

Press Release

SECP-KSE Meeting in Islamabad Discuss Various Issues

Islamabad – 16 November 2006: A meeting of the Securities and Exchange Commission of Pakistan (SECP) with the management representatives of Karachi and Lahore Stock Exchanges was held on November 16, 2006 at the SECP Head Office in Islamabad, wherein representatives of KSE and LSE presented results of mock trial runs and discussed in detail various issues relating to the implementation of risk management measures at the stock exchanges. Based on the results of mock trials it became apparent that 99 brokers representing 65% of the broker population of the Karachi Stock Exchange, are currently paying margin based on a slab rate of 5-15%. The figures show that they will be bearing the heaviest burden of the proposed risk management measure with increased exposure in excess of 300% to 400% primarily due to the excessive netting regime prevalent at this time. Consequently, in order to provide relief to this section of the brokerage community and without compromising upon the risk management of the exchanges, the following decisions were taken in the best interest of the stock market.

In order to ensure smooth and speedy implementation of risk management measures such as “no netting across settlement” and “no netting across client”, it has been decided that the same will be introduced in a phased manner as detailed below.

1. **Netting Across Settlement:** The increase in exposure margins at broker level due to elimination of netting across settlement with effect from December 4, 2006 will be collected by the exchanges in the proposed phased manner as follows:
 - 30% of the said margin shall be applicable with effect from December 4, 2006;
 - 60% of the said margin shall be applicable with effect from April 30, 2007;
 - 100% of the said margin shall be applicable with effect from October 01, 2007
2. **Client Level Netting:** The increase in margins at broker level due to elimination of client level netting with effect from February 1, 2007 will be collected by the exchange in the proposed phased manner as follows:
 - 25% of the said margin shall be applicable with effect from February 1, 2007;
 - 50% of the said margin shall be applicable with effect from July 2, 2007;
 - 100% of the said margin shall be applicable with effect from December 3, 2007

3. **Netting between Ready and CFS Markets:** This measure was originally scheduled to be implemented with effect from August 22, 2005 when the CFS Regulations came into force. However, implementation of this measure was delayed. It was then proposed to be implemented by the exchanges on January 16, 2006 but was deferred again by KSE. Due to revamping of the entire risk management regime it was subsequently decided to implement the same along with other risk management measures as a complete package on 6th November 2006. However with the deferral of implementation of risk management measures from 6th November 2006 to 4th December 2006, and increase in CFS limits and number of scrips, without eliminating netting between Ready and CFS market the systemic risk to the Exchange has increased enormously. It has, therefore, been decided that the practice of netting CFS position against the brokers ready position shall be eliminated with effect from November 23, 2006.