

APPENDIX V

OUTLINE OF BADLA FINANCING

1. On 3rd September 2004 the Securities and Exchange Commission of Pakistan, (SECP) issued a "Time-Bound Action Plan for The Phasing-Out of carry-Over Transactions (COT)"¹. This action followed the notification of 'Margin Trading Rules 2004' (MTR) on 30th June 2004.
2. There had been a desire, for some years, to phase out COT transactions due to inappropriate use of the BADLA (see figure 1). BADLA is a means of financing which exacerbates speculative activity in Pakistan's markets. Badla financing had reached an amount of over Rs. 35 billion and the Badla rate generally range between 10-18%.
3. Margin Trading Rules had been finalized in consultation with the stock exchanges as well as the Central Depository Company and these had been discussed with State Bank of Pakistan, which is simultaneously provided guidelines for banks covering margin financing.

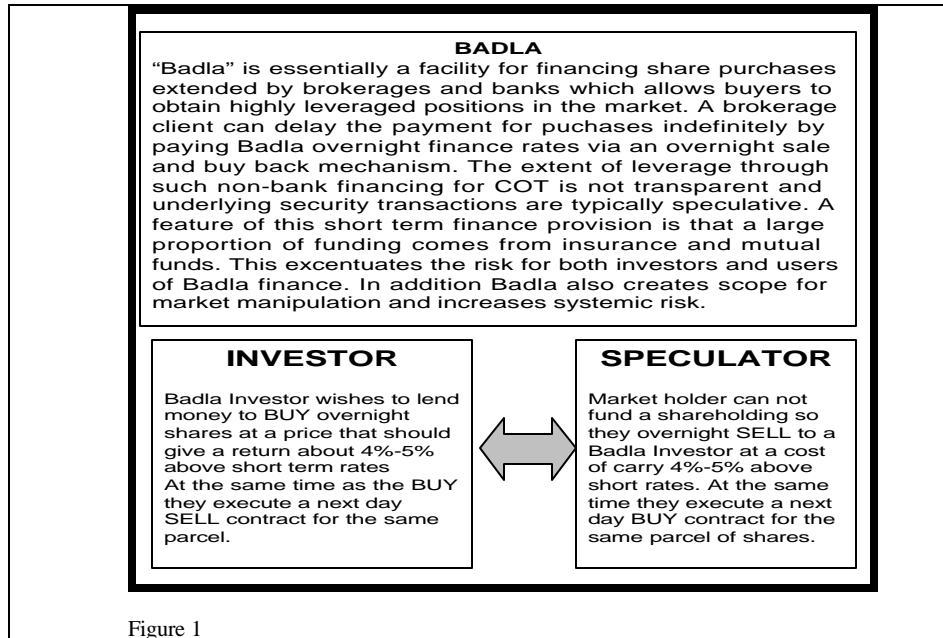


Figure 1

4. The phase-out of COT was designed to lessen speculative forces and encourage speculators to use individual stock futures, where the trade is financed pre trade, via an initial and maintenance margin. Where outright ready purchased was contemplated this would be satisfied by the use of margin finance.
5. To facilitate the increase in use of futures the number of counters available for futures trading was increased up to 30 companies. These scrips were selected on the basis of liquidity, market capitalization and 'past track record'.
6. The list of securities that may be used for margin finance is about 50 shares as opposed to 29 currently that were available for COT trading.
7. Shares purchased for clients via margin finance were not be available to brokers to loan out.

Timetable for Phase-Out of COT

8. The schedule for phase-out of COT/BADLA was based on the figures for total investment in COT as at 31st August, 2004. This was about Rs 20 Bn. The schedule called for the lowest investment to be phased out first. The phase-out is shown in the following table:

Weekending	#	Share to be withdrawn
8 October 2004	1	SEPCO
22 October 2004	2	BSBF
5 November 2004	3	PICB
19 November 2004	4	TELE
3 December 2004	5	FABL
17 December 2004	6	UNBL
31 December 2004	7	ENGRO
7 January 2005	8	WCCL
14 January 2005	9	DSFL
21 January 2005	10	PGH
28 January 2005	11	FFC
4 February 2005	12	PICIC
11 February 2005	13	SSGS
18 February 2005	14	NML
25 February 2005	15	LUCK
4 March 2005	16	SNGP
11 March 2005	17	ACBL
18 March 2005	18	MCB
25 March 2005	19	MLCF
1 April 2005	20	ICI
8 April 2005	21	FFBL
15 April 2005	22	BOP
22 April 2005	23	PTC
29 April 2005	24	HUBCO
6 May 2005	25	NBP
13 May 2005	26	POL
20 May 2005	27	DGKC
27 May 2005	28	OGDC
3 June 2005	29	PSO

Table 1: Timetable for COT/BADLA Phase-out

9. The following graph of phase-out is based on recent trading of the COT shares. As depicted 70% of the phase out was to happen from mid April 2005.

