



Securities and Exchange Commission of Pakistan
Internal & External Communications Department

PRESS RELEASE
FOR IMMEDIATE RELEASE

SECP DECIDES TO DISCONTINUE CFS Mk-II AND DELIVERABLE FUTURES PRODUCTS

ISLAMABAD – APRIL 07, 2009: The Securities and Exchange Commission of Pakistan (SECP) has decided to discontinue CFS Mk-II and Deliverable Futures products in the best interests of the capital markets in Pakistan. The effective date of the discontinuation is Wednesday, April 08, 2009. CFS Mk-II will be phased-out in 3 working cycles of 22 business days. Therefore, the complete phase out will be completed in 66 working days. Starting from April 8, 2009, no fresh take-up in CFS Mk-II shall be allowed. Furthermore, no new contracts will be opened in the Deliverable Futures Market from April 20, 2009. The Commission shall coordinate with the Stock Exchanges to develop effective futures products in line with international best practices. The Commission shall also strive to implement alternative financing products to cater for the financing and leveraging needs of market participants.

During the recent market turmoil and afterwards, a majority number of market participants were of the view that the adverse situation faced by the investors was, to a large extent, either attributable to the CFS Mk-II product or that the product has played a major role in aggravating the situation. The KSE Board, NCCPL Board and a large number of brokers resolved and requested to the Commission that this product should be discontinued. In order to evaluate the situation, the Commission constituted a committee comprising of prominent professionals and the representatives of all three stock exchanges, National Clearing Company Pakistan Limited and capital market specialists to review the product independently and give its recommendation. The Committee was headed by Mr. Shehzad Naqvi, the CEO of RBS who is a career banker with vast experience in corporate finance and investment banking.

The committee, after due deliberation, formally recommended to the Commission that CFS Mk-II and Deliverable Futures products be discontinued in the best interests of the capital markets in Pakistan.

The Committee further recommended that Cash Settled Futures products should be encouraged. These products will reduce strain on the resources of the stock markets since settlement of price differentials does not involve delivery of the underlying shares. In addition to the above, the committee has suggested the following additional measures:

- Cash Settled Futures should be offered both for single scrips as well as for the stock index;
- Implementation of more stringent eligibility criteria for selection of shares for cash settled futures products. For the time being, cash settled futures shall be made available in the five most liquid majority government owned scrips.
- The existing risk management framework for cash settled futures products should be further strengthened and the Committee recommended the following:
 - Introduce client-level margining system at all stock exchanges;
 - Implementation of concentration margins;
 - Widening of scrip based circuit breakers and the introduction of index based market halts.
- Introducing a robust securities lending and borrowing system.
- Implementation of real time surveillance mechanism at all stock exchanges to detect market manipulation and abuse.

The Commission in collaboration with all other stakeholders will consider the implementation of these recommendations over the next few months.

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