

TERMS OF REFERENCE FOR CONSULTANTS

1. **Capital Market Specialist and Team Leader (1 international, 4 person-months).** The expert's primary objective will be to formulate a long-term national capital market development strategy and implementation plan, which will embrace all relevant dimensions (including equity market, bond market, derivative market, commodities market, money market, market surveillance and enforcement, and qualification framework for securities industry professionals) and facilitate agreement on new initiatives to tackle policy, legal, regulatory, supervisory, institutional, and capacity constraints. The expert will work in coordination with the legal and regulatory, institutional, bond market, derivatives, taxation, and other experts on the consulting team and adopt the following three-phased approach to prepare the development strategy and implementation plan:

- (i) **Phase 1: assess the current state of capital market development.** The experts will (a) conduct secondary desktop research to obtain benchmark data; (b) collate information provided by the Securities and Exchange Commission of Pakistan (SECP), State Bank of Pakistan (SBP), Ministry of Finance (MOF), Pakistan Stock Exchange (PSX), and other key stakeholders; (c) review regional trends and challenges; and (d) interview Pakistan's capital market stakeholders. The experts will incorporate international experience and specific country case studies both with successful and failed strategies for capital market development. The countries should be comparable to the economy of Pakistan in regards of size, economy, level of savings and other characteristics (i.e. bank-based economies with similar level of development of insurance and pension systems, etc.).
- (ii) **Phase 2: develop a draft strategic blueprint.** The experts will (a) analyze findings from research and interviews to synthesize the relevant impediments to be addressed; (b) develop a hypothesis; (c) draft the strategic blueprint of the capital market development plan; (d) draft a sequenced implementation plan over the next 10 years with performance Indicators for each measure.
- (iii) **Phase 3: formulate strategic recommendations.** The experts will conduct at least three strategy workshops with Pakistan's key capital market stakeholders including MOF, SECP, SBP, PSX, and market participants to (a) obtain feedback on the vision statement, objectives, recommendations, and implementation framework; and (b) arrive at a consensus with Pakistan's key capital market stakeholders on the formulation of a long-term national capital market development strategy and implementation plan.

2. The expert is expected to have significant recent expertise (a minimum of 15 years) in capital market development, with specific senior level role in formulation of national capital market strategies master plans. The specialist will have postgraduate degree in business administration, finance, economics or a closely related field; excellent oral and written communication skills in English; and have experience in working collaboratively with an international financial institution and with government officials in Pakistan or the region.

3. **Capital Market Institutional Expert (1 international, 1 person-month).** In coordination with the team leader and other consulting team members, the expert will (i) assess the institutional and governance structure of SECP and recommend measures to strengthen its capacity and procedures; (ii) enhance policymakers' conceptual understanding and practical skills in capital market development; and discuss conceptual and practical policy issues concerning capital market development, particularly the bond market; (iii) share best practices and information that would be beneficial to developing and managing the capital market in

Pakistan, the analytical framework for capital market development, institutional and legal settings, infrastructure issues, and strategies and policy recommendations; and (iv) map additional training scope and resource needs for a comprehensive training program for market participants to be supported under a subsequent and dedicated TA.

4. The specialist will have a postgraduate degree in business administration, finance, economics or a related field as well as at least 10 years of relevant experience and credentials in enhancing knowledge of capital market policies and operations, and skills and competencies.

5. **Capital Market Infrastructure Expert (1 international, 1 person-month).** The expert will assess (i) existing trading systems and procedures for the full range of market instruments (i.e. money market instruments, government and corporate bonds, equity instruments, other traded instruments, and open-market operations) and their integration; (ii) regulatory and surveillance equipment and software of SECP currently supporting the implementation of its mandate; and (iii) advise on areas of improvement including optimal software and systems to improve the (cost-)efficiency of market trading operations and regulatory, surveillance and enforcement functions. The expert will also assess the need for establishment of a separate institution to regulate the SROs including PSX, CDC, NCCPL, and PMEX.

6. The specialist will have a postgraduate degree in business administration, finance, economics or a related field as well as at least 10 years of relevant experience and credentials in enhancing the knowledge and understanding of capital market principles and operations.

7. **Capital Market Legal and Regulatory Expert (1 international, 1.5 person-months; 1 national, 2 person-months).** The principal aim of this assignment will be to strengthen the regulatory framework governing Pakistan's capital market. This will involve setting suitable supervisory policies, rationalizing institutional responsibilities across different products and sectors (including the commodities market), and identifying any legal implications. The consultants will also advise the team leader on the legal and regulatory requirements and implications of the proposed reforms and policy actions, and the way forward to fulfil the requirements.

8. These experts will have significant experience (a minimum of 10 years) in capital market regulation in developed and developing markets, and a working knowledge of the implementation of the best practice principles and objectives of the International Organization of Securities Commissions in securities regulation. The experts will have a law degree and postgraduate qualification in law, economics or finance, and have experience coordinating with various government agencies on policy reforms.

9. **Bond Market Expert (2 international, 0.5 person-month each).** The experts' primary objective will be to advise the Government on developing effective market-based government and corporate bond market yield curves that encourage issuances and facilitate participation of institutional investors. The expert will assess the government bond market and existing yield curve, advise and assist the Government to prepare and finalize a technical proposal for the development of a public debt strategy with a clear capital market development component; and support the team leader to identify measures to (i) develop the corporate bond market as a competitive source of financing; (ii) improve liquidity and market efficiency for secondary trading of securities; and (iii) introduce a wide range of capital market products. The expert will assess the existing repo market and primary dealer system and identify measures to facilitate their enhanced contribution to bond market development. One expert will assess the need for

establishment of an independent bond pricing agency to provide fair valuation of debt instruments and provide a framework for development of technological solutions for pricing of debt instruments by this agency.

10. The experts will have a postgraduate degree in economics, finance, or a related field; strong expertise and at least 10 years' experience in public finance, particularly in a variety of areas related to government debt management and bond market development.

11. **Equity Market Expert (1 international, 2 person-months).** The expert will assess the initial and secondary public offering markets (including market structure and trading practices) and the related policy, institutional and regulatory factors underlying stock market growth and investor protection. The expert will advise the Government on measures to enhance the depth and breadth of the equity market and its ability to serve long-term financing needs of the corporate sector (including SOEs and SMEs). These will include measures to facilitate corporate listings and enhance liquidity in the secondary market.

12. The expert will have a postgraduate degree in economics, finance, or a related field; at least 10 years' relevant experience in equity markets and investments; and have experience in coordinating with various government agencies on policy reforms.

13. **Taxation Expert (1 national, 2 person-months).** The taxation experts will coordinate with the team leader as well as the other consultants to address finance sector tax issues. The experts will help develop a liquid and integrated capital market by identifying a tax system that meets the needs of different market participants and encourages savings and investment. The experts will develop a well-defined tax implementation framework that will help determine the impact of the recommended tax reforms and introduce equal treatment across products and institutions. The experts will recommend how to make tax treatment consistent with international accounting standards.

14. The expert will have a postgraduate degree in business administration, finance, economics or a related field as well as extensive background in financial sector tax and legal matters. The expert should be experienced in the implications of taxation of financial instruments on financial sector development (a minimum of 10 years).

15. **Risk Management and Derivatives Expert (1 international, 1 person-month).** The expert will help the team leader identify measures for sequenced introduction of alternative financing instruments including: (i) developing the derivative industry—bond futures, interest rate, exchange rate derivatives, equity derivatives, etc.; (ii) strengthening the commodities exchange; and (iii) introducing a wide range of capital market products, including structured products-new product development. The consultant will also work with the capital market infrastructure expert to conduct market infrastructure risk assessment, including assessment of risk management system on National Clearing Company of Pakistan Limited.

16. The specialist will have a postgraduate degree in business administration, finance, economics or a related field as well as extensive experience (a minimum of 10 years) in developing and trading in risk management and derivative products.

17. **Auditing Expert (one international, 0.5 person-month).** The expert will (i) review the capacities of regulators to assess the quality of audits, and (ii) help SECP design procedures for an independent review of audit practices adopted by auditors of listed companies, their work

process and systems including developing relevant databases, format of reporting, internal quality assurance system, and enforcement.

18. The expert will have a postgraduate degree in accounting, finance, business administration or a related field and be a qualified auditor with a CA/CPA/CIA/CMA qualification. The expert will have the necessary experience including a strong background in International Standards of Auditing and be familiar with capital market operations (a minimum of 10 years). The expert should be fully familiar with International Accounting Standards and best practices in the disclosure of financial information. The expert should have an understanding of Pakistan government's budgeting, accounting and auditing procedure and have knowledge on financial management requirements of ADB.

19. **Program Coordinator (1 national, 3 person-months).** The program coordinator will work closely with the government, ADB and team of experts to maintain effective institutional coordination for the preparation of the program and compliance with the agreed policy actions. The coordinator will monitor the progress of the relevant line Ministries/Agencies to carry out the program preparatory activities as agreed with ADB; follow-up on and collect relevant documents to evidence full compliance of the agreed policy actions; review the submission of evidence against the ADB policy matrix and applicable legal/regulatory requirements; work with relevant government agencies to identify areas for support and report to the project team; and provide inputs to regular progress reports.

20. The consultant will have a good understanding of Pakistan's capital market and constraints to growth, and at least 7 years of relevant experience in engaging with the government and/or the private sector. The consultant will have a professional degree in an appropriate field that may include Masters of Business Administration, Finance, or Economics from a recognized university; and excellent oral and written communication skills in English. Experience in coordinating with various government agencies on international financial institutions' projects including on policy reforms will be an advantage.