



**FACTORS THAT CONTRIBUTE TOWARDS  
THE DEVELOPMENT OF STABLE INVESTOR-  
FRIENDLY OTC DERIVATIVE MARKET IN  
PAKISTAN**

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## Abstract

**Purpose** – Despite tremendous growth in OTC derivative market worldwide, its advantage in hedging risks of Pakistani companies is seldom utilized. None of the company has identified it as a potential area for the revenue stream or growth segment. With investments increasingly being devoted to emerging economies, developing an investor-friendly Derivative market can bring Pakistan's financial markets at par with those of the developed countries and attract foreign investors. This paper aims at determining the factors affecting OTC market growth in Pakistan.

**Methodology** – The study comprises of interviews of ADDs and other market participants to bring out the problems they face during its trade and their solutions; that could help this market develop in Pakistan to the fullest. Goal of this paper is to identify the hindrance in the way of well-developed OTC derivative market and their solutions.

**Findings** – Pakistani derivative Market is characterized to be less developed, not investor-friendly, immature and illiquid with, justified though but, stricter policy framework. Infrastructure needs to be worked upon. Tendency is there but expertise is lesser at the end-users' side. Big banks offer derivative products just to provide the customer with everything they want under one roof. Lack of awareness, mindset, past deadly experience, instable economy and Strict Policy framework have been highlighted as some of the reasons for the declining trend of OTC derivative in Pakistan. In particular, special consideration must be given to the development of Human resource and skills at the end-user side to wide-spread the benefits to go for it.

**Originality/value** – This is one-of-its-kind research work that focuses on market participants (ADDs / NMIs). This paper contains thorough analysis of Pakistani OTC Derivative market to dig out the causes of lower penetration and to pave way for an Investor-Friendly OTC derivative market through viable and feasible solutions to the problems faced by the participants.

**Keywords:** Hedging, OTC derivative Market in Pakistan, foreign exchange risk, Interest rate risk, potential for derivatives.

**Paper type:** Research paper

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