

DRAFT REGULATIONS GOVERNING PAYMENT OF EXPOSURE MARGINS BY APPROVED INSTITUTIONS

PREAMBLE

WHEREAS in order to facilitate non-Member Institutions to place their margins against their trading exposures carried out through a Member of the Exchange, other than pre-trade margins, directly with the Exchange and for maintaining proper risk management functions, the Karachi Stock Exchange has decided to allow such facility to enhance the capacity of the market participants and promote trading activities at the Exchange.

AND WHEREAS currently there are no provisions in the Rules and Regulations of the Exchange to collect margins directly from the non-Member institutions dealing through a Member of the Exchange and it is desirable to provide necessary regulatory framework to regulate this aspect.

Now, therefore, in exercise of the powers vested under the Rules & Regulations, the Board of Directors of the Karachi Stock Exchange, with the prior approval of the Securities & Exchange Commission of Pakistan as required under Section 34(1) of the Securities & Exchange Ordinance 1969, makes these Regulations.

1. SHORT TITLE, APPLICABILITY AND COMMENCEMENT

- a) These Regulations shall be called "Regulations Governing Payment of Exposure Margins by the Approved Institutions".
- b) These Regulations shall apply to all Member and Non Member Institutions (Approved Institutions).
- c) Notwithstanding anything contained in any other Regulations of the Exchange, the provisions of these Regulations shall have an overriding effect.
- d) These Regulations shall come into force immediately.

2. DEFINITIONS

In these Regulations, unless subject or context otherwise requires: -

- a) "Approved" means "approved by the Board under these Regulations for the purpose of depositing margins against trading exposures and payment of losses directly with the Exchange by any Approved Institution".
- b) "All Markets" means "Ready, Futures, Derivatives, Provisionally Listed and CFS markets".
- c) "Board" means "Board of Directors of the Karachi Stock Exchange (Guarantee) Limited".
- d) "Clearing Company" means "National Clearing Company of Pakistan limited.
- e) "Commission" means "Securities & Exchange Commission of Pakistan established under the Securities & Exchange Commission of Pakistan Act 1997".
- f) "Capital Adequacy" means " Capital Adequacy as defined under the Regulations Governing the Members Exposure"

- g) "Clearing House" means "The Clearing House of the Exchange operating under the Regulations and Procedures of the Exchange".
- h) "Default Proceedings" means "the proceedings initiated by the Exchange against a defaulting Member under the relevant Rules and Regulations of the Exchange".
- i) "Exchange" means "The Karachi Stock Exchange (Guarantee) Limited".
- j) "Ready Transaction" means "a trade carried out in Ready Market (T+3 and T+1), through KATS, under the relevant Regulations and Procedures of the Exchange"
- k) "CFS Transaction" means "a trade carried out in the Continuous Funding System Market under the relevant Regulations and Procedures of the Exchange"
- l) "Future Transaction" means" a trade carried out in Futures and Derivative markets through KATS, under the relevant Regulation and Procedures of the Exchange".
- m) "Institution" means "Any non-Member Financial Institutions, Banking Companies, Investment Companies, Mutual Funds, NBFIs and Insurance Companies established and incorporated in Pakistan which are involved in the secondary equity market operations or any other company meeting the criteria as prescribed under these Regulations and approved by the Exchange".
- n) "KATS" means "The Karachi Automated Trading System of the Exchange".
- o) "Member" means "a Member of the Exchange registered as a Broker with the Commission".
- p) "Margin" means "Margin deposits payable to the Exchange by an Approved Institution against its trading exposure in relation to All Markets".
- q) "Rules & Regulations" means "Rules & Regulations dealing with trading, clearing and settlement and risk management aspect of the Exchange".
- r) "Affirmation" means "Institution accepting the trade through the electronic interface provided by the Exchange"
- s) "Approved Securities" means "securities eligible for acceptance as deposit against exposures in accordance with the relevant regulations of the Exchange"

3. ELIGIBILITY

An Institution shall be eligible to be an Approved Institution for the purpose of placement of margins with the Exchange, if it meets the following criteria and is in compliance with condition or requirement as may be laid down by the Board for the purpose, from time to time.

- a) It is a Company or body corporate, registered and permitted to operate under any law or statute of Pakistan for the time being in force.
- b) It is certified to have a minimum short-term Credit Rating of "BBB" by a recognized Credit Rating Company in Pakistan.
- c) During the last five years or shorter period, as the case may be, it has not been declared, by a Court of competent jurisdiction, as defaulter in repayment of loan or any other monetary obligation or liability.
- d) It is a Non Member Clearing Member of the Clearing Company.

4. APPROVAL OF INSTITUTION

An Institution seeking approval of the Exchange under these Regulations shall apply to the Exchange and submit the following documents:

- i) Certified Copy of Memorandum and Articles of Association.
- ii) Application in the form at Annexure "A".
- iii) An undertaking in the form at Annexure "B".
- iv. Bank Guarantee on the required format Annexure "D" (in lieu of cash/securities deposits against margins, if so desired).
- v) Board resolution authorizing the CEO to submit application under these Regulations.
- vi) Board resolution authorizing the CEO to submit the required undertaking.
- vii) Copies of latest Audited Accounts not older than 6 months from the date of filing application.
- viii) Copy of latest Credit Rating Report.
- ix) List of Directors of the Company
- x) List of authorized Member(s) together with client's code allotted to it by the Exchange.

5. OBLIGATIONS OF THE MEMBERS OF THE EXCHANGE

- i) A Member who execute trades in Ready, CFS, future deliverable and cash settled future markets on behalf of an Approved Institutions shall deposit requisite margins with the Exchange before he places orders on the KATS. However, on execution of trade and upon affirmation by the Approved Institution that these trades are on its account, the pre-trade margins shall be released and Member shall be exempted from placing the required margin and mark to market losses with respect to those trades executed by him on behalf of such Institution. Affirmation functionality will only be available to Approved Institution
- ii) Each Member of the Exchange whose Approved Institution wishes to trade on the Exchange must avail the facility and shall provide an irrevocable undertaking, in a standardized format (attached as annexure C), to the

Exchanges declaring that the specified Approved Institution is his clients, detailing the client codes allocated to it, and confirming to the Exchange that should the Approved Institution fail to honor the trades executed by the Member on its behalf or fail to deposit further margin or mark-to-market losses, he shall make good the losses incurred by the Exchanges on account of the Approved Institution's default and that normal Exchange Default Proceedings shall become applicable to him with respect to any default by such Institution with respect to the trade executed through his KATS terminal.

- iii) If trade is not affirmed by the Approved Institution or has been rejected for whatever reasons, Exchange shall not release / adjust the required margin from the Member's margin account and marked-to-market losses shall thereafter be recovered from the Member and the Member shall be responsible to settle such trade.
- iv) If trade is affirmed by the Approved Institution who subsequently fails to pay to the Exchange required margins including but not limited to mark to market losses, for whatsoever reason, the Member through whom the Approved Institution has conducted trading shall be responsible to pay the required margins and settle such trade.
- v) Member capital adequacy ratios after affirmation of trade by Approved Institution will not be impacted on account of such trades executed on behalf of the Institutions

6. OBLIGATIONS OF THE APPROVED INSTITUTIONS

- i All executed trades on behalf of Approved Institutions shall be electronically affirmed by such Institution during trading hours on the same day.
- ii. Approved Institutions will only be allowed to trade in CDC eligible securities, which are settled through the Clearing Company.
- iii. Approved Institution will not be allowed to trade on behalf of their clients.
- iv. Where Approved Institution affirms the executed trade, margins deposited by the Member in respect of those trades shall be adjusted / released by the Exchange to the said Member. The responsibility for payment of all mark to market losses thereafter till settlement shall be of such Institution.
- v. Approved Institution shall comply with the relevant Rules, Regulations and Procedures of the Exchange in respect of exposure and mark-to-market difference/losses.
- vi. Approved Institution shall make deposits and/or payments, as margins, directly to the Exchange against their respective exposures in respect of transactions carried out in all Markets, in the manner and within such time as may be prescribed by the Exchange, from time to time.
- vii. Margins provided in cash or in the form of approved securities by the Approved Institution will be kept by the Exchange for and on behalf of such Institution.
- viii. Approved Institutions shall not be liable to share in any losses of a Member or other Approved Institutions as a result of default in payment of any margins etc.

- ix. In case an Approved Institution fails to make any payment to the Exchange within the prescribed time, its status as an Approved Institution may be withdrawn. Moreover, it will be required to pay a fixed amount of penalty, to be prescribed by the Board, in case of late payment.
- x. The Exchange shall serve electronic notices for the purpose of payment of marked-to-market losses / Margin Demands and any other notice/correspondence as may be deemed fit, whose compliance shall be necessary by the Approved Institutions within stipulated time.
- xi. Approved Institutions shall provide to the Exchange a firm irrevocable undertaking in a standard format (attached as annexure B).
- xii. Approved Institutions shall ensure compliance of limits and other restrictions with respect to their exposure in securities market *viz-a-viz* their equity as prescribed by State Bank of Pakistan or other Regulatory Authorities.
- xiii. Approved Institution will be allowed to net its positions as permissible by the Exchange for propose of calculating exposures and margins as per the relevant Rules, Regulations and Procedures.
- xiv. The Approved Institutions shall not be liable for the payment of Clearing House Deposits and Service Charges (Laga, CVT, SECP Levy and other taxes) payable to the Exchange. These shall be the responsibility of members of the Exchange through whom such Approved Institutions are conducting trade at the Exchange.
- xv. In case of Future Deliverable Contract where Approved Institution has sold shares, the underlying security shall be pledged/delivered with/to the Exchange and will not be liable to place any further margins with the Exchange with respect to such trades. Approval Institutions will not be allowed to pledge securities from any account of client / sub-account.
- xvi. Approved Institutions will be responsible for all the settlement obligations in respect of their affirmed Trades to the Clearing Company in accordance with the Regulations and Procedures of the Clearing Company.
- xvii. Where Approved Institution is a CFS financier, it shall be required to place the requisite margin as per the relevant regulations.
- xviii. Where permitted by the Exchange, Approved Institutions shall deposit margins in the form of:
 - (a) Cash and/or
 - (b) Shares held in their CDC account with stipulated haircuts and/or
 - (c) Bank Guarantee from an approved bank in stipulated standard format (Annexure 'D')

7. APPROVED BANKS FOR THE BANK GUARANTEE

The Banks listed at Annexure "E" having their branch located within the Exchange premises are ~~the~~ approved for the purpose of issuing Bank Guarantees in favour of Exchange against payment of margins.

8. **DEFAULT PROCEEDINGS VIZ-A-VIZ FIs**

The margins deposited by the Approved Institutions shall not be subject to any charge against a default by a Member through whom they were trading.

9. **CHANGES IN REGULATIONS**

The Board may, with the prior approval of the Commission, make changes in these Regulations after giving reasonable notice.

**FORM OF APPLICATION FOR APPROVAL UNDER REGULATIONS GOVERNING PAYMENT OF
EXPOSURE MARGINS BY THE APPROVED INSTITUTIONS**

The Managing Director

Karachi Stock Exchange (Guarantee) Limited
Stock Exchange Building
Stock Exchange Road
KARACHI

Dear Sir,

We hereby apply for the approval of our Institution/Bank/Company in accordance with the Regulations Governing Payment of Exposure Margins by the Approved Institutions.

We are enclosing herewith the following documents required for the purpose:

- i. Certified copy of Memorandum and Articles of Association.
- ii. A resolution adopted by the Board of Directors of the Company authorizing the CEO to make application under these Regulations as well as submit the required undertaking.
- iii. A list of the Directors of the Company.
- iv. An irrevocable Undertaking under the Common Seal of the Company duly signed on the prescribed format.
- v. Copy of latest audited accounts (not older than 6 months from the date of filing application).
- vi. Copy of latest Credit Rating Report.
- vii. A Bank Guarantee on the required format in lieu of cash/securities deposits/margins.
- viii. List of authorized Member(s), together with the client codes allocated to us by the Member(s).

We hereby undertake to abide by the Regulations Governing Payment of Exposure Margins by Approved Institutions which are in force or may be amended from time to time by the Exchange.

Yours faithfully,

Chief Executive

FORM OF IRREVOCABLE UNDERTAKING
(By Institutions)

The Managing Director

Karachi Stock Exchange (Guarantee) Limited
Stock Exchange Building
Stock Exchange Road
KARACHI

Dear Sir,

As required under the Regulations Governing Payment of Exposure Margins by the Approved Institutions we _____ having our registered office at _____ hereby undertake and bind ourselves as under:

1. That we undertake to comply with the requirements under the Regulations Governing Payment of Exposure Margins by the Approved Institutions presently in force and as may be amended from time to time.
2. That we declare that we shall to conduct Ready, CFS and Futures transactions, as provided under the Regulations, through our authorized Member(s) as per list attached.
3. That we understand that status of our Company as Approved Institution does not confer on us any trading rights on the Exchange.
4. That we undertake to deposit required margins, pay mark-to-market losses and other dues and settle all trades confirmed by us directly with the Exchange.
5. That we undertake to fulfill all our obligations towards the Exchange as laid down under the said Regulations and the relevant procedure as well as towards the authorized Members of the Exchange through whom we will be conducting our day-to-day trades on the Exchange.
6. We undertake to provide all information with regard to our trading obligation as and when desired by the Exchange and shall also immediately intimate to the Exchange any change of Member(s) authorized to carry out trades on our behalf.

Yours faithfully,

Chief Executive/Authorized person

Common Seal of

FORM OF IRREVOCABLE UNDERTAKING
(By Member of the Exchange)

As required under the Regulations Governing Payment of Exposure Margins by the Approved Institutions I/we _____, Member of the Exchange, having office at _____ hereby undertake and bind myself/ourselves as under:

- 1) That M/s. _____ an Approved Institution under the above-referred Regulations are my/our clients, with client Code No. _____.
- 2) That the said client is doing their security business on Ready/Future/CFS marked through our brokerage house.
- 3) That we understand the Exchange has approved the said client as Approved Institution for the purpose of placement of direct margins/deposits with the Exchange and settle its trades.
- 4) That I/we undertake that should the said client fail to deposit margin, pay mark-to-market losses or any other dues or fail to honour the trades executed through us and confirmed by the client we shall immediately deposit the said margin, pay losses and dues and settle the trades whenever called upon by the Exchange and shall be liable for all normal default proceedings under the Rules and Regulations of the Exchange.
- 5) That we undertake to deposit requisite pre-trade margins as required by the Exchange which shall be released only upon confirmation by the said clients directly to Exchange.
- 6) We further understand that if trade is not confirmed by the said clients or has been rejected for whatsoever reasons, the Exchange shall be entitled to adjust the required margins from our margin amount alongwith marked to market losses without any further information to the said clients or to us and we shall be solely responsible to settle such trade.

Yours faithfully,

Nominee Director / Member

DRAFT BANK GUARANTEE

The Managing Director

Karachi Stock Exchange (Guarantee) Limited
Stock Exchange Building
Stock Exchange Road
KARACHI

This Guarantee bearing No. _____ is issued by _____ (bank), a body corporate constituted under the _____ Act 19__, having its Head Office at _____ (hereinafter referred to as the "Bank" which term shall wherever the context so permits, include its successors and assigns) in favour of Karachi Stock Exchange (Guarantee) Limited, a Company Limited by Guarantee, established under the Companies Ordinance 1984 and having its registered office at the Stock Exchange Building, Stock Exchange Road, Karachi (hereinafter referred to as "Exchange" which expression shall include its successors and assigns).

WHEREAS M/s. _____ incorporated as a Company under the Companies Ordinance 1984 and having its registered office at _____, (hereinafter referred to as the "Approved Institution", which expression shall include its successors and assigns) are operating in the securities market through Member(s) of the Exchange.

AND WHEREAS in accordance with the relevant Regulations of the Exchange, an Approved Institution is required to maintain with Exchange margin deposits partly/fully in the form of cash deposit and/or shares and other valuable securities against its trading exposures in Ready and Futures Markets.

AND WHEREAS at the request of the Approved Institution, Exchange has agreed to accept a Bank Guarantee in lieu of margin deposits in favour of Exchange from an approved Commercial Bank for an amount of Rs. _____ (Rupees _____ only).

AND WHEREAS the Approved Institution has requested the Bank to furnish to Exchange a Guarantee for Rs. _____ (Rupees _____ only).

NOW IN CONSIDERATION OF THE FOREGOING,

1. We, the _____ (Name of Bank) having a branch at the Karachi Stock Exchange Building, _____ (Complete Address of Branch) at the request and desire of the Approved Institution do hereby irrevocably and unconditionally guarantee to pay a sum of Rs. _____/-, (Rupees _____ only) to Exchange as a security for due performance and fulfillment by the Approved Institution of its engagements, commitments, operations, obligations or liabilities including any sums due by the Approved Institution to Exchange arising out of or incidental to any contract made, executed, undertaken, carried on or entered into or purported so to be, by the Approved Institution. The Bank agrees and confirms that the said guarantee shall be available as a security for meeting, satisfying, discharging or fulfilling all or any obligation or liability of the Approved Institution as directed and decided by Exchange, with no reference to the Approved Institution.

2. The Bank hereby agrees that if in the opinion of Exchange, the Approved Institution has failed to meet, satisfy, discharge or fulfill any obligations, liability or commitments or any part thereof to Exchange, then without prejudice to the rights of Exchange under its Rules and Regulations or otherwise, Exchange may at any time thereafter and without giving any notice to the Approved Institution invoke this guarantee to meet the aforesaid obligations, liabilities or commitments of the Approved Institution.
3. The Bank undertakes that it shall, on first written demand of Exchange, without any demur, protest or contestation and without any reference to the Approved Institution and notwithstanding any contestation by the Approved Institution, pay to Exchange such sums not exceeding Rs. ____/- (Rupees _____ only) as may be demanded by Exchange. The decision of Exchange as to the obligations or liabilities or commitments of the Approved Institution and the amount claimed shall be final and binding on the Bank, and any demand made on the Bank shall be conclusive as regards the amount due and payable by the Bank under this guarantee.
4. The guarantee shall be a continuing guarantee and remain operative in respect of each of the obligations, liabilities or commitments of the Approved Institution severally and may be enforced as such in the discretion of Exchange, as if each of the obligations, liabilities or commitments had been separately guaranteed by the Bank. The guarantee shall not be considered as cancelled or in any way affected on any demand being raised by Exchange and met by the Bank but shall continue and remain in operation in respect of all subsequent obligations, liabilities or commitments of the Approved Institution. However the maximum aggregate liability of the Bank during the validity of the guarantee shall be restricted to an aggregate sum of Rs. ____/- (Rupees _____ only).
5. This guarantee shall not be prejudiced by the failure of the Approved Institution to comply with the Rules or Regulations of Exchange. The Exchange shall be at liberty to vary, amend, change or alter any terms or conditions or its Rules or Regulations in general or as applicable to the Approved Institution in particular from time to time, without thereby affecting its rights against the Approved Institution or the Bank or any other security belonging to Approved Institution now or hereafter held or taken by Exchange at any time. The discretion to make demands under this guarantee shall exclusively be that of Exchange who is entitled to demand hereunder notwithstanding being in possession of any deposits or other securities of the Approved Institution.
6. The validity of this guarantee shall not be affected in any manner whatsoever if Exchange takes any action against the Approved Institution including SUSPENSION, any disciplinary action or imposition of any fine / penalty on the Approved Institution
7. This guarantee shall not be affected by any change in the constitution of Exchange or the Approved Institution or the Bank and it shall remain in force notwithstanding any forbearance or indulgence that may be shown by Exchange to Approved Institution.
8. The Bank undertakes to pay to Exchange, the amount hereby guaranteed within 24 hours of being served with a written notice either by hand delivery or by Registered Post or by Courier service, requiring the payment of the amount.
9. This guarantee may be invoked by Exchange in part(s) without affecting its rights to invoke this guarantee for any liabilities that may devolve later.
10. The Bank undertakes not to amend or revoke this guarantee or reduce the amount during its currency except with the previous consent of Exchange in writing and this guarantee shall be a continuous and irrevocable guarantee upto a sum of Rs. ____/- (Rupees _____ only).

11. Notwithstanding anything mentioned herein above,

- a) The liability of the Bank under this guarantee shall not exceed Rs. ____ (Rupees _____ only).
- b) This guarantee shall be valid upto _____.
- c) The Bank is liable to pay upto the guaranteed amount only if Exchange serves upon the Bank a written claim or demand on or before _____. If the said date happens to be a public holiday, then a demand notice served on the Bank on the very next day will be considered as valid demand.

Executed this _____ day of _____ at _____ (place).

FOR _____(BANK)
_____(BRANCH)

AUTHORIZED SIGNATORIES
SEAL OF THE BANK

ANNEXURE "E"

LIST OF APPROVED BANKS FOR ISSUING BANK GUARANTEES

S. No.	Name of Banks
01.	Habib Bank Limited
02.	United Bank Limited
03.	MCB Bank Limited
04.	Bank AL-Habib Limited
05.	Bank Alfalah Limited
06.	Habib Metropolitan Bank Limited
07.	Allied Bank Limited
08.	PICIC Commercial Bank Limited
09.	KASB Bank Limited
10.	Mybank Limited
11.	Atlas Bank Limited