



ISE

MEMBERS' DEFAULT MANAGEMENT REGULATIONS

OF

THE ISLAMABAD STOCK EXCHANGE (G) LIMITED

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

**MEMBERS' DEFAULT MANAGEMENT REGULATIONS OF
THE ISLAMABAD STOCK EXCHANGE (GUARANTEE) LIMITED.**

Preamble

Whereas a detailed review of Regulations Governing Members' Default and Procedure for Recovery of Losses at the Islamabad Stock Exchange has been undertaken by the Islamabad Stock Exchange.

And whereas in the process of review of various aspects of default under the existing Rules and Regulations, it is deemed necessary that the existing Regulations Governing Members' Default and Procedure for Recovery of Losses be repealed and replaced by these new regulations, in order to protect the interest of all concerned.

Now, therefore, the Board of Directors of the Islamabad Stock Exchange (Guarantee) Limited with the prior approval of the Securities & Exchange Commission of Pakistan hereby make these modified Regulations which shall come into effect on publication in the official gazette of Pakistan.

1. Short Title

These Regulations may be called "Members' Default Management Regulations" of the Islamabad Stock Exchange (Guarantee) Limited.

2. Definitions

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

Default Management Committee means a committee of such name established under the NCCPL Regulations;

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".

Board means Board of Directors of the Exchange;

CDC means the Central Depository Company of Pakistan Limited

Committee means the defaulters' committee constituted by the Board from time to time in accordance with the Articles of Association of the Exchange;

Defaulter means a Member declared as a defaulter by the Board in accordance with these Regulations;

Exchange means the Islamabad Stock Exchange (Guarantee) Limited and includes its successors;

ISECTS means the automated trading system for securities introduced by the Exchange and known as Islamabad Stock Exchange Computerized Trading System;

Member means a Member of the Exchange having trading rights;

NCCPL means the National Clearing Company of Pakistan Limited;

NCCPL Final Notice means a notice issued to a suspended Member by NCCPL pursuant to NCCPL Regulations requiring the suspended Clearing Member to pay his final liabilities as determined by the Default Management Committee;

NCCPL Regulations means the regulations framed by NCCPL from time to time with regard to its functions and operations;

NCSS means National Clearing and Settlement System of NCCPL established pursuant to its regulations.

3. Suspension on Account of Settlement Failure

3.1 (a) In case a Member fails to pay any amount payable by him or fails to deliver securities to the Exchange or to other Member(s) as directed by the Exchange in accordance with the Regulations of the Exchange, the Exchange shall issue a notice requiring such Member to rectify the default within 30 minutes. On failure to comply with the notice by the Member within the time allowed, the trading rights of such Member shall be restricted or suspended by the Exchange by issuing a notice in writing, a copy of which shall also be delivered to NCCPL and CDC.

(b) Upon receiving of a notice from the Exchange under regulation 3.1(a) above, NCCPL shall also restrict or suspend such Member's access to the services offered by NCCPL under its relevant regulations.

3.2 In case a Member is suspended by NCCPL as its Clearing Member and (i) if the suspension notice from NCCPL is received after the trading hours of the Exchange, the Exchange shall immediately suspend such Member and (ii) if such suspension notice is received during the trading hours of the Exchange, the Exchange shall immediately restrict such Member's access to all ISECTS terminals in a manner that such Member is not able to take any further exposure in any of the Markets during the remaining trading hours on that day, provided that one or more ISECTS terminals of such

Member may be operated under the supervision of the Exchange for the purpose of reducing his exposure. The Exchange shall suspend such Member after the end of the trading hours on that day.

4. Closing out of Unsettled and Open Positions

- 4.1 Upon suspension of a Member, the matter shall be referred to the Default Management Committee. The Exchange shall provide all data and information relating to the unsettled and open positions of the suspended Member in All Markets, trades, contracts, and transactions, which are not available with NCCPL, to the Default Management Committee along with the market-wise details of margins eligible securities deposited by the suspended Member in accordance with the Risk Management Regulations of the Exchange.

Provided that all types of margins held by the Exchange and NCCPL with respect to each of the markets shall be applied exclusively to settle the claims against that market only by the Exchange and NCCPL respectively. Any surplus may be shared equally amongst the markets other than such market in proportion to the losses.

- 4.2 The suspended Member's unsettled and open positions in All Markets (together with his unsettled and open positions reported by NCCPL) shall be closed-out and squared up in the manner specified by the Default Management Committee and final liability of the suspended Member shall be determined by the Default Management Committee.
- 4.3 (a) The Default Management Committee may square-up or sell out margin eligible securities in the manner specified below for determining final loss, if any, of the suspended Member.
- (b) Upon suspension of a Member due to his failure to meet obligations either on his proprietary account or on account of his clients, the collaterals held by the Exchange shall be dealt with in the following manner:
- i) The collaterals in the form of Margin Eligible Securities and/or Cash/Bank Guarantee deposited, by the Member and/or Directors of such Member in case acting as Corporate Brokerage House, in accordance with the Regulations Governing Risk Management of the Exchange shall be retained by the Exchange against all trades executed through him and held by the Exchange with respect to each of the markets and shall be subjected to and applied exclusively in accordance with these Regulations of the Exchange and relevant NCCPL regulations. These

margins shall remain available to the Exchange till the satisfaction of all money and/or delivery obligation and/or any other obligation ascertained after squaring-up and/or closing out of his positions (including his proprietary and/or client's position) as provided in these Regulations of the Exchange and relevant NCCPL regulations. In such case of liquidation of collaterals as margins on UIN basis, such Member and/or Director, as the case may be, shall have no claims whatsoever against the Exchange and/or NCCPL.

ii) The collaterals derived by the Exchange from the respective sub-accounts of clients of a member and/or from the member of another Stock Exchange as client of such member (deposited by the Member in accordance with the Regulations Governing Risk Management of the Exchange) shall be retained and utilized by the Exchange to the extent of margin requirement against their trades/transactions and relevant Mark-to-Market losses on UIN basis, whereby such collaterals will remain available to the Exchange till the satisfaction of all money and/or charges related to the trading of such client, ascertained after squaring-up and/or closing out of the concerned member's position. In such case of liquidation of collaterals as margin on UIN basis, such clients shall have no claims whatsoever against the Exchange and/or NCCPL. No collateral shall be so utilized in excess of the margin requirements against the trades/transactions of that client and the respective Mark-to-Market losses.

- (c) For the purpose of delivering margin eligible securities squared-up or sold out by the Default Management Committee, the Exchange will be authorized to execute pledge call on margin eligible securities pledged by the suspended Member in accordance with CDC Regulations dealing with pledge transactions.
- (d) While disposing of the collaterals, in the form of margin eligible securities, cash and/or bank guarantee, of clients of a Member kept as margin, the Exchange shall have the absolute discretion to liquidate such collaterals in preference to others to meet the obligations of Exchange/ NCCPL.

4.4 Upon receipt of copy of NCCPL Final Notice, the Exchange shall serve a final notice to the suspended Member calling upon the suspended Member to pay the liabilities stated in the NCCPL notice within the time allowed in said notice.

5. Declaration as Defaulter

- 5.1 Upon receipt of a notice from NCCPL declaring the suspended Member a defaulter under NCCPL Regulations, such Member shall be declared a Defaulter by the Board under relevant regulations, by-laws and articles of association of the Exchange.
- 5.2 A Member who has been adjudicated an insolvent shall be declared as Defaulter by the Board.

6. Consequences of Default

A Member who has been declared a Defaulter shall at once cease to be a Member of the Exchange and his Membership Card and other assets in the control of the Exchange shall vest in the Exchange.

7. Functions of the Committee

The Committee shall manage and supervise all proceedings relating to the collection and realization of the assets of a Defaulter in accordance with these Regulations.

8. Default Management Procedure

- 8.1 Defaulters' Assets: The Committee; shall recover all moneys, securities and other assets due or deliverable to the Defaulter by any other Member in respect of any transactions or dealing made subject to any Regulations of the Exchange or NCCPL and such assets shall, if not contrary to the provisions of any law for the time being in force, vest with the Exchange. Without prejudice to the generality of the foregoing the Defaulter's assets shall include:
- (i) securities, if any, held in the custody of the Exchange after their squaring-up or selling out under regulation 4.2 above or recovered by the Committee as stated in above paragraph;
 - (ii) membership card and office(s) within the Exchange premises, if any, in the control of the Exchange; and
 - (iii) any other assets as may be determined by the Committee.
- 8.2 Claims against Defaulter:
- (i) The Committee shall invite claims relating to Defaulter's obligations other than those which are already included in the

closing out process pursuant to Regulation 4 above from all Members of the Exchange and the investors against the Defaulter within a timeframe as may be determined by the Committee for this purpose.

- (ii) The Committee shall not entertain any claim against the Defaulter which is not forwarded within the prescribed time limit. This time limit shall not be less than 30 days.
 - (iii) The Committee shall also not entertain any claim against the Defaulter which does not arise out of any contract made between a Member and such Defaulter subject to the Regulations of the Exchange or NCCPL.
 - (iv) The Committee shall verify each claim to ascertain the genuineness of each claim and for such purpose may seek advice or employ the services of an independent expert.
- 8.3 False or fictitious claims: The Board on the recommendation of Committee, may impose fine, suspend or expel a Member when it is proved that any claim filed by such Member against the Defaulter was false or fictitious.
- 8.4 Accounts of the Defaulter: The Committee shall keep a separate account in respect of all money, securities or other assets payable or deliverable to a Defaulter by other Members or NCCPL and which are received by them and shall defray there from all costs, charges and expenses incurred in or about the collection of such assets or in or about any proceedings taken by them in connection with the default.
- 8.5 Disposal of the Defaulter's assets: All assets of the Defaulter recovered or received by the Committee shall be disposed off by the Committee.
- 8.6 Application of the proceeds: Proceeds of the Defaulter's assets realized by the Committee along with the allocation, if any, made in accordance with Regulation 9 below, shall be utilized towards payment of the amount specified in the NCCPL Final Notice and any surplus shall be utilized to settle claims admitted by the Committee as provided in Regulation 10 below.

9. Contribution from Clearing House Protection Fund and Investors' Protection Fund

In the event the funds recovered through the sale of assets of the Defaulter are not sufficient to satisfy all claims admitted by the Committee then the following contributions shall be made available:

- (a) From Clearing House Protection Fund for satisfaction of claims of Members in accordance with the provisions prescribed in the relevant trust deed of the fund on recommendation by the Board; and
- (b) From Investors' Protection Fund for satisfaction of claims of investors in accordance with the provisions prescribed under the relevant trust deed of the fund and Investors' Protection Fund Regulations.

10. Settlement of Claims

10.1 Any surplus funds left after application in accordance with Regulation 8.6 above shall be distributed in the following priority:

- (i) Members' other claims as per Regulations of the Exchange and verified by the Committee pursuant to Regulation 8.2.
- (ii) Investors claims as per Regulations of the Exchange.

Provided in case where the admitted claims of investors against a Member are more than the amount of surplus as mentioned in this Regulation, all the claims will be satisfied on pro-rata basis. The claims still remaining unsatisfied after prorata sharing will then be paid from Investors' Protection Fund (IPF) by utilizing up to aggregate amount of Rs. 2.5 million in the following order of priority:

- (a) Up to Rs. 100,000/- equally among all claimants by utilizing 50% of maximum allowable contribution i.e. Rs. 1.25 million.
- (b) Remaining amount by utilizing balance 50% of maximum allowable contribution i.e. Rs. 1.25 million plus any unutilized portion of IPF as stated at (a) above. In case, such amount of IPF is insufficient to satisfy all such claims in full, then pro-rata distribution will be made.

11. Allocation of losses

11.1 In case the amount specified in NCCPL Final Notice remains unsettled after utilizing the proceeds of Defaulter's assets and the contribution made in accordance with Regulation 9, the remaining amount shall be allocated and recovered by NCCPL to the Member and non-broker clearing members admitted into NCSS by NCCPL in accordance with NCCPL Regulations.

11.2 The payments by the Members and non-broker clearing members admitted into NCSS under Regulation 11.1 above will be treated as claims of such Members and non- broker clearing members against the Defaulter and, if the default was caused on account of a default by any client(s) of such Defaulter, against such client(s).

12. Business with Defaulter Forbidden

Except with the prior permission of the Board, no Member shall carry on business for or with a person who has been declared a Defaulter by the Exchange and notice regarding such prohibition has been issued by the Exchange.

13. Re-admission of a Defaulter

13.1 If a Defaulter has paid his entire unpaid obligations to Exchange, NCCPL, Members, non-broker clearing members admitted into NCSS by NCCPL and investors and has reimbursed the amount utilized from any of the funds established or maintained by the Exchange or NCCPL, the Board may subject to such conditions as they think fit readmit a Defaulter, if in opinion of the Board such Defaulter:

- i) had defaulted owing to the default of his clients whom he might reasonably have expected to be good for their commitments.
- ii) had not been guilty of bad faith or breach of any Regulations of the Exchange.
- iii) had kept his operation within a reasonable proportion of his means or resources.

13.2 A Defaulter shall not be re-admitted if his default had been contributed to by reckless dealings on his own account or his conduct had been marked by indiscretion and by the absence of reasonable caution and/or not in accordance with the Regulations of the Exchange and or NCCPL.

13.3 A Member who as an insolvent has been declared a Defaulter shall not be eligible for re-admission until he has paid in full all claims and dues against him and has been discharged as an insolvent by a court of competent jurisdiction.

13.4 A notice of every application by a Defaulter for readmission shall be posted on the notice board of the Exchange for at least fifteen days previous to his readmission decision.

13.5 Any Member or any other creditor intending to object to the re-admission of the Defaulter shall communicate the grounds of his objection to the Board by a letter within fifteen days of the date of posting of the notice of the application for readmission. All such objections shall be deemed privileged and confidential.

14. Amendments to General Regulations

Regulations No. 44 to 72 of General Regulations of the Exchange are hereby deleted.

15. Repeal

The existing Regulations titled ‘Members’ Default and Procedure for Recovery of Losses’ are hereby repealed and henceforth all references to the repealed regulations in the Regulations of the Exchange or any other documents shall be read as reference to these Regulations.

16. Conflict Resolution

In case of any conflict in the matters prescribed in these regulations of the Exchange and NCSS Regulations dealing with default management of defaulter broker clearing member who is admitted into NCSS as Clearing Member by NCCPL, the Chief Executive Officers of both companies and a representative of SECP will be authorized to resolve the conflict.