REGULATIONS GOVERNING CASH-SETTLED FUTURES CONTRACT

OF

THE ISLAMABAD STOCK EXCHANGE

(As amended on May 28, 2010 and sent for Gazette Notification)

REGULATIONS GOVERNING CASH-SETTLED FUTURES CONTRACT OF THE ISLAMABAD STOCK EXCHANGE (G) LIMITED

1. PREAMBLE

WHEREAS in order to introduce Cash-Settled Futures (CSF) Contract of 90 days duration at the Islamabad Stock Exchange it is desirable that necessary Regulations be framed to regulate Cash-Settled Futures Contract.

"NOW THEREFORE, in exercise of the powers vested under section 34(1) of the Securities and Exchange Ordinance, 1969, the Islamabad Stock Exchange (Guarantee) Limited with the prior approval of the Securities and Exchange Commission of Pakistan, hereby makes the following Regulations;

2. SHORT TITLE AND COMMENCEMENT

(i) These Regulations shall be called "The Regulations Governing Cash-Settled Futures Contract",

(ii) These Regulations shall come into force with immediate effect.

3. DEFINITIONS

i. "Board" means, "Board of Directors of the Islamabad Stock Exchange (Guarantee) Limited".

ii. "Broker" means, "Any member of the Exchange engaged in the business of executing transactions in securities for the account of others and for his own account and is registered with the Commission under the Brokers and Agents Registration Rules, 2001."

iii. "Clearing Company" means, "the National Clearing Company of Pakistan Limited"

iv. “Clearing House” means the Clearing House of the Exchange.

v. “Closing Price” of a security in this market means the price as prescribed under Regulations Governing Risk Management of Islamabad Stock Exchange (Guarantee) Limited, as amended from time to time.

vi. "Commission" means, "Securities and Exchange Commission of Pakistan",

vii. "Contract Multiplier" means, "the number of underlying shares in the contract, currently fixed at 500. The contract multiplier is subject to change when adjustments are made with respect to corporate actions."

viii. "Contract" means, "Standardized Cash-Settled Stock Futures Contract".

ix. "CSF Market" or "Market" means, "the market where Cash Settled Futures Contracts are traded."

x. "Daily Settlement Price" means, the Closing Price in the Cash-Settled Futures Contract Market.

xi. "Exchange" means, "The Islamabad Stock Exchange (Guarantee) Limited".

xii. “Exposure” shall have the same meaning as defined in “Regulations Governing Risk Management of Islamabad Stock Exchange”, as amended from time to time.

xiii. "Final Settlement Price of a scrip" means, "The average bid/ask quote of the scrip in the Ready Market which would be calculated as a ratio of A/B where "A" equals the sum of market bid and ask prices taking the best bid and best ask price of the scrip during each one minute interval for last two hour trading on the last trading day of the Contract or where no trading takes place on that day, the immediate preceding trading day "B" equals the total number of bid and ask prices sampled i.e. 240. The final settlement price thus arrived at shall be rounded to the nearest paisa per unit or other such amount per unit determined by the Exchange.

xiv. "Free-Float" means, "the number of shares readily available for sale as determined by the Free-Float methodology recommended by the Board from time to time and approved by the Commission." (The proposed Free-Float methodology is attached as Annexure A).

xv. “Mark-to-Market Loss or MtM Loss” shall have the same meaning as defined in “Regulations Governing Risk Management of Islamabad Stock Exchange” from time to time.

xvi. “Mark-to-Market Profit or MtM Profit” shall have the same meaning as defined in “Regulations Governing Risk Management of Islamabad Stock Exchange”, as amended from time to time.

xvii. “Member” means “Member of the Exchange.

xviii. "Open interest in a Scrip" means, "the total number of Contracts, of a Broker and his clients, of a scrip that have not been offset and closed at any point in time by an opposite transaction. For calculation of open interest only one side of the Contracts is counted."

xix. "Open Position in a Scrip' means, "the sum of long and short positions of a Broker and his clients at any point in time in a Contract for that scrip"

4. TRADING

(i) Trading in Contracts shall take place through Islamabad Stock Exchange Computerized Trading System.

(ii) Any Broker of the Exchange can enter into Cash-Settled Futures Contracts under these Regulations subject to prior notification in writing and payment of Rs. 50,000/- in cash to the Exchange, as basic deposit. This deposit along with any return earned on it is to be kept separate by the Exchange and cannot be used for purposes other than to meet any obligations of the member to the Exchange arising from the CSF Market.

Provided that the basic deposit paid by a broker under these Regulations may be utilized against exposure margin of such broker in the CSF Market during the trading hours. However, the basic deposit, so utilized, shall be replenished by the broker at the end of each trading day.

Provided further that in case of Member's default, this deposit shall be utilized in accordance with the Members' Default Management Regulations of the Exchange.

(iii) (a) The securities to be traded under these Regulations shall be determined by the Exchange every six months, based on the criteria to be determined by the Board from time to time subject to the prior written approval of the Commission.

(b) The Exchange shall give at least 30 days prior notice to the market participants before including or excluding any security from the list of securities eligible for trading in the Cash-Settled Futures Contract Market.

(iv) The Contract specifications for the Contract as determined by the Board and approved by the Commission and attached hereto as **Annexure B**, shall form part of these Regulations.

(v) The Contract Multiplier shall be determined by the Board from time to time before the opening of each Contract subject to prior written approval of the Commission.

(vi) When a buyer/seller accepts a bid/offer of a Contract, the Contract as specified as per format attached to these Regulations, shall be deemed to have taken place.

(vii) All offers/bids made may be accepted for or up to the limit of the offer/bid and the Broker making an offer/bid shall be bound by the Contracts.

(viii) Upon opening of any Contract, the Exchange shall notify the name of the company and the date of opening and closing of such Contract, the date of settlement of the said Contract and other relevant details as per **Annexure B** governing such Contract.

ix) There shall be one standardized 90 days Contract which will be issued each month on the first trading day following last Friday of each month for each eligible scrip. However, the Exchange shall have discretionary powers to introduce a contract of 30 and/or 7 days also. The 30 and 90 days contracts shall expire on the last Friday of the respective month of the Contract and the contract shall be known by the respective month in which the contract is to expire. Whereas the 7 days contracts shall start on each Monday or first trading day of the week and shall expire on each Fridays (or last working day of the week) and shall be known by the week number and month in which the contract is trading. No overlapping period is allowed in all Cash-Settled Futures Contracts.

x) The expiration date/last trading day shall be the last Friday of the respective calendar month in which the 30 or 90 days contract is to expire and/or each Friday of the week in case of 7 days contract. If the relevant Friday is a trading holiday, the respective Contract shall expire on the previous trading day.

(xi) In a 90 day Cash Settled Futures Contract, the Contract Multiplier will be adjusted on occasions when there are corporate actions like bonus issue or right issue in the underlying scrip. The adjustment will take effect from the day on which trading in Ready Market commences on ex-entitlement basis. For example when the Contract Multiplier is 500 and there is a 1-for-2 bonus share issue (i.e. for every 2 existing shares, the holder gets one additional share), the Contract Multiplier will be adjusted to 750 (500 x 3/2). When the Contract Multiplier is adjusted, the price of each share in the Contract will correspondingly be adjusted by the Exchange. In the above example, in case of bonus issue, the price of each share in the Contract will be adjusted to 2/3 of its closing price of the trading day which is just preceding to the day on which trading in Ready Market commences on ex-entitlement basis. For instance if the price was Rs 150 it would be Rs 100 (150 x 2/3). Similarly, when there is a 1-for-2 right issue, the Contract Multiplier will be adjusted to 750 (500 x 3/2) on the ex-right date. When the Contract Multiplier is adjusted, the Contract price ruling on the ex-right date will correspondingly be increased by the exercise price per share multiplied by 250. The adjusted price per share of the Contract would increase, decrease or remain same, depending upon whether the right shares have been offered at a premium, discount or par respectively, to its closing price of the trading day which is just preceding to the day on which trading in Ready Market commences on ex-right basis. The adjustment of Corporate Multiplier would be applicable only to the Contracts that are trading as of the corporate action date. When the next new contract is traded its Contract Multiplier would be reinstated to the board lot size of 500 shares. (No mark to market differences by virtue of such adjustments shall be payable or receivable on the ex-entitlement date).

Provided, in case of 30 days Cash Settled Futures Contract, in the event of declaration of bonus / right and/or cash dividend pertaining to a security being traded in the Cash Settled Futures Market for which the Share Transfer Books of the Company are to be closed during the pendency of the settlement, the Exchange shall predate the last day of trading and the settlement date of that particular security contract.

(xii) In case where the cash dividend is declared in a scrip, no adjustment would be made by the Exchange in the 90 days Cash Settled Futures Contract.

5. RISK MANAGEMENT

(i) Deposit against exposure would be payable by the Brokers on the basis of VAR based margining system as prescribed under Risk Management Regulations of the Exchange.

(ii) Further provisions relating to risk management including Open Interest, position limits MtM losses, Margin against Exposures and losses, etc. shall be applicable as provided under the Regulations Governing Risk Management of the Exchange.

6. CLEARING & SETTLEMENT

(i) The Clearing House/ Clearing Company shall receive payments from Members on settlement days within the time specified by the Exchange/ Clearing Company. In case any Member fails to make any payment to the Clearing House / Clearing Company within the specified time, default proceedings shall be initiated against that member under relevant Regulations of the Exchange/ Clearing Company.

(ii) **Daily Clearing and Settlement:**

There shall be Daily Clearing at the Daily Settlement Price of the day and MtM Losses/Profits shall be settled in the following manner:

(a) Net MtM Losses shall be collected from Members in cash on T+0 settlement basis (by day-end on trade day) through Clearing House or Clearing Company.

(b) Net MtM Profits shall be disbursed to Members in cash on T+1 settlement basis through Clearing House / Clearing Company.

(c) Scrip-wise outstanding position of Brokers will be revalued at relevant Daily Settlement Price except in case as explained in the proviso given below. The system will consider such revalued amounts as traded values for collection of mark-tomarket losses and for making payment of mark to market profits.

(iii) **Final Clearing & Settlement:**

Upon closing of Contract, final settlement shall take place on T+1 basis and the resulting profits or losses, calculated on the basis of "Final Settlement Price" shall be settled in cash. The payment and collection of profits or losses on final settlement to/from Brokers shall be carried out by the Clearing Company within the stipulated time and in the prescribed manner.

(iv) Special Clearing and Settlement:

The Exchange may announce a special clearing in a Contract or all Contracts or in a particular scrip or all scrip in a Contract or all Contracts, subject to the prior approval of the Commission, in an emergency situation which may include but is not limited to abnormal country wide riot or strike, fire, accident at the Exchange, change of government or act of God or for any other catastrophic event. In case a special clearing is announced, trading shall be suspended and all Open Interest will be required to be settled within one day of the suspension or prior to the opening of the market. The market would remain suspended till further notice from the Exchange. On resumption of the market, three new Contracts would open from the date of resumption in place of the three suspended Contracts, expiring on the original expiry date as per these Regulations. Similarly if Commission considers the market is overheated or cause exists and the Commission feels it expedient in the investors' interest, to call for special clearing then it may direct the Exchange to cause a special clearing as detailed above.

7. GENERAL

i) It shall be obligatory upon the Brokers transacting in CSF market under these Regulations to:

a) Take such margins from their clients which shall not be less than the margins as prescribed under these Regulations and the same margin shall be deposited to the Exchange against the respective exposure of the clients.

b) UIN Regulations would be applicable on the Cash Settled Future Market.

ii) In addition to the Regulations mentioned in Clause 5 above, the Exchange may impose any further risk mitigating conditions and risk management measures to protect the interest of the Exchange as well as to provide comfort to investors both local and international with the prior written approval of the Commission.

iii) The Board may, with the prior approval of the Commission, make changes in these Regulations after giving reasonable notice.

iv) Further provisions relating to risk management including Open Interest, MtM losses, Margin against Exposures and losses, etc. shall be applicable as provided under the Regulations Governing Risk Management of the Exchange.

ANNEXURE-A

FREE FLOAT

The free-float of each scrip allowed for trading shall be reviewed every six months and shall be disclosed to the public. Free-float may be reviewed earlier in case of disinvestment by sponsors or public. Determination of free float includes deducting the following holdings from, total number of issued shares for each stock:

i) Government holdings
ii) Directors and sponsors
iii) Shares held in physical form
iv) Shares held by associate companies
v) Shares held in employee share schemes
vi) Shares held by strategic investors who are barred from selling for certain period.

ANNEXURE - B

CONTRACT SPECIFICATION FOR CASH-SETTLED STOCK FUTURES CONTRACT

Contract Multiplier	500 shares, subjected to changes when adjustments are made in respect to corporate events. Contract value = Futures price x Contract Multiplier
Position Limits	As prescribed under Regulations Governing Risk Management of Islamabad Stock Exchange, as amended from time to time.
Daily Price Limits	As provided under Regulations Governing Risk Management of the Exchange.
Period of Contract	90, 30 or 7 days
Opening of Contract	First Trading day of the next week following the close of the contract.
Overlapping Period	None.
Expiration Date/ Trading day	Last Friday of the calendar month/week, if last Friday is not a trading day, then immediate preceding trading day.
Final Settlement	Cash settlement on T+1 basis.
Final Settlement Price	As defined in these Regulations
Daily Settlement Price	As defined in these Regulations
Margin Requirements	As per the VAR based system prescribed under the Regulations Governing Risk Management of the Exchange.