

**Meeting at SEC Reviews Stock Market Situation**

**Islamabad – April 1, 2005:** A meeting of the Securities and Exchange Commission of Pakistan (SEC) and the Boards of Directors of the three stock exchanges was held earlier today in order to discuss and review the status of the implementation of various measures to strengthen the risk management at the stock exchanges, particularly in light of the recent market situation. The meeting was presided over by Dr. Tariq Hassan, Chairman SECP.

All risk management measures directed by SECP vide their letter dated March 4, 2005 and further risk management measures proposed vide SEC's letter dated March 30, 2005 were deliberated at length. The three stock exchanges unanimously agreed on following time bound risk management measures:-

- Distribution of retained profit has been reduced from 30% to 20%
- Exposure of a member, at any point in time, in single scrip, in a future contract shall not exceed 1% of free float of each scrips or the number of contracts determined under a slab system, whichever is higher
- Netting of exposure in the ready and future market shall not be allowed to for the purpose of Capital Adequacy.
- Pre-trade Verification system to be in place at KSE and collection of Mark to Market losses in Future market will be done twice in a day
- Deposit against exposures exceeding Rs. 200 million in future market shall be collected in cash and the existing slab for margin collection for future market will be revised upward
- Total exposure of a member in future market shall not exceed 10 times of the net capital balance of the member
- Future market will be cash settled only and the methodology to calculate the closing price (striking price) of the future contract be devised based on International best practices
- Circuit breaker on both side will be 5% or Rs. 1.00, which ever is higher
- Associate membership facility should be extended to ready market whereby they will settle their trades directly with National Clearing and deposit their margins directly to the exchange
- One-third of margin against exposure and mark to market losses in Ready Market will be collected in cash. However, exchanges will consider paying returns to members on all cash margin.
- Unique/ Global Client identification will be implemented

- Exchanges will ensure and monitor that client assets will be kept separate from Members' assets
- Netting will only be allowed at individual client position in the same scrip and the margin will be collected on gross position;
- Introduction of concentration Margin will be initiated
- No amendment/ withdrawal of orders will be allowed in the pre open session
- The exchanges will review of entire risk management system

The exchanges endorsed the idea of constitution of Task Force to investigate the recent market situation. It was also unanimously agreed that should be a general accountability. The Board of Directors of the Exchange assured their full cooperation and support to the Task Force constituted in this regard.

The issue of demutualization of the stock exchanges was also discussed. The three stock exchanges were required to submit their report by March 31<sup>st</sup> 2005. LSE and ISE informed that report will be submitted by April 06, 2005. while KSE was agreed to submit the report on April 20, 2005.

The Chairman SECP appreciated the excellent coordination and cooperation between the stock exchanges and the SECP during the recent market situation and commended the management of the exchanges for ensuring that the rules and regulations were strictly followed. He also expressed his satisfaction that the risk management system has worked well and lauded the efforts of the management of KSE for their efficiency in collecting Mark to market losses and deposit margins