

Meeting between SEC and BoD of three stock exchanges held

Islamabad, June 2, 2005: The Board of Directors of the Karachi, Lahore and Islamabad Stock Exchanges met Dr. Tariq Hassan, Chairman, Securities and Exchange Commission of Pakistan (SEC) and Mr. Shahid Ghaffar, Commissioner SEC in Islamabad on Wednesday to review the risk management issues. According to a press release jointly issued by the SEC and the three Exchanges, the meeting, which lasted for eight hours from 3 p.m to 11 at night, had threadbare discussions on the issues, mindful of the larger interest of the capital market and took the following decisions.

- (1) The position limit in future trading has been enhanced from one percent to three percent in each scrip by each member based on free float.
- (2) The three percent limit may be enhanced to five percent on the implementation of pre-trade verification system at the Karachi Stock Exchange by July 2005.
- (3) The requirement of 100% cash margin in case of exposure exceeding Rs.200 million has been reduced to 50% cash margin and 50% margin in eligible securities in the futures market or bank guarantee from a scheduled bank acceptable to the Exchange.
- (4) Existing futures contracts based on deliverables will be allowed for trading until September 2005. These contracts will be standardized. In the event of any settlement problem in the deliverable futures contracts the principle of hammer price shall be followed to settle the outstanding trades.
- (5) With effect from October 2005 the Stock Exchanges will introduce standardized contracts for 30, 60 and 90 days on cash settlement basis.
- (6) Client code shall be indicated in all trades by the members of the Exchanges.
- (7) Margin mechanism based on volatility and liquidity will be developed and implemented by the end of September 2005.
- (8) Concentration margins will be introduced by the end of July 2005.
- (9) Unique Global ID shall be developed by CDC and implemented by November 30, 2005.
- (10) Exit mechanism in the context of circuit breakers will be developed and implemented latest by the end of June 2005.

The meeting concluded with the resolve that both the SEC and the Stock Exchanges are conscious of the responsibilities to make adequate arrangements of risk management for the smooth running of the capital market.