



Securities and Exchange Commission of Pakistan Internal & External Communication Unit

PRESS RELEASE ***FOR IMMEDIATE RELEASE***

ISLAMABAD – OCTOBER 22, 2008: A meeting was held between the Securities and Exchange Commission of Pakistan (SECP) and the Board of Directors of the three stock exchanges i.e. KSE, LSE & ISE, under the chairmanship of Mr. Razi-ur- Rahman Khan Chairman SECP. Various proposals were discussed and considered relating to the smooth and orderly functioning of the stock market after lifting of the floor on October 27, 2008.

Chairman, SECP briefed the participants of the meeting on the modalities of the new Rs. 20 billion open end fund being established by the Government of Pakistan and managed by NIT. SECP today gave the formal approval for establishing the required fund. The NIT is in the process of finalizing the fine details for smooth operation of the said Fund. The Fund is expected to provide a soft landing to the market on its opening on October 27, 2008. The fund will invest in seven state owned entities namely Oil and Gas Development Company Limited, Kot Addu Power Company Limited, Pakistan Petroleum Limited, Sui Southern Gas Company Limited, Sui Northern Gas Pipelines Limited, Pakistan State Oil Company Limited and National Bank of Pakistan.

In addition to the market operation of the fund, the fund is being provided with a Rs. 30.0 billion GOP guarantee to enable it to write put options on the seven state owned entities detailed above. Technical adviser is being appointed to advise NIT on pricing the put option. The put option facility will be made available to foreign investors invested in the market place as at August 27, 2008.

The participants of the meeting while considering a proposal put forward by 103 members of the Karachi Stock Exchange for the closure of CFS market were of the general consensus that the CFS Market should not be discontinued immediately to avoid any ensuing liquidity crises and until there are alternate products available in the market place. It was unanimously agreed that the risk management of the product be further improved to remove the negatives that still exist in the system.

In order to further strengthen the CFS and Deliverable Futures Market and to reduce the risk therein the following additional risk management measures are proposed to be adopted from October 27, 2008 or soon thereafter in order to plug areas of weaknesses prior to opening the markets:

- i) Collection of 50% additional VaR based margin in the form of cash in a phased manner as follows:
 - 25% additional VaR based margin will be applied w.e.f. November 24, 2008 on all open positions in the CFS and Deliverable Futures Market;
 - 50% additional VaR based margin will be applied with effect from January 12, 2009 or when the total exposure in these markets exceeds Rs. 20 billion, whichever happens earlier, on all open positions in the CFS and Deliverable Futures Market. However, if the exposure in these markets subsequently falls below Rs. 20 billion, the cash margin percentage once increased will subsist.



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- Existing open CFS positions can be rolled over by the financees on expiry of 22 working days.
- The minimum commitment to CFS Market for 90 days by CFS Financier has been increased in a phased manner as follows:
 - i. The committed amount will increase to Rupees 100 million for Broker Authorized Financiers and Rs. 300 million for Non-broker Authorized Financiers with effect from December 08, 2008 onwards.
 - ii. The committed amount will increase to Rupees 150 million for Broker Authorized Financiers and Rs. 400 million for Non-broker Authorized Financiers with effect from March 30, 2009 onwards.
 - iii. The committed amount will increase to Rupees 200 million for Broker Authorized Financiers and Rs. 500 million for all other Non-broker Authorized Financiers with effect from June 29, 2009 onwards.
 - iv.
- ii) Review of eligibility criteria for selection of scrips in CFS Mk-II and Deliverable Futures Market to restrict eligible scrips to scrips which are liquid and less volatile.
- iii) Restrict CFS Financees' positions as follows:
 - i. Revised member-wide Position Limits to 4 % of free float and client-wide Position Limits to 2% of free float.
- iv) Existing default procedures in case of default in the CFS MK-II Market shall be reviewed to ensure that financiers share the ultimate risk of default in an equitable manner.

In addition to the above, the following proposals were accepted:

- i) Strict compliance of mandatory collection of VaR based margin by the brokers from clients in each markets effective October 27, 2008.
- ii) Implementation of New Capital Adequacy Regime with effect from January 01, 2009.
- iii) Uncapping of Investor Protection Fund at KSE effective October 27, 2008.
- iv) Transfer of Risk Management from the stock exchanges to the National Clearing Company of Pakistan Limited with effect from December 01, 2008.
- v) Regular bi-weekly reports to be submitted by the exchanges to the SECP in respect of regulatory compliance, compliance with risk management requirements and monitoring and surveillance effective from November 17, 2008.

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