing IFI's at par with commercial banks with regards to efficient deployment of liquidity. We envision that the proposed Murabaha product will eventually serve as an industry benchmark and be the first choice for the IFIs.

Presently, all the modalities have been worked out and the Exchange is planning to launch the product as soon as it gets the necessary approval from the regulators.