



**ISE**

**REGULATIONS GOVERNING RISK  
MANAGEMENT**

**OF**

**ISLAMABAD STOCK EXCHANGE**

**(As amended on May 05, 2010 and sent for Gazette Notification)**

# **REGULATIONS GOVERNING RISK MANAGEMENT OF ISLAMABAD STOCK EXCHANGE**

## **1. PRELIMINARY**

### **1.1. Preamble**

Whereas in order to implement a transparent and effective risk management system in respect of all market segments, it is deemed expedient to frame Regulations in this regard.

Now, therefore, the Islamabad Stock Exchange (Guarantee) Limited in the exercise of powers conferred by Section 34 of the Securities & Exchange Ordinance, 1969 (XVII of 1969) with the prior approval of the Securities and Exchange Commission of Pakistan hereby makes these Regulations.

### **1.2. Short Title**

These Regulations may be called “Regulations Governing Risk Management of Islamabad Stock Exchange”.

### **1.3. Commencement**

These Regulations shall come into force on publication in the official gazette of Pakistan.

### **1.4. Overriding effect**

In case of any conflict or inconsistency between these Regulations and any other existing regulations of Islamabad Stock Exchange, these regulations shall prevail to the extent of such conflict or inconsistency.

### **1.5. Definitions**

In these Regulations the following expressions shall, unless the context requires otherwise, have the meanings herein specified below:

“**All Markets**” means collectively Ready Market, Deliverable Futures Contract Market, Cash-Settled Futures Market and Futures Trading in Provisionally Listed Companies Market and individually referred to as a “Market”.

“**Bank Guarantee**” means a Guarantee issued by a bank as mentioned below and deposited by the Members of the Exchange in the form acceptable to the

Exchange in order to fulfill their Collateral requirements against their Exposure Margins, Mark-to-Market losses and where applicable Special Margins, provided that such Guarantees are issued by such banks which meets the following criteria for this purpose.

The Bank:

- (i) is duly licensed to carry on banking business in Pakistan under the Banking Companies Ordinance, 1962 (LVII of 1962), or, being a statutory corporation, it is otherwise entitled to carry on banking business under the law it is created;
- (ii) has been allocated minimum credit rating of 'A'. Provided that, where a bank has been allocated credit rating of 'A', the maximum amount of such Guarantee per Member of the Exchange is limited up to Rs. 400 million, whereas in case of 'AA' or above credit rated bank, the maximum amount of such Guarantee per Member of the Exchange is limited up to Rs. 1.0 billion; and
- (iii) has a bank branch located within the premises of the Exchange which is acceptable to the Exchange as such bank's main contact branch. The Exchange shall maintain a list of banks which satisfy the aforementioned eligibility criteria for issuing the Bank Guarantees acceptable to the Exchange for satisfying Collateral requirements.

**“Cash Settled Futures Market”** means a market as envisaged under the ‘Regulations Governing Cash settled Futures Contracts’ of the Exchange.

**“Closing Price”** of a security in the respective market means the volume weighted average price of the last 30 minutes trades in that security for the day. In case of no trading in a particular security during the last 30 minutes of the day, volume weighted average price of last traded 30 minutes in that security.

Provided that in case no trade takes place during the last two trading hours in the Ready Market, in that security, the Closing Price of that security will be updated on the basis of Bid/Offer mechanism whereby Bid/Offer must be better than last traded price and satisfy the following conditions:

- i) Bid/Offer is entered in ISECTS at least two hours before the closure of the market.
- ii) Bid/Offer is available for trade at the time of closure of the market.
- iii) Bid/Offer remains un-changed during this time.

Provided further that in case no trade takes place during the whole trading day in the Deliverable Futures Contract Market or Cash-Settled Future Contract Market

in a particular security, the Closing Price of that security for respective future market will be updated on the basis of Theoretical Price, i.e., Closing Price of underlying security in the Ready Market  $\times \{1 + (\text{One Month KIBOR} + 4\%) / 365 \times \text{DTM}\}$ , where DTM stands for Date to Maturity, which is equivalent to calendar days difference in the Settlement Dates of the Ready Market trades and Deliverable Futures Contract or Cash-Settled Futures contract on any applied trade date.”

“**Commission**” means the Securities & Exchange Commission of Pakistan.

“**Deliverable Futures Contract Market**” means a market as envisaged under the Regulations Governing Deliverable Futures Contracts’ of the Exchange.

“**Exchange**” means the Islamabad Stock Exchange (Guarantee) Limited

“**Exchange Trading System**” Means the official Computerized Trading System and includes its allied computer applications and software.

“**Exposure**” means at any point in time, security wise and client-wise cumulative net unsettled amount of purchases and sales, of a member (including proprietary trades) under each Market determined in accordance with these regulations.

**Explanation:**

- (i) The system will take into account the actual traded values of the trades executed on account of a UIN on ISECTS for the purpose of calculating Exposure of respective UIN. Further it will also take into account the impact of rectification of the erroneous trades on UIN basis carried out on the same trading day in the manner and procedure prescribed by the Exchange from time to time.
- (ii) All trades due for settlement on that day will be excluded for calculation of Exposures, once settled.

“**Futures Trading in Provisionally Listed Companies Market**” means a market as envisaged under the ‘Regulations Governing Futures Trading in Provisionally Listed Companies’ of the Exchange.

“**Haircut**” means the percentage rates on which the Margin Eligible Securities are discounted for valuation purpose based on their liquidity and volatility.

“**House Account**” means the house account as defined and prescribed under the Central Depository Company of Pakistan Limited Regulations, as amended from time to time.

**“Impact Cost”** Impact Cost (IC) represents the amount of adverse price movement in fulfilling an order size of Rs. 500,000/- or any other amount as prescribed by the Exchange with the prior approval of SECP, during last six months. The IC is calculated on a real time basis and is adjusted for every change in the order book due to an order size of Rs. 500,000/- or any other amount prescribed in the above manner.

**“NCCPL”** means the National Clearing Company of Pakistan Limited and includes its successors.

**“NCSS”** means the National Clearing and Settlement System of the NCCPL.

**“Non-Broker Clearing Member”** shall have the same meaning as ascribed thereto in the regulations framed by NCCPL from time to time.

**“Margin Eligible Security”** means:

- (a) Such listed security that meets the quantitative and qualitative criteria laid down by the Exchange and approved by the Commission from time to time. Such criteria shall inter alia include selection of securities on the basis of highest daily turnover and lowest impact cost during the last 6 months;
- (b) Treasury Bills (T-Bills), Pakistan Investment Bonds (PIBs) and listed National Saving Bonds valued in accordance with the methodology prescribed by the Exchange from-time to time with prior approval of the Commission.
- (c) Any other highly liquid security allowed by the Board with prior approval of the Commission.

**“Mark-to-Market Loss or MtM Loss”** means amount payable by a member at any point in time during a trading day on account of trades executed on behalf of its clients, as well as its proprietary unsettled position in any security, to the Clearing House or NCCPL due to difference between the Transaction Price, on trade to trade basis, of the unsettled position in each security and the Closing Price of that security.

**“Mark-to-Market Profit or MtM Profit”** means amount receivable by a Member at the end of each day on account of contracts executed on behalf of its clients, as well as its proprietary unsettled position in any security, from Clearing House or NCCPL due to difference between Transaction Price, on trade to trade basis, of the unsettled position in each security and the Daily Settlement Price of that Security.

**“Pre-Trade Margin”** means the initial margin payable in advance by a member at order entry level in Exchange Trading System.

**“Ready Market”** means the market where trades are settled on rolling settlement

basis, based on actual delivery

“**RiskMeter**“ Risk Meter means a computer application for calculation of VaR margins.”

“**Sub-account**” means a sub-account as defined under the Central Depository Company of Pakistan Limited Regulations, as amended from time to time.

“**Transaction Price**” means the price at which the trade is executed on the Exchange Trading System.

“**UIN (Unique Identification Number)**” has the same meaning as described under NCCPL Regulations.

“**UTS**” means the Unified Trading System of the Islamabad and Lahore Stock Exchanges and represents the official Computerized Trading System of the ISE.

“**VaR Estimates**” means a sum of VaR, scaled up by a factor of  $\sqrt{n}$  to cover “n” days risk based on underlying stock liquidity, and Worst Case Margin.

“**VaR**” or “**Raw VaR**” means the maximum amount of money that can be lost on a portfolio over a given period of time, with a given level of confidence as determined by the RiskMeter.

**Worst Case Margin (WCM)** means a margin that covers stock movement in extreme events in a day in situations that lie outside the coverage of the Raw VaR calculations.

## 2. CAPITAL ADEQUACY

### 2.1 Capital Adequacy Procedures and Exposure Limit based thereon:

The Net Capital Balance for the purpose of these Regulations shall be calculated in accordance with the Third Schedule to the Securities & Exchange Rules, 1971 and its certificates will be submitted to Exchange in the following manner:

- (a) Maximum Exposure in each and/or All Markets of a member shall not exceed the number of times of his Net Capital Balance attributed to the Exchange for the purpose, as provided in Schedule 1 to these Regulations;
- (b) The Members of the Exchange shall submit bi-annually a certificate from an auditor selected from the panel of auditors prescribed by the Exchange under Regulations Governing System Audit of the Brokers of the Exchanges, 2004, confirming their Net Capital Balance on the format prescribed by the Exchange, as on the dates and within such time as may be notified by the Exchange for the purpose;

- (c) The certificate shall specify that the Net Capital Balance calculated have been duly audited/verified by the auditor referred in 2(b) above;
- (d) Net Capital Balance certificate shall be submitted by the Members within the time as may be prescribed by the Exchange, failing which penalty shall be imposed as provided in Schedule 5 to these Regulations.

## 2.2. **Monitoring**

The Exchange will monitor compliance with the Exposure limits and availability of margins as prescribed by or pursuant to these Regulations. Such monitoring, however, will not in any manner diminish the responsibility of the members to ensure compliance with these Regulations.

## 3. **EXPOSURE AND NETTING**

### 3.1. Determination of Exposure

- (a) Security-wise, UIN-wise and Market-wise Exposure of each Member will be calculated by the Risk Management System of the Exchange at any point of time subject to applicable netting rules, as prescribed by these Regulations.

Provided that in case of Ready Market, exposure of each member shall be calculated at the higher of the values determined either by summing-up all settlement day wise net outstanding buy positions or all settlement day wise net outstanding sale positions of the same client in the same security in the Ready Market at any point in time, subject to the applicable netting rules as prescribed by these Regulations.

- (b) The Exposure of a member in respect of the trades executed on behalf of their institutional clients which are Non-Broker Clearing Members of NCCPL and affirmed by the respective Non-Broker Clearing Member shall be reduced to the extent of such trades after receiving confirmation from the NCCPL that the Exposure margins and M/M Losses computed in accordance with their Regulations have been duly deposited by such Non-Broker Clearing Member with the NCCPL. In case of default by a Non-Broker Clearing Member on affirmed trades, to fulfill its securities or money obligations towards NCCPL on the settlement date, default proceedings shall be carried out in accordance with regulations of the NCCPL. Un-affirmed trades shall be the proprietary trades of the member in the same market and included while calculating Exposure and relevant margins of the member.
- (c) No netting whatsoever, in any Market, shall be allowed for the purpose of calculation of Exposure and relevant margins in lieu of Margin Financing

transactions.

- (d) Exposure during Calendar Spreads in DFC and CSF markets: During the Over-lapping Period of Deliverable Futures Contracts (DFC) or Cash-Settled Futures Contract (CSF), the Exposure in a particular scrip will be calculated based on the higher of Contract Period-wise Net-Buys and Net Sales based on netting mechanism explained in clause 3.4 (Netting within Deliverable Futures Market and 3.5 (Netting within CSF (Cash-Settled Futures) Markets. However, all Contract Period-wise Net Buys or Net-Sales will be added together for determining total Exposure under one UIN in a security.

### 3.2. **Netting – general rule**

Except as expressly provided otherwise in these Regulations, no netting of open positions shall be allowed across Markets.

### 3.3. **Netting within Ready Market**

Netting shall be allowed between Buy and Sell positions in the same Security for the same Settlement Day for the same UIN (client). Likewise Buy and Sell positions of a Member's proprietary UIN in same Security for the same Settlement Day shall be netted against each other.

### 3.4. **Netting within Deliverable Futures Market (including Provisionally Listed Securities)**

Netting shall be allowed between buy and sell positions in the same security for the same client in the same contract period. Likewise buy and sell positions in same security in the same contract period for the proprietary trades of a member can be netted against each other.

### 3.5 **Netting within CSF (Cash-Settled Futures) Market**

CSF Market shall be considered a separate market for the purposes of calculating exposure of a Member and netting shall not be allowed with Ready or CFS or Deliverable Futures Contract Market.

Netting shall only be allowed between buy and sell positions in the same security for the same client in the same Contract Period. Likewise buy and sell positions in same security in the same contract period for the proprietary trades of a member can be netted against each other.

### 3.6 **Restriction/Prohibition**

Save as specifically provided above, no other netting such as across clients, across markets, across contract period, across settlement period, across different securities or contracts shall be allowed whatsoever.

#### 4. EXPOSURE MARGINS

##### 4.1. Margin requirements

- (a) All trades in any security or securities shall be subject to the margin requirements prescribed in these Regulations or such other additional margins in this regard as the Exchange may, with the prior permission of the Commission, from time to time prescribe in addition hereto.

However, the total margins requirements (including initial margins and Concentration margins added together, for particular scrip under a UIN should not exceed its Exposure amount in any case.

- (b) **Pre-Settlement Delivery:** In case where a UIN-wise net-seller in a security under Ready Market or Deliverable Futures Contract Market deposits the net-sold deliveries with the Exchange or NCCPL, his all margin requirements and MtM Losses/ Profits to the extent of such pre-settlement tendered deliveries shall not be taken into account by the Exchange, while calculating Member wise margin requirements for respective market.

##### 4.2. VaR based margins

- (a) **Categorization of securities:**

The securities shall be classified into four categories on the basis of following:

<i>Category</i>	<i>Scale up Factor</i>	<i>No. of Days Count (Based on availability of Rs.500,000 trade data)</i>	<i>Impact Cost</i>
<i>A</i>	<i>1</i>	<i>= 80% of traded days</i>	<i>= 1%</i>
<i>B</i>	<i>v3</i>	<i>= 80% of traded days</i>	<i>&gt; 1% = 2%</i>
<i>C</i>	<i>v5</i>	<i>= 80% of traded days</i>	<i>&gt; 2%</i>
		<i>&lt; 80% of traded days</i>	
<i>Illiquid - D</i>	<i>If the tradable days even with one (1) lot in a scrip is less than 33%</i>		

- (b) **Monthly review:**

The trading frequency and the impact cost shall be calculated on the 15<sup>th</sup> of each month on rolling basis considering the data of previous six months. On the basis

of the trading frequency and impact cost so calculated, the securities shall move from one group to another from the next trading day.

**(c) Calculation of VaR Margin**

VaR margin will be based on Risk Meter calculation using the following three methods:

1. Variance/ Covariance,
2. Historical/Filtered Historical Simulations and
3. Exponentially Weighted Moving Averages (EWMA).

1. The highest VAR margin calculated under the above three methods is taken as the VaR or Raw VaR.
- ii. The Raw VaR is then scaled up by a factor of  $v_n$  to cover an 'n' day risk based on the underlying scrip's liquidity as demonstrated by its categorization on the basis of trading frequency and impact cost in (a) above. Based on the respective categorization, the Raw VaR numbers for each scrip are then scaled up by a factor of  $v_1$ ,  $v_3$  and  $v_5$  respectively. For securities falling in the D category, maximum VaR i.e., 60% shall be applied. The number so arrived shall be called as Scaled up VaR.
- (iii) A Worst Case Margin is added to the Scaled up VaR to cover 1% of the days (extreme events) that go beyond the those envisaged on the 99% value at risk estimates used in the calculation of Raw VaR. The margin so arrived shall be known as the VaR Estimate.

The Worst Case Margin is the higher of:

- 5%
- 1.5 times the standard deviation of daily returns of the stock price in the last six months or one year (whichever is higher) and
- Maximum breach in the security's VaR back tested over one year trading days (peaks over threshold)

- (d) The Exposure margins for each security in Ready and Deliverable Futures Contracts markets shall be calculated by the Exchange applying VaR Estimates calculated by the RiskMeter at the end of each trading day.
- (e) The Exposure margins for each Security in Cash-Settled Futures Contract Market shall be calculated by the Exchange applying Scaled-up VaR calculated by the RiskMeter at the end of each trading day.
- (f) The Exposure margins so determined shall be posted on website of the Exchange and shall be applicable for determining margin requirement at the end of each trading day.

**4.3. Fixed margins**

Exposure margins during the first six months of listing of a security on the Exchange shall be 25% of the Exposure.

4.4. Deposit of Exposure margins

- (a) The Exposure margins shall be deposited by a Member within such time as may be determined by the Exchange from time to time but in no case later than the opening of the market on the next trading day.
- (b) Bank slips duly posted in Exchange's bank account and Pay Order(s) shall be delivered to the Exchange within the prescribed time against the demands in relation to exposure margin/Mark-to-Market losses. However, payments up to Rs. 2,500,000/- for the purpose of payment against exposure margins and losses may be accepted by cheque."
- (c) Exposure margins deposited by a member under these Regulations, pertaining to different markets must be kept separately by the Exchange. Where in case of any practical difficulty, margins in respect of different markets, deposited by a member, may be kept on a combined basis; however in case of default of the member in a particular market, such combined margins will be allocated in each market based on exposure of the member in that market.

4.5. **Form of margin deposits**

Margins payable by a member under these Regulations will be accepted by the Exchange either in the form as specified in Schedule 2.

4.6. **Conditions applicable to all margin deposits**

All margins deposited by the members with the Exchange pursuant to these Regulations shall be subject to the following conditions:

- (a) the Exchange may from time to time prescribe, with the prior approval of the Commission, Haircuts applicable to each Margin Eligible Security;
- (b) the Exchange shall not accept any Margin Eligible Security for the purpose of margin requirements if acceptance of Margin Eligible Security taken together with the margins already held will exceed member wide and/or market wide limits of deposit of such Margin Eligible Security as prescribed in Schedule 3 hereto;
- (c) The security is in book entry form.
- (d) The issuer of security is not placed on the defaulter's counter of the Exchange

- (e) The Corporate Brokerage Houses listed on the Exchange will not be allowed to deposit against exposure their own company's shares.
- (f) The Exchange may from time to time prescribe, with the prior approval of the Commission, the maximum number of acceptable Margin Eligible Securities.
- (g) Any other criterion prescribed by the Exchange and approved by the Commission from time to time.
- (h) The Exchange shall give at least 30 days prior notice to the market participants before including or excluding any security from the list of Margin Eligible Securities.
- (i) Exchange shall carry out in each June and December a review of margin eligible securities on the basis of data available for last six months. Any resulting change in the securities shall be notified one month in advance.

#### **4.7. Value of margin deposit to be maintained**

The member depositing margin in the form of Margin Eligible Securities shall always maintain the value thereof, after application of the relevant Haircuts, at not less than the margin amount for the time being required to be covered by them by providing further Margin Eligible Securities or depositing cash to the satisfaction of the Exchange which shall always determine the said value and whose valuation shall conclusively fix the amount of any deficiency to be made up from time to time. If at any time during a trading day, the required margins against Exposure of a member and its clients exceed the already deposited margins, such member shall deposit with the Exchange the margin computed by the Exchange Trading System within the time specified by the Exchange, but not later than opening of the market on the next trading day.

#### **4.8 Pre-Trade Margin**

All trades shall be subject to availability of Margins by Members either from House Account or respective Sub-Account at the pre-trade level (Order entry level) in the manner as prescribed by the Exchange from time to time.

#### **4.9 Post-Trade Margin**

All trades/transactions shall be subject to collection of Margins at the close of trading day in the relevant market as provided in Clause 7 below. If a client of a Member has insufficient margins against exposure and MtM Losses against his position on UIN basis at the close of trading day in the relevant market, such Member shall not take further exposure for such client on UIN basis in the

relevant market on next trading day, however, the Member may reduce the position of such client by squaring-up open position.

#### **4.10 Basic Deposits as Exposure Margins**

The basic deposits payable for the Ready Market, Cash-Settled Futures Market, Deliverable Futures Contract Market and Futures Trading in Provisionally Listed Companies Market, deposited by a Member with the Exchange may be utilized against exposure margin of such Member for the respective market during the trading hours. However, the Member shall replenish the basic deposit at the end of the relevant day.

### **5. MARK-TO-MARKET LOSSES**

#### **5.1. Determination of MtM Losses**

MtM Loss (or profit) shall be calculated on trade to trade basis, separately for each scrip, for each client and for proprietary open positions of a member on the basis of the last executed prices during trading hours on a trading day. The final determination and collection of MtM losses at the end of trading day shall be at the Closing Prices as determined by the Exchange. Provided that the basic exemption permissible to a member under the regulations applicable to a particular Market will be deductible while calculating such MtM Losses of the member.”

#### **5.2. Netting**

While determining the MtM Losses (or profit) payable by a member, netting shall be permissible across trades in different securities for the same client or across trades in different securities for proprietary trades of a member, in the same settlement date or contract period.

Save as specifically provided above, no other netting such as across clients, across markets, across contract periods, across settlement dates etc shall be allowed whatsoever.

#### **5.3. MtM Losses deposit**

- (a) Each member will pay its MtM Losses to the Exchange at any point in time (as demanded by the Exchange) or at the end of each trading day but not later than prior to opening of trading on the next day.
- (b) MtM losses of members (client as well as proprietary positions) having total Exposures in the Deliverable Futures Contract Market of more than Rs. 200 million will be collected twice a day, including at the end of each trading day.

**5.4. Form of MtM Losses deposit**

Deposit against MtM Losses will be accepted by the Exchange in the form as specified in Schedule 2.

**6. CONCENTRATION MARGINS AND SPECIAL MARGINS**

**6.1 Concentration Margins**

Concentration Margins shall be payable by a Member in respect of a security in Deliverable Future Contracts and Cash-Settled Futures Contracts markets determined in accordance with Schedule 6. Concentration Margin shall be calculated at the end of each trading day.

**6.2 Liquidity Margins**

The Liquidity Margins shall be payable by a Member once his Exposure limit in the Ready Market reaches at a certain level at the rate as prescribed in the Schedule 6-A. Such margins shall be payable by the Member from his Proprietary Account.

**6.3 Concentration and Liquidity Margins Deposits**

The applicable Concentration and Liquidity Margins shall be paid by a member at the end of each trading day.

**6.4 Obligation in addition to other margin obligations**

The obligation to pay Concentration and Liquidity Margins is in addition to the obligations to pay Exposure Margin and MtM Losses.

**6.5 Form of Deposit against Concentration and Liquidity Margins**

Deposit against Concentration and Liquidity Margins will be accepted by the Exchange in the form as specified in Schedule 2.

**7. SOURCE AND UTILIZATION OF MARGINS AND MTM LOSSES**

- (i) The required margins and MtM Losses as specified in Schedule 2 hereto to be deposited by a member in the form of Margin Eligible Securities in the book entry form shall be acceptable from:
  - (a) Subject to Sub-Regulation 7 (iv) & (v) below, sub-account(s) of a client maintained under Participant Account of the Member against trades/transactions of such client on UIN basis.

Provided where a Member of another Stock Exchange carries out trades/ transactions for its own proprietary account or on behalf of its clients through the Member of the Exchange, complying with the process of NCCPL for registering UIN for Inter-Exchange trades, then the required margins/ MtM losses shall be acceptable from the House Account or respective sub-account, as the case may be, of clients of the Member of another Stock Exchange maintained under its Participant Account.

- (b) Subject to Sub-Regulation 7(iv) below, House Account(s) of a Member against trades/transactions of such Member on UIN basis in proprietary account.
- ii) Cash deposited by the Member with the Exchange and segregated towards respective client (UIN) under the designated system, shall be utilized towards margin requirements and MtM Losses against trades/transactions.
- iii) Subject to Sub-Regulation 7(iv) below, Cash and Bank Guarantee(s) deposited by the Member shall be utilized towards margin requirements and MtM Losses against Member's proprietary UIN trades/transactions.
- iv) Members may authorize in writing the Exchange to utilize excess Margin Eligible Securities available in his House Account, Cash and Bank Guarantee(s) deposited with the Exchange for meeting any shortfall in the margin and MtM Losses requirements of his clients. However, Members will be required to collect margins from their clients as provided under these Regulations and separately maintain cash deposited by his clients as margins in his back-office record.
- (v) Directors of a Corporate Brokerage House may authorize the Member in writing through a specific authority as specified in Schedule 7, on each occasion, specifying the number of shares and time duration for utilizing excess margin eligible securities available in their respective sub-accounts for meeting any shortfall in the margin and MtM losses requirements of other UINs, including Proprietary UIN of such Corporate Brokerage House in favour of the Exchange.

**Explanation:** The expression "Director", for the purpose of this sub-regulation, means a director who directly or indirectly holds not less than 15% of the shares of the brokerage house.

- (vi) Upon failure of a Member to meet his obligations in accordance with Members' Default Management Regulations of the Exchange and/or NCCPL the collaterals deposited as margins shall be utilized as per those Regulations.

## 8. POSITION LIMITS

### 8.1 Position limits

No Member shall have open positions in client/proprietary trades in any security/contract in a Market of more than the limits, as specified in Schedule 4 hereto.

Furthermore overall Member-wide as well as Market-wide position limits are also applicable as specified in Schedule 4 hereto. All position limits shall be monitored by the Exchange through a preventive automated mechanism, whereby trading activity beyond such prescribed limits shall not be allowed.

## **9. GENERAL**

### **9.1. Circuit breaker**

There shall be a security-wise circuit breaker for each Market separately in case of price fluctuation of 5% or Re. 1/-, whichever is higher from the Closing Price of the previous day or any other limit as prescribed by the Exchange, with the prior approval of the Commission, from time to time.

Trading will be allowed up to the upper and lower limits as set by the circuit breakers.

No trade in the respective security will be allowed beyond the above price fluctuation.

### **9.2. Deposits to be held by the Exchange**

All deposits made pursuant to these Regulations and/or NCSS Regulations shall be held by the Exchange and/or NCCPL.

### **9.3 Lien on deposits**

The monies, Margin Eligible Securities and other securities and assets deposited by a member by way of a margin or MtM Loss under these Regulations shall be subject to a first and paramount lien for any sum due to the Exchange or to NCCPL by such member and for the due fulfillment of such member's engagements, obligations and liabilities arising out of or incidental to any trades, dealings, transactions and contracts made subject to the Rules, Bye-laws and Regulations of the Exchange and NCCPL or anything done in pursuance thereof.

### **9.4 Obligation of Members to collect margins from their clients**

It shall be obligatory upon the Members trading/taking exposure in any Market under these Regulations to take all margins and MtM losses from their respective clients in accordance with total Margin Requirements as prescribed by the Exchange and/or mentioned under the relevant regulations of the relevant market, if any. Such prescribed margins shall be the minimum margins that must be taken by the Member from their respective clients while trading/taking exposure on

behalf of such client. The Exchange shall ensure compliance of this requirement through appropriate procedures including auditing and inspection of records.

The collection of any type of margin by a Member from its client/client(s) shall be the sole responsibility of such Member; nevertheless any failure of the client to pay such margin shall not affect the obligation of the Member to pay such margin to the Exchange/NCCPL.

#### **9.5 Disciplinary Actions on Non-Compliance to these Regulations**

Where a member fails to deposit margin or M/M Losses as provided in these Regulations or fails to comply with any other requirement of these Regulations or relevant NCCPL Regulations, the Exchange shall proceed against such member in accordance with the Members Default Management Regulations of the Exchange and relevant NCCPL Regulations.

#### **9.6 Evasion of requirements prohibited**

A member shall not directly or indirectly enter into any arrangement or adopt any procedure for the purpose of evading or assisting in the evasion of the requirements prescribed under these Regulations.

#### **9.7 Restriction/Prohibition**

The provisions of these Regulations, inter alia including schedules, policies procedures, practices and systems based on thereof, shall be binding on all the Members and shall not be amended, altered or modified by the Exchange without prior written approval of the Commission.

#### **9.8 Force Majeure**

ISE Board may in its reasonable opinion determine that an emergency or exceptional market condition exists in a market (a "Force Majeure Event"), including but not limited to:

- a) where the Exchange / Clearing Company is, in its opinion, unable to maintain an orderly and as a result of the occurrence of any act or event (including but not limited to any circumstance beyond the Exchange/ Clearing Company's control such as strike, riot, civil unrest or failure of power supply, communications or other infrastructure);
- b) the suspension, closure, liquidation or abandonment of any relevant market or underlying indices;
- c) the excessive movement, volatility or loss of liquidity in the relevant markets or underlying indices; or

- d) where the Exchange reasonably anticipates that any of the circumstances set out in this clause (a) to (c) are about to occur or has occurred.

If ISE Board determines that a Force Majeure event exists then it may (without prejudice to any other rights under these Regulations and in consultation with NCCPL and CDC) take any one or more of the following steps:

- a) Alter normal trading times;
- b) Alter the Margin Percentage;
- c) Amend or vary any transactions contemplated by these Regulations, including any Contract, insofar as it is impractical or impossible for the Exchange / Clearing Company to comply with its obligations to the Customer;
- d) Close any or all open Contracts, cancel instructions and orders as the Exchange deems to be appropriate in the circumstances; or
- e) Take or omit to take all such other actions as ISE Board deems to be reasonably appropriate in the circumstances having regard to the positions of the Exchange, Clearing Company, the Members and other customers.

If the Exchange determines that a Force Majeure Event exists, the Exchange will not be liable to the Members for any failure, hindrance or delay in performing its obligations under these Regulations or for taking or omitting to take any action in accordance with these Regulations.”

## **10. REPEAL**

The existing Regulations Governing Members' Exposure are hereby repealed.

**SCHEDULE 1**

(see Regulation 2.2)

**MEMBERS' NET CAPITAL BALANCE (NCB) LIMIT & LEVERAGE POSITION**

<b>Members' Net Capital Balance Limit &amp; leverage Position</b>	<b>Deliverable Futures Market</b>	<b>Cash Settled Future (CSF) Contracts</b>	<b>Ready Market</b>
	<i>10 times the NCB of member</i>		<i>25 times the NCB of member</i>
	<i>Maximum Exposure of 15 times the NCB of member for Cash Settled Futures Market and Deliverable Futures Contract Market.</i>		
	<i>Maximum Exposure of 25 times the NCB of member for Cash Settled Future and Deliverable Futures Contract Market and Ready Market</i>		

**SCHEDULE 2**  
(see Regulation 4.5,5.4,6.5)

**FORM OF EXPOSURE MARGIN/ MTM LOSSES / CONCENTRATION MARGINS AND LIQUIDTY MARGINS DEPOSITS**

<b>S. No.</b>	<b>Market</b>	<b>Exposure Margins</b>	<b>MtM Losses</b>	<b>Concentration Margins</b>	<b>Liquidity Margins</b>
1.	Ready Market	100% in Cash and/or Margin Eligible Securities and/or Bank Guarantee	100% in Cash and/or Margin Eligible Securities and/or Bank Guarantee	Not applicable	100% in Cash and/or Margin Eligible Securities and/or Bank Guarantee
2.	Futures Trading in Provisionally Listed Companies Market	100% in Cash and/or Bank Guarantee	100% in Cash	Not applicable	Not applicable
3.	Deliverable Futures Market	100% in Cash and/or Bank Guarantee	100% in Cash	100% in Cash and/or Bank Guarantee	Not applicable
4.	Cash-Settled Market	100% in Cash and/or Bank Guarantee	100% in Cash	100% in cash and/or Bank Guarantee	Not applicable

**Note:** In Deliverable Futures Market, in case where Exposure is due to sale of a particular security, such security can be deposited up to the extent of net sale against demand of cash deposit as Margin.

### **SCHEDULE 3**

*(see Regulation 4.6)*

#### **Margin Eligible Securities**

The following limits shall be applied for the maximum number of shares in any eligible scrip that may be deposited by a Member for collateral purposes:

VaR based margin percentages	Maximum number of shares in a symbol that may be deposited by a Member as Collateral
VaR = 20%	2% of Free Float
VaR > 20%	0.5% of Free Float

A maximum limit per scrip, as a percentage of free float, shall apply to all scrips deposited as security i.e. margin held by the exchanges cannot exceed 10% of free float of such scrip.

Exchange will notify the market when 70%, 80% and 90% limits in a scrip are reached.

**SCHEDULE 4**

(see Regulation 8.1)

**POSITION LIMIT**

<b><i>Position Limit</i></b>	<b><i>Deliverable Futures Contracts</i></b> <i>(Cumulative position limits based on the total open interest in a security across all derivatives contracts)</i>	<b><i>Cash Settled Futures Contract</i></b> <i>(Cumulative position limits based on the total open interest in a security across all derivatives contracts)</i>	<b><i>Ready Market Contracts.</i></b> <i>(Position limit will be based on the volume in a security)</i>
<i>Market wide</i>	<i>15% of free float for each security for UTS member</i>	<i>100% of free float</i>	
<i>Member wide (member's position includes its clients' positions)</i>	<i>2% of free float of the security for a UTS member</i>		<i>No limit</i>
<i>Client wide (this limit is also applicable to the member's proprietary position)</i>	<i>2% of free float of the security for a member's individual or institutions clients. (Client position will be universal and determined on UIN basis). This limit is also applicable to the member's proprietary position.</i>		<i>No limit</i>

**SCHEDULE 5**  
(see Regulation 2.1)

**PENALTY SCHEDULE OF NON-COMPLIANCE OF  
NET CAPITAL BALANCE SUBMISSION**

<b>No. of Calendar Days under Non-Compliance</b>	<b>Penalty Imposed (Rs. Per day)</b>	<b>Reduction in Net Capital Balance</b>
From Day 1 to Day 15	2,000	10%
From Day 16 to Day 30	3,000	20%
From Day 31 to Day 45	4,000	40%
From Day 46 to Day 50	5,000	80%
From Day 51 onward	5,000	100%

**SCHEDULE 6**  
(See Regulation 6.1)

**CONCENTRATION MARGINS DEPOSITS**

<b>CONCENTRATION MARGIN SLABS</b>					
<b>%AGE OF DFC/CSF POSITION TO TOTAL DFC/CSF POSITION</b>	<b>AND</b>		<b>%AGE OF DFC/CSF POSITION TO FREE FLOAT OF SCRIP</b>	<b>Concentration Margins</b>	
<b>MARKET-WIDE SECURITY CONCENTRATION SLABS AND RATES</b>					
<i>Greater than</i>	2	"	<i>Greater than</i>	5.00	1.00
<i>Greater than</i>	6	"	<i>Greater than</i>	7.50	2.00
<i>Greater than</i>	8	"	<i>Greater than</i>	10.00	3.00
<i>Greater than</i>	10	"	<i>Greater than</i>	15.00	4.00
<i>Greater than</i>	12	"	<i>Greater than</i>	25.00	5.00
<i>Greater than</i>	14	"	<i>Greater than</i>	35.00	6.00
<b>MEMBER-WIDE SECURITY CONCENTRATION SLABS AND RATES</b>					
<i>Greater than</i>	5	"	<i>Greater than</i>	1.00	1.00
<i>Greater than</i>	10	"	<i>Greater than</i>	1.50	2.00
<i>Greater than</i>	20	"	<i>Greater than</i>	2.00	3.00
<i>Greater than</i>	30	"	<i>Greater than</i>	2.50	4.00
<i>Greater than</i>	40	"	<i>Greater than</i>	3.00	5.00
<i>Greater than</i>	60	"	<i>Greater than</i>	3.50	6.00
<b>UIN-WIDE SECURITY CONCENTRATION SLABS AND RATES</b>					
<i>Greater than</i>	1	"	<i>Greater than</i>	0.50	0.50
<i>Greater than</i>	2	"	<i>Greater than</i>	0.75	1.00
<i>Greater than</i>	4	"	<i>Greater than</i>	1.00	1.50
<i>Greater than</i>	8	"	<i>Greater than</i>	1.25	2.50
<i>Greater than</i>	16	"	<i>Greater than</i>	1.50	3.50

**Note:** All three tier Concentration Margins in DFC and CSF will be applied on 'AND' basis and shall be applicable on the basis of average of the margins corresponding to the two applicable slabs.

**SCHEDULE 6-A**  
(See Regulation 6.2)  
**MARKET LIQUIDITY MARGINS DEPOSITS**

<i>Exposure Value as per New Regime</i>		<i>Liquidity Margins %</i>
<i>From</i>	<i>To</i>	
<i>0</i>	<i>Rs. 15 million</i>	<i>No</i>
<i>Above Rs. 15 million</i>	<i>Rs. 25 million</i>	<i>0.50%</i>
<i>Above Rs. 25 million</i>	<i>Rs. 35 million</i>	<i>1.00%</i>
<i>Above Rs. 35 million</i>	<i>Rs. 45 million</i>	<i>1.50%</i>
<i>Above Rs. 45 million</i>	<i>Rs. 55 million</i>	<i>2.00%</i>
<i>Above Rs. 55 million</i>	<i>Rs. 65 million</i>	<i>2.75%</i>
<i>Above Rs. 65 million</i>	<i>Rs. 75 million</i>	<i>4.00%</i>
<i>Above Rs. 75 million</i>	<i>Rs. 85 million</i>	<i>5.50%</i>
<i>Above Rs. 85 million</i>	<i>Rs. 95 million</i>	<i>7.25%</i>
<i>Above Rs. 95 million</i>		<i>9.25%</i>

**Note:** The Liquidity Margin Deposits as calculated above will be charged to proprietary account of the Member concerned. For ISE Members, Liquidity Margins Deposits are applicable on the lower exposure values as compared to the Karachi Stock Exchange (G) Limited primarily keeping in view the relatively small trading activity at ISE and in accordance with the parameters determining member-wise position limits applicable to the ISE Members.

**SCHEDULE 7**

[On non-judicial stamp paper of Rs. 100 where value of Book-entry Securities to be pledged pursuant to this Authorization is equal to or more than Rs. 500,000/-]

[For individual Sub-Account Holder]

**SPECIFIC AUTHORIZATION PURSUANT TO CLAUSE (G) OF THE STANDARDIZED SUB-ACCOUNT OPENING FORM FOR PLEDGING OF BOOK-ENTRY SECURITIES**

This Authorization is executed at Islamabad, this \_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ and shall be valid upto \_\_\_\_\_.

Pursuant to Clause (G) of the Standardized Sub-Account Opening Form, I/we the undersigned, maintaining Sub-Account No. [insert Sub-Account No.] under CDS Participant Account of [insert name of the Participant] having ID No. [insert Participant ID] hereby give my/our specific authority to the Participant under Section 12 of the Central Depositories Act, 1997 to pledge my/our Securities represented by Book-entry Securities entered in my/our aforesaid Sub-Account as detailed below **only in favour of the Islamabad Stock Exchange (Guarantee) Limited FOR THE SPECIFIC PURPOSE OF PROVIDING MARGINS AGAINST OTHER PERSON OR PERSONS' TRADING EXPOSURE AND MARK-TO-MARKET LOSSES THROUGH ABOVE SAID PARTICIPANT AS A BROKER** through the Central Depository System to the extent of this transaction only. The Islamabad Stock Exchange shall have the full authority to liquidate these Bookentry Securities kept as margin in any manner at its discretion in the event of non-fulfillment of financial obligations by that person(s) or his/their Broker in accordance with the Regulations of the Exchange:

Details of Book-entry Securities			
S.#	Name of Securities	Volume	Time Duration
1.			
2.			
3.			

IN WITNESS WHEREOF I/we have executed this Authorization on the date first above written in the presence of witnesses named below,

EXECUTED BY THE SUB-ACCOUNT HOLDER(S)

Name & Signature of Sub-Account Holder: \_\_\_\_\_  
(CINC Number)

Name & Signature of Joint Account Holder 1: \_\_\_\_\_  
(CINC Number)

Name & Signature of Joint Account Holder 2: \_\_\_\_\_  
(CINC Number)

Name & Signature of Joint Account Holder 3: \_\_\_\_\_  
(CINC Number)

In the presence of

WITNESSES:

1. \_\_\_\_\_ 2. \_\_\_\_\_

Name: \_\_\_\_\_ Name: \_\_\_\_\_

Address: \_\_\_\_\_ Address: \_\_\_\_\_

CNIC #: \_\_\_\_\_ CNIC #: \_\_\_\_\_

Note:

1. Use of this Authorization in piecemeal is strictly prohibited.
2. This Authorization shall be signed as per the operating instruction of the Sub-Account in Participant's records.
3. This Authorization shall be duly verified by the Company Secretary of the Brokerage House.