S.R.O. 750 (I)/2012.- In exercise of its powers under Section 23 of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012, the Securities and Exchange Commission of Pakistan hereby makes the following regulations namely:

1[Whereas it is expedient and necessary to provide for matters related to demutualization and integration of the stock exchanges pursuant to the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012 and further measures for transitional matters arising from the integration of the stock exchanges under the said Act and for the matters connected therewith or ancillary thereto.

AND whereas it is expedient and necessary to facilitate and complete the process of divestment in a transparent manner in the interest of the capital market.]

2[Part I

PRELIMINARY]

1. Short title and commencement.- (1) These Regulations may be called the Stock Exchanges (Corporatisation, Demutualization and Integration) Regulations, 2012.

(2) They shall come into force at once.

2. Definitions.- (1) In these Regulations, unless there is anything repugnant in the context or subject:

1 Substituted the following through S.R.O. 935(I)/2016 dated October 03, 2016:
“Whereas it is expedient and necessary to provide for matters related to demutualization and integration of the stock exchanges pursuant to the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012 and further measures for transitional matters arising from the integration of the stock exchanges under the said Act and for other matters connected therewith or ancillary thereto;” Inserted through S.R.O. 1246(I)/2015 dated December 17, 2015

(a) “Act” means the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012;

3[(ab) “anchor investor” means a financial institution eligible as per regulation 40 or a consortium of financial institutions and/or strategic investor, which acquires at least twenty five per cent shares of the Exchange and in case of a consortium the leading financial institution or Strategic Investor holds at all times at least sixty percent of shares acquired or held by the consortium and acts as an anchor investor eligible as per regulation 40:

Provided that the Commission may, in the interest of capital market, relax the shareholding limit on the leading financial institution or strategic investor of the consortium:

Provided further that a local financial institution can become an anchor investor only as part of a consortium subject to the condition that it can acquire directly or indirectly, not more than five per cent of total issued share capital of the Exchange.

Explanation: - For the purposes of these regulations a person shall be deemed to have acquired shares indirectly if these shares have been acquired by a connected person of such person;]

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3 Substituted the following through S.R.O. 935(I)/2016 dated October 03, 2016:
“(ab) “anchor investor” means a financial institution eligible as per regulation 25 or a consortium of financial institutions and/or strategic investor, which acquires at least twenty five per cent shares of the Exchange and in case of a consortium the leading financial institution holds at all times at least sixty percent of shares acquired or held by the consortium and acts as an anchor investor eligible as per regulation 25;”. Inserted through S.R.O. 133(I)/2016 dated February 18, 2016.
(b) “Clearing House” includes any company formed and established to provide facilities for the clearing or settlement of securities traded on a securities market registered outside Pakistan; and

4[(c) “Exchange” means the Pakistan Stock Exchange Limited.]

(2) Words and expressions not defined herein shall have the same meaning as ascribed thereto in the Act, the Securities and Exchange Ordinance, 1969, 5[the Securities Act, 2015,] the Companies Ordinance, 1984 and the Central Depositories Act, 1997 or any rules and regulations made thereunder.

6[PART II
DEMUTUALIZATION]

3. Criteria for approving a strategic investor.- (1) A strategic investor desirous of acquiring the shares of a stock exchange shall fulfil the following minimum criteria:

i) In the case of a stock exchange or a derivative exchange:

a) is registered as a stock exchange or a derivative exchange;

Provided that in the case of a stock exchange, the companies listed on the stock exchange have a total market capitalization of at least five times of the total market capitalization of companies listed on the stock exchange, shares of which it is desirous of acquiring;

b) has a net equity equivalent to at least Rs. 20 billion;

c) has experience of at least five years as a demutualized exchange;

5 Inserted through S.R.O. 1246(I)/2015 dated December 17, 2015.
d) is in operation since last ten years;

e) has profit after tax in at least three of the last five years as per the audited financial statements;

f) has a diverse range of actively traded products which may include futures, options and other internationally acceptable derivative instruments recognized by the Commission for this purpose;

g) has a robust risk management system and default handling mechanism and good track record of handling market settlements; and

h) has been provided such classification by an international index provider as acceptable by the Commission for this purpose.

ii) In the case of a depository company or a clearing house:

a) is registered as a depository company or a clearing house in the country in which it operates;

b) has a net equity equivalent to at least Rs. 20 billion or is a wholly owned subsidiary of a stock exchange which fulfills the criteria mentioned in sub-regulation 3(1)(i) above;

c) has for, at least the past five years, been associated with a stock exchange or a derivative exchange which fulfills the criteria mentioned in sub-regulation 3(1)(i) above; and

d) has profit after tax in at least three of the last five years as per the audited financial statements.
iii) has sufficient operational and technical resources to assist in the development and promotion of the stock exchange shares of which it is desirous of acquiring;

iv) any other condition as may be specified by the Commission at the time of granting the approval:

Provided that the Commission may relax any of the conditions as contained in regulation 3(1)(i) and 3(1)(ii) except regulation 3(1)(i)(c) after taking into consideration the reputation, past track record, overall financial and operational strengths and expected benefits from a stock exchange, derivative exchange, clearing company or a depository company.

(2) Notwithstanding anything contained in sub-regulation (1) above, a registered stock exchange, derivative exchange, depository company or clearing house, as the case may be, shall not be approved as a strategic investor if it is a connected person of the trading right entitlement certificate (“TREC”) holder(s) of the stock exchange shares of which it is desirous of acquiring.

4. **Criteria for approving a firm of Chartered Accountants.**- The Commission shall approve a firm of Chartered Accountants for the purposes of revaluation of the assets and liabilities of a stock exchange in accordance with section 4(1)(b) of the Act, in consideration of the following:

(a) the partners or directors of the entity must not be a ‘connected person’ of the stock exchange or directors of the stock exchange of which the revaluation is to be carried out;

(b) it must not be engaged either in the external or internal audit of the stock exchange of which the revaluation is to be carried out.
Explanation.- For the purpose of this regulation the firm of Chartered Accountant shall include an entity providing audit services or an entity holding license for management consultancy from the Institute of Chartered Accountants of Pakistan;

5. Manner of operating the blocked account.- The Board of Directors of a stock exchange operating a blocked account in pursuance of section 9(2) of the Act, shall do so in the following manner:

(a) A CDC Participant account shall be opened by the stock exchange under which separate sub-accounts for each initial shareholder shall be opened. The account shall be opened on the basis of a resolution of the Board of Directors of the stock exchange;

(b) Sixty percent of the total shares of the stock exchange shall be held in the sub-accounts of the initial shareholders in a manner that each sub-account shall hold sixty percent of the shares allotted to each initial shareholder.

(c) No movement or pledging of shares held in the sub-accounts shall be allowed except the transfer pursuant to the sale of shares to the strategic investor, the general public and the financial institutions in accordance with the Act and requirements of these regulations;

(d) When the stock exchange reaches an agreement for the sale of not more than forty percent shares to the strategic investor in accordance with the requirements of section 12(1)(a) of the Act, the shares may be transferred in the name of strategic investor subject to the following conditions:

   i) The stock exchange shall provide a copy of the agreement executed with the strategic investor to the Commission, showing the number of shares to be sold and the price at which the sale is agreed;
ii) The agreement shall describe among other matters the terms and conditions for payment and transfer of shares;

iii) Evidence regarding the sufficient funds available with the strategic share holder to execute the transaction including but not limited to account statement; and

iv) Any other condition as may be imposed by the Commission at the time of granting approval.

(e) After completion of the conditions provided in sub-regulation (d) and obtaining prior approval of the Commission in writing, the Board of Directors of the stock exchange shall issue instructions to the CDC to transfer the shares to the strategic investor.

Provided that no shares shall be transferred unless the payment for the same is received from the strategic investor and confirmation of the same is provided to the Commission by the stock exchange.

6. Manner of issuance of TREC.- (1) The TREC shall be issued in physical form in accordance with the format prescribed in Annexure-I.

(2) Each TREC shall:

(a) be allotted a distinctive number.

(b) be prepared and delivered by the stock exchanges to the initial shareholders within thirty days of the grant of the Commission’s approval under section 4(2) of the Act.
(3) The stock exchanges shall confirm in writing to the Commission the issuance of TREC along with the names of initial shareholders and the distinctive numbers of the TRECs so issued.

(4) The TREC to be issued under section 16(5) & (6) of the Act shall be issued by the stock exchange within fifteen days of completion of all procedures/requirements for issuance of TREC in accordance with the requirements of these regulations and any other regulations of the stock exchange(s).

(5) The stock exchanges shall maintain a register of TREC holders which shall contain the name, CNIC/Company Registration Number, address of the TREC holder and any other matters as may be specified by the Commission from time to time.

(6) A stock exchange shall issue a TREC under section 16(5) & (6) of the Act on the basis of a written application which shall be accompanied by such documents as a stock exchange may specify from time to time.

(7) The TREC under section 16(5) & (6) of the Act shall only be issued to a person upon satisfaction by the Exchange that the applicant fulfills the fit and proper criteria specified by the Commission from time to time for registration as a broker and the stock exchange shall obtain such documents from the applicant as may be necessary for this purpose.

7[(8) Pursuant to the scheme of integration of stock exchanges, the successor stock exchange shall issue TRE certificate to its TRE certificate holders and TRE certificate holders of the transferor stock exchanges in accordance with the order of the Commission under section 18 of the Act and in the format prescribed in Annexure-II.]

7 Inserted through S.R.O. 1253(I)/2015 dated December 18, 2015.

7. Manner of Transfer of TREC.-
(1) The stock exchanges shall ensure that not more than one transfer is registered in respect of a TREC issued under section 5 of the Act:

Provided that no transfer shall be executed or registered in respect of TREC issued under section 16(5) & (6) of the Act:

Provided further that any change in the name of TREC holder as a result of conversion of status from an individual TREC holder to a corporate TREC holder shall not be considered as a transfer of TREC, if the concerned individual member retains the majority shareholding and management control of the company.

(2) A TREC holder who has been issued a TREC under section 5 of the Act shall request the stock exchange to provide a no objection certificate (NOC) before entering into any transaction for the transfer of TREC.

(3) Any TREC issued under Section 5 of the Act by the stock exchanges shall only be transferred to a person who fulfills the fit and proper criteria for the brokers as specified by the Commission from time to time and before registering any transfer of TREC, the stock exchange shall ensure that the transferee fulfills the fit and proper criteria.

(4) The stock exchanges may require transferor and transferee of the TREC issued under Section 5 of the Act to provide such information as may be required for determining the fit and proper status for registering a transfer of TREC or for issuing a NOC for such transfer.

(5) The TREC issued under Section 5 of the Act shall only be transferred on the basis of a written application signed by both the transferor and transferee, the contents of which and the signatures of the transferor shall be verified by the stock exchange before registering the transfer.
8. **Manner of disposal of shares of a stock exchange.**- After demutualization, shares of a stock exchange held in the blocked account may be disposed in the following manner:

   (a) The Demutualization Committee of a stock exchange shall exercise its best efforts to attract a strategic investor which fulfills the eligibility criteria prescribed in these Regulations:

      Provided that the stock exchange shall take all necessary steps for the implementation of necessary reforms and upgrading its systems to fulfill this objective;

   (b) If, as a result of negotiation, the Demutualization Committee of a stock exchange receives multiple offers which are above the valuation of such stock exchange, it shall accept the highest offer:

      Provided that, it may grant any other offerors the opportunity to match the highest offer:

      Provided further that the Demutualization Committee of a stock exchange may accept an offer which is not the highest offer but is greater than the valuation of the stock exchange after considering the reputation, past track record and expected future benefits from the participation of such offeror;

   (c) Shares sold to a strategic investor shall be held in a blocked account in the name of such strategic investor and shall only be transferred with the prior written approval of the Commission.

9. **Allotment of shares of stock exchange to the initial shareholders.**- (1) Within 30 days of receiving approval under section 4(2) of the Act, or a determination under section 4(6) of the Act, the stock exchange shall forward to the CDC the list of initial
shareholders, submitted to the Commission under section 4(1)(d) of the Act, with the instructions to credit forty percent shares out of total shares allotted to such initial shareholder in the account of each initial shareholder;

(2) On the basis of instructions of the stock exchange, CDC shall credit in the account of each initial shareholder, forty percent shares out of total shares allotted to such initial shareholder.

10. Segregation of Commercial and Regulatory Functions.- (1) Each stock exchange shall ensure compliance with the plan for segregation of commercial and regulatory functions approved by the Commission under Section 4(2)(f) of the Act in accordance with the timelines provided in the plan.

(2) Any modifications to address foreseeable events of non-compliance with the approved plan must be submitted to the Commission for approval along with detailed rationale, well in advance of occurrence of any such event/modification.

8[PART III
INTEGRATION]

9[11. Procedure for scheme of integration.- (1) Stock exchanges in the process of integration under Section 17(1) of the Act shall, with the approval of the shareholders, submit scheme(s) of integration for approval of the Commission.

(2) The proposed scheme(s) of integration shall be submitted by stock exchanges to the Commission along with, inter alia, following information,-

(a) identification of undertaking including proposed treatment thereof;

8 Inserted through S.R.O. 1246(I)/2015 dated December 17, 2015.
(b) terms of integration agreed between the transferor and successor exchanges;

(c) details of creditors of the stock exchanges;

(d) details of material contracts and contingent liabilities of the stock exchanges;

(e) treatment of assets, undertaking and liabilities;

(f) treatment of registered TRE Certificate Holders, employees and other stakeholders;

(g) details of companies listed on the stock exchanges;

(h) details of trust funds, demands, claims, liabilities including contingent liabilities etc.; and

(i) details of outstanding investor claims, settlements and awards, if any.

The information provided hereinabove shall not be earlier than thirty days prior to filing of the proposed scheme of integration.

(3) The documents to be filed with the proposed scheme of integration shall include but not limited to:-

(a) certified true copy of the special resolution of the shareholders of each stock exchange passed to approve the proposed scheme of integration;
(b) copies of the notice and Statement under Section 160 of the Companies Ordinance, 1984 along with minutes of the Extra-Ordinary General Meeting (“EOGM”) in which the above special resolution is passed;

(c) list of shareholders who attended the EOGM including the respective shares held by them;

(d) list of dissenting shareholders who attended the EOGM along with the respective shares held by them;

(e) financial statements, duly reviewed by the auditors, based on the limited scope not earlier than thirty days from the date of filing of the proposed scheme of integration; and

(f) proposed names of the stock exchanges to be effective after approval of the scheme of integration.

(4) The exchanges shall provide any other information or document as required by the Commission from time to time.

(5) On approval by the Commission in principle the proposed scheme(s) of integration submitted under sub-regulation (1), the stock exchanges shall, within seven days of the mentioned approval, have the same published in two daily newspapers of national coverage, requiring the stakeholder(s) to directly intimate to the Commission, objection, if any, in writing within fifteen days of such publication.

12. Effect of the approval of the scheme by the Commission.- (1) Upon approval of the proposed scheme of integration by the Commission under Section 18 of the Act:-

(a) TRE Certificate Holders of the transferor exchange(s) shall become the TRE Certificate Holders of the successor exchange in terms of Section
18(7) of the Act having the right to transfer TRE Certificate as provided under section 16(2) of the Act;

(b) the transferor exchange(s) shall cease to exist as a stock exchange;

(c) transferor stock exchange shall also change its name to exclude the term “stock exchange”;

(d) transferor stock exchange(s) shall continue to exist as a public company limited by shares with an amended memorandum of association to undertake the business of non-banking finance company or a modaraba management company; and

(e) the trust funds established by the exchanges shall be maintained in future as per directions of the Commission.]

10[PART IV
INVESTORS’ PROTECTION FUND TRUSTS

13. **Application and interpretation.**— (1) This Part shall be applicable to all investors’ protection fund trusts established and maintained by the transferor stock exchanges and the successor stock exchange.

**Explanation:** The investors’ protection fund trusts have been established by each transferor stock exchange and successor stock exchange for the protection of customers who are entitled to make claims against such TRE certificate holders / members who are declared as defaulters or who have been expelled or whose TRE Certificate / membership has been cancelled/forfeited as per regulations of the transferor stock exchanges or the successor stock exchange as the case may be.

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This Part provides for transitional provisions under which the investors’ protection fund trusts of the transferor stock exchanges and the successor stock exchange shall be maintained in order to protect the interests of the claimants and future claimants till such time that regulations and rules for the customer protection compensation fund under section 169(2)(h) and 175(2)(c) of the Securities Act, 2015 are made effective or as may otherwise be determined by the Commission.

From the date of approval of the scheme(s) of integration under section 18 of the Act and regulation 12 hereof, the transferor stock exchanges shall cease to be stock exchanges and the successor stock exchange shall be required to establish and/or maintain customer protection compensation fund in accordance with the provisions of the Securities Act, 2015.

(2) In this Part:

(a) “Funds Committee(s)” means the committee(s) for oversight of the ISE IPF Trust and the LSE IPF Trust to be appointed and constituted by the Commission under regulation 15 of these Regulations;

(b) “Base Minimum Capital” means the collateral deposited and/or maintained by the TRE certificate holder with the stock exchange for its eligibility to trade through the stock exchange trading systems under the relevant regulations of the stock exchange;

(c) “ex-TRE certificate holder of the transferor stock exchange” means such TRE certificate holder of a transferor stock exchange who with effect from the date of the order approving the scheme of integration has become TRE certificate holder of the successor stock exchange.

(d) “ISE IPF Trust” means the ‘Islamabad Stock Exchange Investors’ Protection Fund’ established and maintained pursuant to the trust deed
dated 14 April 2011 as may be amended from time to time;

(e) “KSE IPF Trust” means the ‘Karachi Stock Exchange Investors’ Protection Fund’ established and maintained pursuant to the trust deed dated 20 February 2004 as may be amended from time to time;

(f) “LSE IPF Trust” means the ‘Lahore Stock Exchange Investors’ Protection Fund’ established and maintained pursuant to the trust deed dated 19 May 2013 as may be amended from time to time;

(g) “Trustee” or “Trustees” means all existing and future trustee or trustees appointed or substituted from time to time under trust deeds of the trusts; and

(h) “Trusts” means the ISE IPF Trust, LSE IPF Trust and the KSE IPF Trust.

14. Administration of Trusts in accordance with Regulations.- (1) From the date of approval of the scheme(s) of integration under section 18 of the Act and regulation 12 hereof, all Trusts shall be maintained in accordance with these Regulations till such time that regulations and rules for the customer protection compensation fund under sections 169(2)(h) and 175(2)(c) of the Securities Act, 2015 are made effective or as may otherwise be determined by the Commission.

Part IVA

TRANSITIONAL PROVISIONS APPLICABLE TO ISE IPF TRUST AND LSE IPF TRUST

15. Transitional provisions applicable to ISE IPF Trust and LSE IPF Trust.- (1) From the date of approval of the scheme(s) of integration under section 18 of the Act and regulation 12 hereof, the management of the ISE IPF Trust and LSE IPF Trust shall be vested in the Trustees to be appointed by the Funds Committee constituted by the
(2) The Commission shall appoint a Funds Committee for each transferor stock exchange comprising of three (3) independent professionals (i.e., non-TRE certificate holder), one (1) non-TRE certificate holder director of the successor stock exchange and two (2) ex-TRE certificate holders of the concerned transferor stock exchange, who shall also be ex-officio trustees of the ISE IPF Trust and LSE IPF Trust, as the case may be. The Commission may substitute any member of the Funds Committee. Each Funds Committee shall, inter alia, have the following functions and responsibilities:

(a) Appoint, remove or substitute any Trustee(s) of the ISE IPF Trust and the LSE IPF Trust, whichever applicable subject always to the requirements of Regulation 15(3);

(b) Constitute a default management committee and establish its terms of reference, which would include analyzing and admitting claims;

(c) Expedite settlement of all claims and liabilities against the ISE IPF Trust and the LSE IPF Trust, whichever applicable, and diligently pursue all court cases for expeditious resolution of the same;

(d) Appoint, remove or change any legal counsel appointed in any court case relating to the ISE IPF Trust and the LSE IPF Trust, whichever applicable;

(e) Appoint, remove or change independent experts, where required, for matters relating to settlement of claims, liabilities, court cases etc.;

(f) Submit quarterly progress reports to the Commission regarding all pending claims, liabilities, court cases and steps taken for settlement of liabilities;

(g) Accord approval and/or removal of the auditor to be appointed for the ISE

Commission.
IPF Trust and the LSE IPF Trust, whichever applicable, in accordance with relevant provision of the trust deed;

(h) Appoint, constitute and supervise a funds arbitration committee pursuant to regulation 15(8) of these Regulations;

(i) Ensure that the Trustees of ISE IPF Trust and the LSE IPF Trust, whichever applicable, comply at all times with the provisions of the Act, these Regulations, the Securities Act, 2015 and the rules and regulations made thereunder;

(j) Ensure winding up of the ISE IPF Trust and the LSE IPF Trust, whichever applicable, after its objectives have been fulfilled in accordance with these Regulations and the trust deeds as amended from time to time;

(k) Ensure due performance of its obligations, roles, responsibilities and duties as are assigned to it under these Regulations and the provisions of the trust deed as may be amended from time to time; and

(l) Comply with and implement all directions issued by the Commission pursuant to these Regulations from time to time.

(3) From the date of approval of the scheme(s) of integration under section 18 of the Act and regulation 12 hereof, each Funds Committee shall appoint the five (5) new Trustees of the ISE IPF Trust and LSE IPF Trust, respectively, one of whom shall be an independent professional (i.e., non-TRE certificate holder) and remaining trustees shall be appointed from amongst the ex-TRE certificate holders of the transferor stock exchanges. All the Trustees shall meet the fit and proper criteria, determined by the Funds Committee.

(4) The Trustees shall, inter alia, have the following duties, obligations and
responsibilities:

(a) Submit quarterly reports to the Funds Committee regarding the affairs of funds of the ISE IPF Trust and LSE IPF Trust, whichever applicable, along with relevant supporting documents evidencing the investment/cash available in the ISE IPF Trust and the LSE IPF Trust, whichever applicable;

(b) Ensure due performance of its obligations, roles, responsibilities and duties as assigned to them under the various provisions of the trust deed as may be amended from time to time; and

(c) Ensure that the ISE IPF Trust and the LSE IPF Trust, whichever applicable, complies at all times with the provisions of the Act, these Regulations, the Securities Act, 2015 and the rules and regulations made thereunder; and

(d) Ensure winding up of the ISE IPF Trust and the LSE IPF Trust, whichever applicable, after its objectives have been fulfilled in accordance with these Regulations and the trust deeds as amended from time to time.

(5) The Trustees shall forthwith ensure that the ISE IPF Trust and LSE IPF Trust, whichever applicable, are brought into conformity in all respects with regard to all matters connected or incidental to the Act and these Regulations and within such period as may be directed by the Funds Committee and/or the Commission, as the case may be. The Trustees shall make further amendments to the ISE IPF Trust and the LSE IPF Trust, whichever applicable, so that these comply with the applicable laws and regulatory regime.

(6) Any amendment in the trust deeds of the ISE IPF Trust and LSE IPF Trust shall require the prior written approval of the Funds Committee and the Commission.
(7) The Trustees shall transfer such amounts over and above the claims, liabilities etc. and incidental expenses as may be determined by the Funds Committee and within such time as determined by the Commission to the customer protection compensation fund established and maintained in accordance with the regulations and rules for the customer protection compensation fund under sections 169(2)(h) and 175(2)(c) of the Securities Act, 2015.

(8) Any dispute arising between an ex-TRE certificate holder of the transferor stock exchange and his customer relating to any trade or transaction related to, or business activity with the ex-TRE certificate holder under the regulations of the transferor stock exchange prior to the effective date of integration shall be referred to and determined by the funds arbitration committee appointed and constituted by the Funds Committee under these Regulations (hereinafter referred to as the “Funds Arbitration Committee”).

(9) The Funds Arbitration Committee shall have the mandate to carry out arbitrations in the manner prescribed under the regulations of the successor stock exchange (as amended from time to time), with the exceptions that (i) the panel of arbitrators shall comprise of independent professionals (i.e., non-TRE certificate holder); and (ii) any appeals against the decision of the arbitrators shall be filed before an appellate forum of the Commission.

(10) The Funds Arbitration Committee shall use the facilities for arbitration proceedings provided by the successor stock exchange.

(11) All enforcement action(s) in respect of the arbitration award against the ex-TRE certificate holder of the transferor stock exchange shall be carried out by the successor stock exchange in accordance with the applicable regulations of the successor stock exchange.

(12) All expenses related to the arbitration proceedings including the fees for the arbitrators shall be recovered solely from the party against whom the arbitration award is
passed.

(13) The default management committee shall deal with all claims relating to cancellation/ forfeiture of TRE Certificates and/or expulsion of members, as the case may be, that have arisen consequent to the expulsion/ cancellation/ forfeiture of TRE Certificate prior to the effective date of integration. The successor stock exchange shall deal with all claims arising or received, as the case may be, consequent to the expulsion/ cancellation/ forfeiture of TRE Certificate after the effective date of integration in accordance with the applicable regulations of the successor stock exchange.

(14) The Trustees shall allow following contributions from the ISE IPF Trust and the LSE IPF Trust towards satisfaction of claims of customers:

(a) Contribution from ISE IPF Trust or LSE IPF Trust, as the case may be, towards settlement of claims arising due to the default, expulsion, cancellation/ forfeiture of a TRE Certificate prior to the effective date of integration, limited to the amount provided in the regulations of transferor stock exchange prior to the effective date of integration;

(b) Contribution from ISE IPF Trust or LSE IPF Trust, as the case may be, towards settlement of claims arising due to the default, expulsion, cancellation/ forfeiture of a TRE Certificate after the effective date of integration, limited to the amount provided in the regulations of transferor stock exchange prior to the effective date of integration and only against the claims pertaining to the dealings with the respective ex-TRE certificate holder of the transferor stock exchange prior to the effective date of integration. Trustees shall on the request of successor stock exchange disburse the said contribution to the successor stock exchange for onward distribution; and

(c) In case of default of an ex-TRE certificate holder of the transferor stock
exchange, regardless of whether the default relates to trading activities at the transferor stock exchange or the successor stock exchange, the amounts to the extent of the guarantee provided under sub-regulation (15) of regulation 15, for each ex-TRE certificate holder of the transferor stock exchange to meet such ex-TRE certificate holder’s Base Minimum Capital requirement shall be made available by the Trustees for satisfaction of claims. The Trustees on the request of the successor stock exchange shall disburse said amounts to the successor stock exchange for onward distribution.

Provided that the successor stock exchange shall utilize the entire Base Minimum Capital deposited or maintained by such ex-TRE certificate holder under regulations of the successor stock exchange towards settlement of such default.

(15) Subject always to sub-regulation (16) and/or any specific direction of the Commission, the Trustees shall provide bank guarantee(s) from the ISE IPF Trust and LSE IPF Trust to the successor stock exchange to meet the Base Minimum Capital requirements for the respective ex-TRE certificate holders of the transferor stock exchange(s), in such manner, till such time and up to such amount as may be specified by the Commission from time to time.

(16) On meeting all the liabilities of the ISE IPF Trust and LSE IPF Trust, whichever applicable, the Trustees thereof shall dissolve the ISE IPF Trust and the LSE IPF Trust, whichever applicable, with the approval of the Funds Committee and any surplus assets, if any, shall be transferred forthwith to the customer protection compensation fund established and maintained in accordance with the regulations and rules for the centralized customer protection compensation fund under sections 169(2)(h) and 175(2)(c) of the Securities Act, 2015.

(17) The Trustees shall comply with and implement any specific or general direction
of the Funds Committee.

Part IVB

TRANSITIONAL PROVISIONS APPLICABLE TO KSE IPF TRUST

16. Transitional provisions applicable to KSE IPF Trust. - (1) The Trustees shall forthwith ensure that the KSE IPF Trust is brought into conformity in all respects with regard to all matters connected or incidental to the Act and the Regulations and within such period as may be directed by the Commission. The Trustees shall make further amendments to KSE IPF Trust so that it complies with the applicable laws and regulatory regime.

(2) Any amendment in the trust deed of the KSE IPF Trust shall require the prior written approval of the Commission.

(3) The Trustees shall comply with and implement any specific or general direction of the Commission.

(4) The Trustees of KSE IPF Trust shall further ensure that:

   (a) the trust deed of KSE IPF Trust is amended to permit the Trustees to receive further contributions to the KSE IPF Trust from any other source(s);

   (b) KSE IPF Trust is renamed to reflect the change in name of the successor stock exchange;

   (c) the KSE IPF Trust complies at all times with all applicable provisions of the Securities Act, 2015 and any rules or regulations made thereunder, especially with respect to establishment, maintenance and making compulsory provisions for a centralized customer protection compensation
the trust deed of KSE IPF Trust is amended to permit transfer of funds to the centralized customer protection compensation fund established and maintained pursuant to the Securities Act, 2015 in such manner and within such time as may be specified by the Commission; and

(e) the trust deed of KSE IPF Trust is amended to provide for dissolution of the KSE IPF Trust upon which its assets, after meeting all the liabilities, if any, shall be transferred to the customer protection compensation fund established and maintained in accordance with the regulations and rules for the centralized customer protection compensation fund under sections 169(2)(h) and 175(2)(c) of the Securities Act, 2015.

PART V
CLEARING AND SETTLEMENT PROTECTION FUND TRUSTS

17. **Application and interpretation.** (1) This Part shall be applicable to all clearing and settlement protection fund trusts established and maintained by the transferor stock exchanges and the successor stock exchange.

Explanation: The clearing and settlement protection fund trusts have been established by each transferor stock exchange and the successor stock exchange for smooth and timely settlement of all trades routed through the stock exchanges.

The stock exchanges in Pakistan are no longer performing the functions of a clearing house in terms of the Clearing Houses (Regulation and Registration) Rules, 2005, which functions are being wholly and solely being performed at the national level by the National Clearing Company of Pakistan Limited.

This Part provides for transitional provisions under which the clearing and settlement
protection fund trusts shall be maintained in order to protect the interests of the claimants and future claimants till such time that regulations for the settlement guarantee fund under section 26 of the Securities Act, 2015 are made effective or as may otherwise be determined by the Commission.

From the date of approval of the scheme(s) of integration under section 18 of the Act and regulation 12 hereof, the transferor stock exchanges shall cease to be stock exchanges.

(2) In this Part:-

(a) “Funds Committee(s)” means the committee(s) for oversight of the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust to be appointed and constituted by the Commission under regulation 19 of these Regulations;

(b) “Base Minimum Capital” means the collateral deposited and/or maintained by the TRE certificate holder with the stock exchange for its eligibility to trade through the stock exchange trading systems under the relevant regulations of the stock exchange;

(c) “ex-TRE certificate holder of the transferor stock exchange” means such TRE certificate holder of a transferor stock exchange who with effect from the date of the order approving the scheme of integration has become TRE certificate holder of the successor stock exchange.

(d) “ISE SPF Trust” means the ‘Islamabad Stock Exchange Settlement Protection Fund’ established and maintained pursuant to the trust deed dated 26 March 2009 as may be amended from time to time;

(e) “KSE CHPF Trust” means the ‘Karachi Stock Exchange Clearing House Protection Fund’ established and maintained pursuant to the trust deed dated 20 February 2004 as may be amended from time to time;
(f) “LSE MCF Trust” means the ‘Lahore Stock Exchange Members’ Contribution Fund’ established and maintained pursuant to the trust deed dated 14 April 2006 as may be amended from time to time;

(g) “LSE TCF Trust” means the ‘Lahore Stock Exchange Trading Right Entitlement Certificate Holders’ Contribution Fund’ established and maintained pursuant to the trust deed dated 7 March 2013 as may be amended from time to time.

(h) “Trustee” or “Trustees” means all existing and future trustee or trustees appointed or substituted from time to time under trust deeds of the trusts; and

(h) “Trusts” means the ISE SPF Trust, KSE CHPF Trust, LSE MCF Trust and LSE TCF Trust.

18. **Administration of Trusts in accordance with Regulations.**- (1) From the date of approval of the scheme(s) of integration under section 18 of the Act and regulation 12 hereof, all Trusts shall be maintained in accordance with these Regulations till such time that regulations for the settlement guarantee fund under section 26 of the Securities Act, 2015 are made effective or as may otherwise be determined by the Commission.

Part VA

TRANSPORTIONAL PROVISIONS APPLICABLE TO ISE SPF TRUST, LSE MCF TRUST AND LSE TCF TRUST

19. **Transitional provisions applicable to ISE SPF Trust, LSE MCF Trust and LSE TCF Trust.**- (1) From the date of approval of the scheme(s) of integration under section 18 of the Act and regulation 12 hereof, the management of the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust shall be vested in the Trustees to be appointed...
by the Funds Committee constituted by the Commission.

(2) The Commission shall appoint a Funds Committee for each transferor stock exchange comprising of three (3) independent professionals (i.e., non-TRE certificate holder), one (1) non-TRE certificate holder director of the successor stock exchange and two (2) ex-TRE certificate holders of the concerned transferor stock exchange, who shall also be ex-officio trustees of the ISE IPF Trust and LSE IPF Trust, as the case may be. The Commission may substitute any member of the Funds Committee. Each Funds Committee shall, inter alia, have the following functions and responsibilities:

(a) Appoint, remove or change any Trustee(s) of the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust, whichever applicable subject always to the requirements of Regulation 19(3);

(b) Expedite settlement of all claims and liabilities against the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust, whichever applicable, and diligently pursue all court cases for expeditious resolution of the same;

(c) Appoint, remove or change any legal counsel appointed in any court case relating to the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust, whichever applicable;

(d) Appoint, remove or change independent experts, where required, for matters relating to settlement of claims, liabilities, court cases etc.;

(e) Submit quarterly progress reports to the Commission regarding all pending claims, liabilities, court cases and steps taken for settlement of liabilities;

(f) Accord approval and/or removal of the auditor to be appointed for the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust, whichever applicable, in accordance with relevant provision of the trust deed;
(g) Ensure that the Trustees of ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust, whichever applicable, comply at all times with the provisions of the Act, these Regulations, the Securities Act, 2015 and the rules and regulations made thereunder;

(h) Ensure winding up of the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust, whichever applicable, after its objectives have been fulfilled in accordance with these Regulations and the trust deeds as amended from time to time;

(i) Ensure due performance of its obligations, roles, responsibilities and duties as are assigned to it under these Regulations and the provisions of the trust deed as may be amended from time to time; and

(j) Comply with and implement all directions issued by the Commission pursuant to these Regulations from time to time.

(3) From the date of approval of the scheme(s) of integration under section 18 of the Act and regulation 12 hereof, each Funds Committee shall appoint the five (5) new Trustees of the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust, respectively, one of whom shall be an independent professional (i.e., non-TRE certificate holder) and remaining trustees shall be appointed from amongst the ex-TRE certificate holders of the transferor stock exchange. All the Trustees shall meet the fit and proper criteria to be specified by the Funds Committee.

(4) The Trustees shall, inter alia, have the following duties, obligations and responsibilities:

   a) Submit quarterly reports to the Funds Committee regarding funds of the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust, whichever
applicable, along with relevant supporting documents evidencing the investment/cash available in the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust, whichever applicable;

b) Ensure due performance of its obligations, roles, responsibilities and duties as assigned to them under the various provisions of the trust deed as may be amended from time to time;

c) Ensure that the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust complies at all times with the provisions of the Act, these Regulations, the Securities Act, 2015 and the rules and regulations made thereunder; and

d) Ensure winding up of the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust, whichever applicable, after its objectives have been fulfilled in accordance with these Regulations and the trust deeds as amended from time to time.

(5) The Trustees shall forthwith ensure that the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust, whichever applicable, are brought into conformity in all respects with regard to all matters connected or incidental to the Act and the Regulations and within such period as may be directed by the Funds Committee. The Trustees shall make further amendments to the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust, whichever applicable, so that these comply with the applicable laws and regulatory regime.

(6) Any amendment in the trust deeds of the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust shall require the prior written approval of the Funds Committee and the Commission.

(7) From the effective date of integration or as may otherwise be determined by the Commission, the Trustees of the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust,
whichever applicable, shall transfer such amounts as may be determined by the Commission, to the clearing and settlement guarantee fund, by whatsoever name called, established and maintained by the National Clearing Company of Pakistan Limited as per actuarial valuation contribution, that is over and above the claims, liabilities etc. and incidental expenses determined by the Funds Committee.

(8) Subject always to sub-regulations (9) and (10) of regulation 19 and/or any specific direction of the Commission, from the funds held by the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust, whichever applicable, the Trustees thereof shall provide bank guarantee(s) in respect of following:

(a) Bank guarantee to the clearing and settlement guarantee fund, by whatsoever name called, established and maintained by the National Clearing Company of Pakistan Limited as per actuarial valuation guarantee contribution until the transfer contemplated under sub-regulation (7) of regulation 19 has been made; and

(b) Bank guarantee to meet the Base Minimum Capital requirements for the respective ex-TRE certificate holders of the transferor stock exchange(s) and/or for meeting the regulatory requirement of the successor stock exchange for determining maximum allowable exposure, in such manner, till such time and up to such amount as may be determined by the Commission from time to time. In case of default of an ex-TRE certificate holder of the transferor stock exchange, regardless of whether the default relates to trading activities at the transferor stock exchange or the successor stock exchange, either before or after the effective date of integration, the amounts to the extent of the guarantee provided for each ex-TRE certificate holder of the transferor stock exchange to meet such ex-TRE certificate holder’s Base Minimum Capital requirement shall be made available by the Trustees for satisfaction of claims. The Trustees on the request of the successor stock exchange shall disburse said amounts to the successor
Provided that the successor stock exchange shall utilize the entire Base Minimum Capital deposited or maintained by such ex-TRE certificate holder under regulations of the successor stock exchange towards settlement of such default.

(9) Any other amounts over and above the claims, liabilities etc., incidental expenses and the actuarial valuation contribution to the clearing and settlement guarantee fund, by whatsoever name called, established and maintained by the National Clearing Company of Pakistan Limited shall be transferred by the Trustees to the customer protection compensation fund established and maintained in accordance with the regulations and rules for the customer protection compensation fund under sections 169(2)(h) and 175(2)(c) of the Securities Act, 2015 within such time as may be determined by the Commission.

(10) On meeting all the liabilities of the Trusts, the Trustees shall dissolve the ISE SPF Trust, LSE MCF Trust and the LSE TCF Trust, whichever applicable, and any surplus assets, if any, shall be transferred forthwith to the customer protection compensation fund established and maintained in accordance with the regulations and rules for the customer protection compensation fund under sections 169(2)(h) and 175(2)(c) of the Securities Act, 2015 within such time as may be determined by the Commission.

(11) The Trustees shall comply with and implement any specific or general direction of the Funds Committee.

Part VB
TRANSITIONAL PROVISIONS APPLICABLE TO KSE CHPF TRUST

20. **Transitional provisions applicable to KSE CHPF Trust.**- (1) The Trustees shall forthwith ensure that the KSE CHPF Trust is brought into conformity in all respects
with regard to all matters connected or incidental to the Act and the Regulations and within such period as may be directed by the Commission. The Trustees shall make further amendments to KSE CHPF Trust so that it complies with the applicable laws and regulatory regime.

(2) Any amendment in the trust deed of the KSE CHPF Trust shall require the prior written approval of the Commission.

(3) The Trustees shall comply with and implement any specific or general direction of the Commission.

(4) The Trustees of KSE CHPF Trust shall further ensure that:

(a) KSE CHPF Trust is renamed to reflect the change in name of the successor stock exchange;

(b) the KSE CHPF Trust complies at all times with all applicable provisions of the Securities Act, 2015 and any rules or regulations made thereunder;

(c) the trust deed of KSE CHPF Trust is amended to permit the Trustees to transfer surplus funds, from the amount of the trust that is over and above the claims, liabilities etc. and incidental expenses, to the clearing and settlement guarantee fund, by whatever name called, established and maintained by the National Clearing Company of Pakistan Limited as per the actuarial valuation contribution determined by the Commission;

(d) the trust deed of KSE CHPF Trust is amended to permit the Trustees to transfer the remaining surplus funds to the customer protection compensation fund established and maintained in accordance with the regulations and rules for the customer protection compensation fund under sections 169(2)(h) and 175(2)(c) of the Securities Act, 2015 within such
time as may be determined by the Commission; and

(e) the trust deed of KSE CHPF Trust is amended to provide for dissolution of the KSE CHPF Trust upon which its assets, after meeting all the liabilities, if any, shall be transferred to the customer protection compensation fund established and maintained in accordance with the regulations and rules for the customer protection compensation fund under sections 169(2)(h) and 175(2)(c) of the Securities Act, 2015 within such time as may be determined by the Commission.

Part VI
GENERAL PROVISIONS

21. **Compliance with laws.**- The Trustees of the Trusts shall be bound to comply with all applicable provisions of the Act, these Regulations and the Securities Act, 2015 and the rules and regulations made thereunder.

22. **Compliance with directions.**- The Trustees shall implement and comply with any specific or general direction of the Funds Committee and the Commission.”

11[Part VII

11 Substituted the following through S.R.O. 935(I)/2016 dated October 03, 2016:

"Part VII
DIVESTMENT

23. **Divestment of shares under the directions of the Commission.**- (1) The Commission in exercise of powers under sub-section (5) of section 12 of the Act shall constitute a divestment committee under this regulation, through notification, comprising the following members,-

(i) four elected directors of the Exchange;

(ii) six initial shareholders of the Exchange or known market experts, nominated by the Commission;

(iii) "chairman of the board of directors of the Exchange.". Substituted the following through S.R.O. 346(I)/2016 dated April 20, 2016:

"the chairman of the divestment committee, who shall be elected in the first meeting from amongst the members of the divestment committee for chairing the proceedings of the divestment committee.”
“The chairman of the divestment committee shall be elected in the first meeting from amongst the members of the divestment committee for chairing the proceedings of the divestment committee.


(2) The divestment committee immediately after its formation shall take the following steps for the sale of not more than forty percent of total issued share capital out of the shares of the Exchange lying in the blocked account:-

(a) the divestment committee shall arrange for a fresh valuation of the Exchange for its core, non-core and consolidated operations based on the discounted cash flow or net asset value of the Exchange, or any other internationally accepted method of valuation undertaken by a valuer approved by the Commission and the cost of such valuation, including all ancillary costs, shall be borne by the Exchange;

(b) fresh valuation of the Exchange under clause (a) shall be furnished to the Commission in a sealed envelope and the Commission shall keep the envelope sealed till the sale of shares to a strategic investor, financial institution or an anchor investor, in which case it shall return the sealed envelope to the Exchange and where there is no sale of shares to a strategic investor, financial institution or an anchor investor in the manner provided in these regulations, the Commission shall open the envelope in accordance with the provisions of these regulations;

(c) the divestment committee shall invite expressions of interest from strategic investors and financial institutions, inter alia, through advertisement in newspapers of national and international coverage, engagement of financial consultants and/or approaching potential investors directly, for the purposes of acquiring either core or consolidated operations of the Exchange as determined by the divestment committee;

(d) the divestment committee shall furnish to the Commission details of interest expressed by strategic investor, financial institution or anchor investor, as the case may be, along with its comments within five days of the cutoff date for submission of expression of interest as notified by the Exchange and the Commission will determine the eligibility of the strategic investor, financial institution or anchor investor on the basis of criteria specified in these regulations;

(e) the Commission, after due consideration and deliberation based on available information, being satisfied that the interested strategic investor, financial institution or the anchor investor, as the case may be, meets the criteria under these regulations, taking into account interest of the capital market may permit the divestment committee to proceed with invitation of bids from the interested strategic investor, financial institution or anchor investor;

(f) the divestment committee shall ensure that the Exchange shall provide all assistance to strategic investor, financial institution or anchor investor, as the case may be, declared eligible by the Commission for carrying out due diligence of the Exchange for placing bids for acquiring shares of the Exchange and where required the Commission shall facilitate the process;

(g) upon completion of due diligence by the respective strategic investor, financial institution or the anchor investor, such strategic investor, financial institution or the anchor investor shall submit two copies of the bid in sealed envelopes to the divestment committee and the divestment committee shall furnish a copy of the bids to the Commission and the Commission shall keep the envelope sealed till the sale of shares to a strategic investor, financial institution or an anchor investor, in which case it shall return the sealed envelope to the divestment committee;

(h) where there is no sale of shares to a strategic investor, financial institution or an anchor investor in the manner provided in these regulations, the Commission shall open the envelope in accordance with the provisions of these regulations;

(i) on the basis of bids received, the divestment committee shall, where required, negotiate a price with the strategic investor, financial institution or anchor investor;

(j) where the bid or negotiated price, as the case may be, is equal to or above the valuation in clause (a), the divestment committee shall proceed to sell the shares to such strategic investor, financial institution or anchor investor, as determined appropriate by the divestment committee;
(k) where the bid or negotiated price is less than the valuation in clause (a), the divestment committee shall take such bid or negotiated price to the general body of shareholders of the Exchange and the decision to sell the shares to such strategic investor, financial institution or anchor investor shall be made in a meeting of the general body of shareholders of the Exchange through a majority vote;

(l) the Exchange and the divestment committee shall complete the entire process from (a) to (k) regarding sale of shares of the Exchange within six months from the date of constitution of the divestment committee by the Commission:

Provided that the Commission may upon application by the divestment committee, setting out reasons for not being able to comply with six months period, grant one time three months extension for completion of the process provided in (a) to (k):

(m) where the divestment committee and the Exchange fail to complete the process for sale of all shares in blocked account as per sub-regulation (2) within the time specified in clause (l), the Commission shall open the sealed envelopes containing the valuation of shares and the bids;

(n) upon opening the sealed envelopes, the Commission may take such steps or give such directions as may be necessary for achieving the sale of shares, including but not limited to:

(i) order sale of shares to a strategic investor, financial institution or anchor investor who had earlier made an offer to purchase the shares, if the price offered by such strategic investor, financial institution or anchor investor was equal to or more than the valuation of the shares contained in the sealed envelope; or

(ii) order fresh auction of the shares and selling to the highest bidding strategic investor, financial institution or anchor investor such number of shares and in such manner as the Commission may determine in consultation with the divestment committee. The manner of the fresh auction shall be determined by the Commission; or

(iii) order revaluation of the Exchange at the cost of the Exchange in such manner as the Commission may specify;

(o) any steps taken or directions issued by the Commission to determine and conclude the matters regarding divestment of shares under this regulation shall be final and binding on the Exchange, its shareholders including initial shareholders and the CDC;

(p) any residual shares not acquired by a strategic investor, financial institution or anchor investor out of the forty per cent shares of the Exchange shall be sold in the manner as may be determined by the Commission not inconsistent with the provisions of the Act;

(q) the shares shall be sold subject to the following conditions-

(i) shares of the Exchange may be sold to a strategic investor against the transfer of technology subject to the prior approval of the Commission and the Commission may impose such conditions at the time of granting approval as it may deem fit;

(ii) a single eligible financial institution shall not acquire or hold more than five per cent of the total issued share capital out of shares of the Exchange, lying in the blocked account, unless it opts to act as an anchor investor and meets the criteria specified in regulation 25;

(iii) financial institution or consortium of financial institutions, meeting the criteria to act as an anchor investor, shall acquire at least twenty five per cent of total issued share capital out of shares of the Exchange lying in the blocked account;

(iv) the anchor investor, after three years of acquiring shares of the Exchange under sub-clause (iii) may acquire further shares from the market by making a public offer in a transparent manner to increase its shareholding up to fifty one per cent of the total issued
share capital subject to compliance with requirements of the Act and prior approval of Commission;

(v) shares in excess of twenty five per cent of total issued share capital out of shares of the Exchange held by an anchor investor may be sold to financial institutions subject to the condition that a single financial institution may not acquire or hold more than five per cent of the total issued share capital of the Exchange;

(vi) shares in excess of forty per cent of total issued share capital out of shares of the Exchange held by an anchor investor may be sold to the general public through public offer;

(vii) the anchor investor shall maintain its holding in the Exchange for at least five years and thereafter such shares may be sold subject to compliance with requirements of the Act, prior approval of and compliance with the disclosure requirements specified by the Commission, and subject to the following conditions:

(I) the anchor investor may, with prior approval of the Commission, sell all or part of the qualifying shares as acquired under requirements specified in clause (ab) of sub-regulation (1) of regulation 2 only to another anchor investor, subject to the condition that the incoming anchor investor or consortium shall maintain the minimum shareholding of 25% in the manner provided under clause (ab) of sub-regulation (1) of regulation 2 and compliance with the criteria under regulation 25. Surplus shares, if any, may be sold to financial institutions subject to the condition that a single financial institution may not acquire or hold more than five per cent of the total issued share capital of the Exchange; and

(r) the divestment committee will submit monthly progress report to the Commission and if the Commission is satisfied that due to any unforeseen impediments in carrying out the scheme envisaged in this regulation it is necessary to issue any directions, it may issue such directions, as deemed fit, in the spirit of sub-section (5) of Section 12 of the Act for the smooth divestment of shares.

24. **Criteria for Financial Institution.** A financial institution may be eligible to acquire issued share capital of the Exchange under regulation 23 if-

(a) the financial institution or any of its sponsors or directors are not connected person(s) of a TREC holder or any of its sponsors or directors;

(b) it complies with the capital requirements specified under the relevant provisions of applicable laws;

(c) its sponsors and directors are in compliance with the “fit and proper” criteria as provided in Schedule-I of these regulations;

(d) it has a minimum long-term credit rating as may be determined by the Commission from time to time;

(e) it has not been convicted in any criminal offence or directly involved in any settlement in civil or criminal proceedings in a court of law, particularly with regard to investments, financial or business misconduct, fraud/forgery, breach of trust, financial crime etc. or it has not been concluded by any regulatory authority, government body or agency or a court of law that it has been associated with any unauthorized financial activity;

(f) it has not contravened any of the requirements or standards, other than minor corporate violations, of the Commission or the equivalent standards or requirements of any other regulatory authorities, whether inside or outside Pakistan, or government bodies or agencies;

(g) its license for providing any financial services has not been suspended or cancelled by any regulatory authority during the last five years;
DIVESTMENT OF SHARES UNDER THE DIRECTIONS OF THE COMMISSION
UNDER SUB-SECTION (5) OF SECTION 12 OF THE ACT

(h) no investigation or enquiry has been concluded against it by the Commission, with any adverse findings under section 29 of the Securities and Exchange Commission of Pakistan Act, 1997, section 139 of the Securities Act, 2015, section 21 of the Securities and Exchange Ordinance, 1969, section 263 or section 265 of the Companies Ordinance, 1984 or any investigation or inquiry is pending against it initiated by the Commission.

(i) no investigation or enquiry conducted under the relevant laws has been concluded against it by the State Bank of Pakistan, National Accountability Bureau, Federal Investigation Agency or any other regulatory or government body, with any adverse findings;

(j) an order restraining, prohibiting or debarring it from providing any financial services has not been passed by any regulatory authority, government body or agency or a court of law;

(k) it has not provided false or misleading information either to the Commission or to any other regulatory authority;

(l) it has not been adjudged as insolvent or suspended payment of debts or has compounded with its creditors;

(m) it has not been convicted by a court of competent jurisdiction as a defaulter in payment of any loan to any other financial institution; and

(n) it has not defaulted in payment of taxes.

25. Criteria for Anchor Investor.- A financial institution may be eligible to acquire issued share capital of the Exchange as an anchor investor under regulation 23 if:

(a) it complies with all the conditions of eligibility in regulation 24;

(b) it has a minimum long-term credit rating as may be determined by the Commission from time to time;

(c) the Commission is satisfied with its past track record for successfully managing business ventures and growth achieved therein;

(d) it has requisite approvals from relevant regulatory authorities and/or governments, where applicable, for acquiring issued share capital of the Exchange;

(e) in the opinion of the Commission it has adequate knowledge of matters relating to a stock exchange;

(f) it intends and assures to actively take interest in management and development of the Exchange;

(g) in the opinion of the Commission its existing scale of operations and investments in other companies would not hinder or seem to hinder its active engagement in management of the Exchange or result in significant conflict of interest;

(h) it is not in a group comprising major industrial companies or part of a conglomerate; and

(i) it is not in a group which has significant investment in non-financial sector businesses or companies listed at the Exchange.

26. Power to relax regulations.- The Commission may, if it is in the interest of the Exchange and the capital market, relax any one or more requirements of clause (q) of sub-regulation (2) of regulation 23 or regulation 25."

23. **Constitution of the divestment committee.** (1) The Commission shall constitute a divestment committee through notification, comprising of the following members,-

(i) four elected directors of the Exchange;

(ii) six initial shareholders of the Exchange or known market experts, nominated by the Commission;

(iii) chairman of the board of directors of the Exchange.

the chairman of the divestment committee shall be elected in the first meeting from amongst the members of the divestment committee for chairing the proceedings of the divestment committee.

(2) The divestment committee immediately after its constitution under sub-regulation (1) shall, inter alia, take necessary steps under these regulations for the sale of not more than forty percent of total issued share capital out of the shares of the Exchange lying in the blocked account and may also perform such functions as provided in regulations 35, 36 and 37 for the sale of shares other than those lying in blocked account.

(3) The Exchange and the divestment committee shall complete the entire process regarding sale of shares of the Exchange within six months from the date of constitution of the divestment committee by the Commission:

Provided that the Commission may upon application by the divestment committee, setting out reasons for not being able to comply with six months period, grant one time four months extension for completion of the process.
(4) The divestment committee shall keep the Commission apprised of the progress being made for divestment and shall at least submit a monthly progress report to the Commission.

24. **Fresh valuation of the Exchange.**- (1) The divestment committee shall arrange for a fresh valuation of the Exchange for its core, non-core and consolidated operations based on the discounted cash flow or net asset value of the Exchange, or any other internationally accepted method of valuation undertaken by a valuer approved by the Commission and the cost of such valuation, including all ancillary costs, shall be borne by the Exchange.

(2) Fresh valuation of the Exchange under sub-regulation (1) shall be furnished to the Commission in a sealed envelope and the Commission shall keep the envelope sealed till the sale of shares to eligible investors, in which case it shall return the sealed envelope to the Exchange and where there is no sale of shares to eligible investors in the manner provided in these regulations, the Commission shall open the envelope in accordance with the provisions of these regulations.

25. **Invitation of expressions of interest from potential investors.**- (1) The divestment committee shall invite expressions of interest from potential investors through advertisement in newspapers of national and international coverage, engagement of financial consultants and/or approaching potential investors directly, for the purposes of purchase of either core or consolidated operations of the Exchange as determined by the divestment committee.

(2) The divestment committee shall furnish to the Commission details of interest expressed by potential investors along with its comments within five days of the cutoff date for submission of expression of interest as notified by the Exchange, following which the Commission will determine the eligibility of the investors.
26. Determination of eligibility of investors by the Commission.- The Commission, after due consideration and deliberation based on available information, being satisfied that the interested investor meets the concerned criteria under these regulations and taking into account interest of the capital market, may permit the divestment committee to proceed with invitation of bids from the eligible investors.

   **Explanation:** *For the purpose of this part, the expression ‘eligible investor’ means an anchor investor, a strategic investor, a financial institution or a consortium thereof.*

27. Due diligence by eligible investors and State Bank of Pakistan.- The divestment committee shall ensure that the Exchange shall provide all assistance to the eligible investors and State Bank of Pakistan for carrying out due diligence of the Exchange for placing bids for acquiring shares of the Exchange and where required the Commission shall facilitate the due diligence process.

28. Submission of bids by eligible investors for shares lying in the blocked account.- Upon completion of due diligence, eligible investors shall submit two copies of their bids in sealed envelopes to the divestment committee and the divestment committee shall furnish a copy of the bids to the Commission and the Commission shall keep the envelope sealed till the sale of not more than forty percent of total share capital out of the shares lying in the blocked account to the eligible investors, in which case it shall return the sealed envelope to the divestment committee.

29. Negotiation with eligible investors for the sale of shares lying in the blocked account.- (1) On the basis of bids received, the divestment committee shall, where required, negotiate a price with the eligible investors for the sale of shares not more than forty percent of total share capital out of the shares lying in the blocked account.
(2) Where a bid or negotiated price, as the case may be, is equal to or above the valuation carried out under regulation 24, the divestment committee shall proceed to sell the shares to the eligible investors.

30. **Decision where the bid or negotiated price is less than the valuation.**- In case the bid or negotiated price for the sale of not more than forty percent of total issued share capital out of the shares lying in the blocked account is less than the valuation carried out under regulation 24, the divestment committee shall take such bid or negotiated price to the general body of shareholders of the Exchange and the decision to sell the shares to such potential investors shall be made in a meeting of the general body of shareholders of the Exchange through a majority vote.

31. **Condition applicable on a foreign anchor investor.**- (1) Where an anchor investor is a foreign entity, it shall not acquire or hold more than twenty five percent of the total issued share capital out of the shares of the Exchange lying in the blocked account:

   Provided that the Commission may allow the foreign anchor investor to acquire up to thirty percent of the total issued share capital of the Exchange.

   (2) Subject to sub-regulation (1), a foreign anchor investor may, by forming a consortium with local financial institutions, acquire or hold up to forty percent of total issued share capital out of the shares of the Exchange lying in the blocked account.

32. **Conditions applicable on an anchor investor and consortium of anchor investor and local financial institutions.**- (1) The anchor investor shall hold the shares of the Exchange acquired under these regulations for at least five years.

   (2) After completion of the five years period, the anchor investor may sell all or part of the qualifying shares as acquired subject to requirements specified in clause (ab) of sub-regulation (1) of regulation 2 only to another anchor investor, subject to the condition
that the incoming anchor investor shall maintain the minimum shareholding of twenty five percent in the manner provided under clause (ab) of sub-regulation (1) of regulation 2 and compliance with the criteria for anchor investor in these regulations and subject to compliance with requirements of the Act, prior written approval of and compliance with the disclosure requirements specified by the Commission.

(3) After three years of acquiring shares of the Exchange under regulation 29 or 30, the consortium of an anchor investor and local financial institutions formed after the submission of expression of interest, may acquire further shares from the market by making a public offer to increase its shareholding up to fifty one per cent of the total issued share capital of the Exchange subject to compliance with requirements of the Act and prior written approval of Commission.

33. **Conditions on shareholding of a financial institution other than an anchor investor.**-(1) At any time, a financial institution, whether local or foreign, whether singly or as a part of a consortium, shall not acquire or hold, directly or indirectly, more than five per cent of the total issued share capital of the Exchange unless it qualifies as an anchor investor and meets the concerned criteria specified in these regulations.

(2) A financial institution that acquires shares of the Exchange from amongst the forty percent shares of the total issued share capital lying in the blocked account shall sell these shares only to an anchor investor, strategic investor or financial institution, subject to the concerned criteria and conditions given in these regulations, with the prior written approval of the Commission, and all these conditions shall apply in perpetuity and also form part of the concerned share purchase agreement.

34. **Failure to sell shares of the Exchange lying in the blocked account.**-(1) Where the divestment committee and the Exchange fail to complete the process for sale of any or all shares in the blocked account within the time specified in these regulations, the Commission shall open the sealed envelopes containing the valuation of shares and the bids.
(2) Upon opening the sealed envelopes, the Commission may take such steps or give such directions as may be necessary for achieving the sale of shares, including but not limited to-

(i) order sale of shares to eligible investors where the bid was equal to or more than the valuation of the shares contained in the sealed envelope; or

(ii) order fresh auction of the shares and selling to the highest bidding strategic investor, financial institution or anchor investor such number of shares and in such manner as the Commission may determine in consultation with the divestment committee. The manner of the fresh auction shall be determined by the Commission; or

(iii) order revaluation of the Exchange at the cost of the Exchange in such manner as the Commission may specify.

(3) Any steps taken or directions issued by the Commission to determine and conclude the matters regarding divestment of shares under these regulations shall be final and binding on the Exchange, its shareholders including initial shareholders and the CDC.

35. **Expression of interest to sell shares other than those lying in the blocked account** - (1) The divestment committee may invite expressions of interest from shareholders of the Exchange for sale of all or part of the shares other than those lying in the blocked account to local financial institutions.

(2) Shareholders desirous of selling all or part of the shares not held in the blocked account to local financial institutions may deposit such shares in sub-accounts, opened under the CDC Participant account of the Exchange, in the names of the respective
shareholders and irrevocably empower the divestment committee to negotiate and finalize the sale of such shares on their behalf, subject to the terms and conditions of the undertaking signed by the shareholders.

36. **Sale of shares of the Exchange other than those lying in the blocked account.**

(1) After completing the negotiation for the sale of shares lying in the blocked account, the divestment committee may negotiate with local financial institutions for the sale of shares other than those lying in the blocked account under sub-regulation (2) of regulation 35.

(2) The local financial institutions which have submitted bids under regulation 28 shall have the first right to purchase the shares deposited under sub-regulation (2) of regulation 35 at a price negotiated with the divestment committee.

(3) Any local financial institution acquiring shares other than the share lying in the blocked account shall not acquire or hold more than five percent shares out of the total issued share capital of the Exchange and shall sell its shareholding only to another financial institution, subject to the criteria provided in these regulations, with the prior written approval of the Commission and all these conditions shall apply in perpetuity and also form part of the share purchase agreement.

(4) The Commission may, in exercise of powers under sub-section (4) of section 13 and sub-section (3) of section 14 of the Act, relax any one or all restrictions or allow amendment in the limit of holding of shares as provided under the Act and corresponding provisions of these regulations.

37. **Sale of shares to the State Bank of Pakistan.**

(1) Upon completion of the sale process under regulation 29 to an anchor investor, the local financial institutions may acquire any remaining shares from the forty percent of total issued share capital out of the shares of the Exchange lying in the blocked account at a price that has been agreed by the divestment committee with the anchor investor.
(2) In case there is no agreement for sale of shares with the local financial institutions under sub-regulation (1), the State Bank of Pakistan shall acquire any remaining shares from the forty percent of total issued share capital out of the shares of the Exchange lying in the blocked account at a price that has been agreed by the divestment committee with the anchor investor.

(3) In case there is no agreement for sale of shares with an anchor investor under regulation 29, the divestment committee may enter into an agreement with the State Bank of Pakistan to sell up to twenty five percent of the total issued share capital out of the shares of the Exchange lying in the blocked account at a negotiated price.

(4) If local financial institutions cannot acquire any remaining shares from the total issued share capital out of the shares of the Exchange lying in the blocked account, such shares may be acquired by the State Bank of Pakistan at a price negotiated with the divestment committee.

(5) Upon completion of the sale process under regulation 36, the divestment committee may enter into an agreement at a price negotiated with the State Bank of Pakistan to sell any remaining shares from the shares other than those lying in the blocked account and proceeds from the sale of such shares shall be paid to the shareholders on pro-rata basis and any residual shares shall be returned to the shareholders.

38. **Conditions in case of purchase of shares by State Bank of Pakistan.**- Any purchase of shares of the Exchange by the State Bank of Pakistan under these regulations shall be subject to the following conditions which shall form part of the share purchase agreement-

(a) State Bank of Pakistan shall purchase shares of the Exchange only with the prior written approval of the Federal Government;
(b) State Bank of Pakistan shall only appoint directors on the board of directors of the Exchange from a panel constituted by the Commission;

(c) State Bank of Pakistan shall avoid any regulatory overlap with the Commission with respect to the Exchange;

**Explanation:** For the purposes of this regulation, the term “regulatory overlap” mean any direct or indirect regulatory influence or exercise of such authority by the State Bank of Pakistan in connection with oversight and regulatory function of the Exchange.

(d) State Bank of Pakistan shall not increase its shareholding directly or indirectly beyond the percentage of total issued share capital of Exchange acquired under regulation 37 except with the prior written approval of the Commission and the Federal Government;

(e) State Bank of Pakistan shall not sell its shareholding, in full or in part, without prior approval of the Federal Government to any entity except as directed by the Commission in clause (f);

(f) As and when suitable investor(s) are available to acquire shares held by State Bank of Pakistan, the Commission shall direct the State Bank of Pakistan to divest its shareholdings in the manner specified by the Commission after consultation with State Bank of Pakistan;

(g) the right to receive dividends, bonus shares, rights shares and the proceeds of sale of shares held by the State Bank of Pakistan shall vest in the State Bank of Pakistan; and

(h) the State Bank of Pakistan shall deposit in a blocked account shares allocated to it and hold these in the blocked account until such time as these shares are divested in accordance with clause (f) as directed by the Commission.
39. **Criteria for Financial Institution.** - A financial institution may be eligible to acquire issued share capital of the Exchange under these regulations if-

- (a) the financial institution or any of its sponsors or directors are not connected person(s) of a TREC holder or any of its sponsors or directors;

- (b) it complies with the capital requirements specified under the relevant provisions of applicable laws;

- (c) its sponsors and directors are in compliance with the “fit and proper” criteria as provided in Schedule-I of these regulations;

- (d) it has a minimum long-term credit rating, where applicable, not below A- or equivalent;

- (e) it has requisite approvals from relevant regulatory authorities and/or governments, where required under applicable laws, for acquiring issued share capital of the Exchange;

- (f) it has not been convicted in any criminal offence or directly involved in any settlement in civil or criminal proceedings in a court of law, particularly with regard to investments, financial or business misconduct, fraud/forgery, breach of trust, financial crime etc. or it has not been concluded by any regulatory authority, government body or agency or a court of law that it has been associated with any unauthorized financial activity;

- (g) it has not contravened any of the requirements or standards, other than minor corporate violations, of the Commission or the equivalent standards or requirements of any other regulatory authorities, whether inside or outside Pakistan, or government bodies or agencies;
(h) its license for providing any financial services has not been suspended or cancelled by any regulatory authority during the last five years;

(i) no investigation or enquiry has been concluded against it by the Commission, with any material adverse findings under section 29 of the Securities and Exchange Commission of Pakistan Act, 1997, section 139 of the Securities Act, 2015, section 21 of the Securities and Exchange Ordinance, 1969, section 263 or section 265 of the Companies Ordinance, 1984 or any investigation or inquiry is pending against it initiated by the Commission;

(j) no investigation or enquiry conducted under the relevant laws has been concluded against it by the State Bank of Pakistan, National Accountability Bureau, Federal Investigation Agency or any other regulatory or government body, with any material adverse findings;

(k) an order restraining, prohibiting or debarring it from providing any financial services has not been passed by any regulatory authority, government body or agency or a court of law;

(l) it has not provided false or misleading information to the Commission;

(m) it has not been adjudged as insolvent or suspended payment of debts or has compounded with its creditors;

(n) it has not been convicted by a court of competent jurisdiction as a defaulter in payment of any loan to any other financial institution; and

(o) it has not defaulted in payment of taxes.
40. **Criteria for Anchor Investor.**– A financial institution may be eligible to acquire issued share capital of the Exchange as an anchor investor under these regulations if-

(a) it complies with all the conditions of eligibility in regulation 39;

(b) it has a minimum long-term credit rating, where applicable, not below A- or equivalent;

(c) the Commission is satisfied with its past track record for successfully managing business ventures and growth achieved therein;

(d) it has requisite approvals from relevant regulatory authorities and/or governments, where applicable, for acquiring issued share capital of the Exchange;

(e) in the opinion of the Commission it has adequate knowledge of matters relating to a stock exchange;

(f) it intends and assures to actively take interest in management and development of the Exchange;

(g) in the opinion of the Commission its existing scale of operations and investments in other companies would not hinder or seem to hinder its active engagement in management of the Exchange or result in significant conflict of interest;

41. **Power to relax regulations.**– The Commission may, if it is in the interest of the Exchange and the capital market, relax any one or more requirements of the regulations in this part.]
ANNEXURE I
[See regulation 6(1)]

_________________ STOCK EXCHANGE

TRADING RIGHT ENTITLEMENT (TRE) CERTIFICATE

The ____________ Stock Exchange, in pursuance of section 5 or section 16, whichever applicable, of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012 read with regulation 6 of the Stock Exchanges (Corporatisation, Demutualization and Integration) Regulations, 2012 hereby grants a TRE Certificate to ____________________________, subject to the requirements of the Regulations of the ____________ Stock Exchange, where applicable.

2. TRE Certificate number: ________________

Dated: ________________

Place: ________________

By order

Sd/-

For and on behalf of

_________________ STOCK EXCHANGE
PAKISTAN STOCK EXCHANGE LIMITED

TRADING RIGHT ENTITLEMENT (TRE) CERTIFICATE

The Pakistan Stock Exchange Limited (formerly Karachi Stock Exchange Limited) consequent to the Scheme(s) of Integration approved by the Securities and Exchange Commission of Pakistan vide Order No. ________________ dated ___________, hereby grants a TRE Certificate under regulation 6 (8) of the Stock Exchanges (Corporatisation, Demutualization and Integration) Regulations, 2012 subject to the requirements of the Regulations of the Pakistan Stock Exchange Limited, where applicable, to M/s.__________________________.

2. TRE Certificate number: ________________

Dated: ____________
Place: ________________
By order

Sd/-
For and on behalf of
Pakistan Stock Exchange Limited

Fit and Proper Criteria for Sponsors and Directors of the Financial Institution

The sponsors* and directors of the financial institution shall at all times comply with the following criteria:

1. **Integrity, Honesty and Reputation**

   (i) He has not been convicted in any criminal offence or directly involved in any settlement in civil/ criminal proceedings in a court of law, particularly with regard to investments, financial/business misconduct, fraud/ forgery, breach of trust, financial crime etc. and/ or it has not been concluded by any regulatory authority, government body/agency or a court of law that he has been associated with any unauthorized financial activity.

   (ii) Membership or registration of the person or any company in which he was a sponsor, director or chief executive officer during the last five years has not been suspended or cancelled by the Commission, any other regulatory authority, any professional body, association etc.

   (iii) He has not been disqualified/ removed from the post of chief executive, chairman, director or from any other senior management position of a company by the Commission or any other regulatory authority.

   (iv) He has not contravened any of the requirements or standards, other than minor corporate violations, of the Commission or the equivalent standards or requirements of any other regulatory authorities, whether inside or outside

14 Substituted the number “24” through S.R.O. 935(I)/2016 dated October 03, 2016.
Pakistan, or government bodies or agencies, either in personal capacity or as director or chief executive of a company.

(v) No investigation/enquiry, conducted under Section 29 of the Securities and Exchange Commission of Pakistan Act, 1997, Section 139 of the Securities Act, 2015, Section 21 of the Securities and Exchange Ordinance, 1969, Section 263 or Section 265 of the Companies Ordinance, 1984, has been concluded against him by the Commission, with any adverse findings, either in personal capacity or as director or chief executive of a company during the past three years.

(vi) No investigation or enquiry conducted under the relevant laws has been concluded against him by the State Bank of Pakistan, National Accountability Bureau, Federal Investigation Agency or any other regulatory or government body, with any adverse findings, either in personal capacity or as director or chief executive of a company during the past five years;

(vii) An order restraining, prohibiting or debarring him from dealing in securities in the capital market or from accessing the capital market has not been passed; or penalty of Rs.500,000/- or more has not been imposed on him by the Commission in the last three years, in respect of any laws administered by the Commission.

(viii) He has not provided false or misleading information either to the Commission or to any other regulatory authority.

2. **Solvency and Financial Integrity**

(i) He has not been adjudged as insolvent or suspended payment of debts or has compounded with his creditors.
(ii) He has not been convicted by a court of competent jurisdiction as a defaulter in payment of any loan to a financial institution.

(iii) He has not been in default of payment of dues owed to any financial institution and/or default in payment of any taxes either in individual capacity or as director or chief executive of a company.

(iv) His name is borne on the Register of National Tax Payers.

* If the sponsors of the financial institution are companies, then the sponsors and directors of such sponsors shall at all times comply with this criteria.]