



**REGULATIONS GOVERNING DELIVERABLE
FUTURES CONTRACT**

OF

**THE ISALAMABAD STOCK EXCHANGE
(GUARANTEE) LIMITED**

(As amended on February 23, 2011 and sent for Gazette Notification)

REGULATIONS GOVERNING DELIVERABLE FUTURES CONTRACT OF ISLAMABAD STOCK EXCHANGE

In exercise of the powers conferred under Sub-Section (1) of Section 34 of the Securities & Exchange Ordinance, 1969, the Islamabad Stock Exchange (Guarantee) Limited, with the prior approval of Securities & Exchange Commission of Pakistan, makes the Regulations Governing Deliverable Futures Contracts, as mentioned below:

PREAMBLE

WHEREAS in order to introduce derivative market to bring the Islamabad Stock Exchange comparable with the other leading securities markets of the world, it is desirable to introduce trading in Deliverable Futures Contracts.

AND WHEREAS in order to regulate trading in and settlement of Deliverable Futures Contracts it is expedient to make new regulations for trading in and settlement of Deliverable Futures Contracts.

NOW THEREFORE, the Islamabad Stock Exchange (Guarantee) Limited in exercise of the powers conferred by sub-section 1 of section 34 of the Securities & Exchange Ordinance, 1969 (XVII of 1969) makes, with the prior approval of the Commission, the following Regulations.

1. SHORT TITLE & COMMENCEMENT

- (i) These Regulations may be called the “Regulations Governing Deliverable Futures Contract of Islamabad Stock Exchange”.
- (ii) These Regulations shall come into force with immediate effect and shall replace the existing Regulations Governing Futures Contract of the Exchange.

2. DEFINITIONS

In these regulations, unless the subject or context otherwise requires:

- i **“Board”** means the “Board of Directors of the Exchange”
- ii **“Blank Sale”** means “sale by a Member on his Proprietary or Client’s Account without owning securities or Pre-Existing Interest or borrowing arrangement at the time of sale.”
- iii **“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.”

- iv **“Clearing Company”** means “National Clearing Company of Pakistan Limited”.
- v **“Clearing House”** means the “Clearing House of the Exchange.”
- vi **“Clearing Day”** means the clearing day fixed by the Exchange from time to time.”
- vii **“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.
- viii **“Commission”** means the “Securities and Exchange Commission of Pakistan”.
- ix **“Daily Settlement Price”** means “the Closing Price, in the Deliverable Futures Contract Market.”
- x **“Deliverable Futures Contract Market”** means “a market as envisaged under these Regulations.”
- xi **“Deliverable Futures Contract”** means, “Standardized Stock Futures contract which shall be trading under Deliverable Futures Contract Market and settled/delivered in accordance with these regulations as amended from time to time.
- xii **“Final Settlement Price”** means “the Closing Price, in the Ready Market.”
- xiii **“Exchange”** means “Islamabad Stock Exchange (Guarantee) Limited”
- xiv **“Exposure”** shall have the same meaning as defined in “Regulations Governing Risk Management of Islamabad Stock Exchange”, as amended from time to time.”
- xv **“General Regulations”** means “General Regulations of the Exchange in force and as may be amended from time to time”.
- xvi **“Mark-to-Market Loss or MtM Loss”** means, “amount payable by a Member at any point in time on account of contracts executed on behalf of its clients, as well as its proprietary unsettled position in any security, to the Clearing House or Clearing Company 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.
- xvii **“Mark-to-Market Profit or MtM Profit”** means, amount receivable by a Member at the end of each day on account of trades executed on behalf of its clients, as well as its proprietary unsettled position in any security, from Clearing House or Clearing Company 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.
- xviii **“Member”** means “Member of the Exchange”.

- xix **“Uptick”** means the price above the previous price of a transaction of a security executed through the ISECTS. In order for an uptick to occur, a transaction price must be followed by an increased transaction price.
- xx **“Zero-Plus Tick”** means the price without any difference in the previous price of a transaction of a security, which was an uptick, executed through the ISECTS.

In these Regulations, unless there is anything repugnant in the subject or context, words importing the “masculine gender” shall include the “feminine gender/corporate entities”.

3. CONTRACT SPECIFICATIONS

- (i) The contract specifications including its size shall be determined by the Board from time to time before the opening of the contract. However, any changes in such specification of the contract shall only be implemented with prior written approval of the Commission.
- (ii) Contracts shall be for the period specified by the Exchange through a Notice but shall be for a period not less than one calendar month. However, where a corporate announcement is expected in a scrip, during a contract period, the Exchange shall be allowed to open more than one contract of shortened periods in such scrip, in a month, on the basis of cumulative and excluding announcement/entitlement. Contract for different months shall trade simultaneously.
- (iii) While opening any Contract, the Exchange shall notify the name of the company and the date of opening of such Contract, the date of settlement of the said Contract and other relevant details governing such Contract.
- (iv) New contract period shall start at least two days before the close of the old contract.

4. ELIGIBILITY OF SECURITIES

- (i) The securities eligible for trading on the Deliverable Futures Contract Market shall be determined by the Exchange every six months based on selection criteria determined by the Board with the prior written approval of the Commission.
- (ii) The Exchange will 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 Deliverable Futures Contract Market.

5. CONTRACT TRADING

- (i) Trading in Deliverable Futures Contracts shall be conducted under these Regulations in addition to the General Regulations of the Exchange, Regulations Governing Risk Management of Islamabad Stock Exchange and all other relevant Regulations of the Exchange, with such modifications, alterations and additions as

may be made from time to time by the Board with prior approval of the Commission.

- (ii) Trading in Deliverable Futures Contract shall take place through the Islamabad Automated Trading System (ISE Computerized Trading System).
- (iii) When a buyer/seller accepts offer/ bid of a contract (quantity of shares) the contract with the specifications as mentioned in Annexure 1 attached to these Regulations shall be deemed to have taken place between buyer/seller.
- (iv) All offers/bids made may be accepted for up to the limit of the offer/bid and the Member making an offer/bid shall be bound to sell or buy such quantity of contracts as is agreed to be taken up.
- (v) All trades in the Deliverable Futures Market shall be conducted by Brokers for and on behalf of their clients or for their own proprietary position under registered Client Codes duly mapped with UIN as defined in ISE Computerized Trading System Regulations of the Exchange. Relevant regulations pertaining to UIN shall be applicable on all trades executed under these regulations.

6. BLANK SELLING AND COMPLIANCE

- (i) A Member on his Proprietary or Clients' Accounts on UIN basis shall be allowed to make Blank Sale upto 0.05% of the Free Float of a scrip or Rs. 5 million, whichever is higher, in the Deliverable Futures Contract Market subject to maximum blank sale of 0.3% of the Free Float of a scrip by such Member for his all accounts including Proprietary and Clients' accounts, in accumulation at any given time during a Contract Period.
- (ii) No Member on his Proprietary or Client's Account shall make Blank Sale unless the trade is declared as a Blank Sale at the time of placement of order through ISECTS in a special Blank Sale Order Window designed in the system for the purpose.
- (iii) No sale position in excess of the threshold permitted as per clause 6(i) above will be allowed in the Deliverable Futures Market to a member on his Proprietary or Client's Account on UIN basis, unless there is a Pre-Existing Interest of the seller as defined below:

"Pre-Existing Interest" means

- There is an earlier purchase on the same Exchange in the same Future Contract or an earlier Future Contract which will settle prior to the settlement of the sale.
- There is an earlier purchase on the same Exchange in the Ready Market which will settle prior to the settlement of the sale.

- The squaring-up of an open position in Margin Trading Market, as a financee on account of same UIN of same security.
- There is an unencumbered holding available in the CDS Account in the investor's own or joint account.

Note:

Pre-Existing Interest in order to remain qualified for this purpose should continue to exist until the sale position in the Deliverable Futures Market is squared off or settled at the conclusion of the contract. The investor shall ensure that no selling beyond limit specified in 6(i) above, is carried-out without Pre-Existing Interest in the Deliverable Futures Market. In case of non-compliance, the respective member shall be penalized under these regulations, however, such penalty amount may be passed on to respective investor by the member.

(iv) Penalties on Non Compliance

- (a) In case of non-compliance of these Regulations by a member (on his proprietary position) or an individual or corporate/institutional investor on UIN basis, penalties shall be imposed on each instance of blank sale without pre-existing interest as follows:

First violation

- 5% of the value of sale without pre-existing interest or Rs. 50,000/- whichever is higher, plus confiscation of profits made on sale without pre-existing interest,
- In case of non-compliance in proprietary account, 10% of the value of sale without pre-existing interest or Rs.100,000/- whichever is higher, plus confiscation of profits made on sale without pre-existing interest and switching off all terminals, except one, to restrict right to trade, up to a maximum period of 03 days.

Second violation within one year of first violation

- 10% of the value of sale without pre-existing interest or Rs. 100,000/- whichever is higher, plus confiscation of profits made on sale without pre-existing interest.
- In case of non-compliance in proprietary account, 20% of the value of sale without pre-existing interest or Rs.200,000/- whichever is higher, plus confiscation of profits made on sale without pre-existing interest and switching off all terminals, except one, to restrict right to trade, up to a maximum period of 07 days.

Subsequent violation

For each subsequent violation after second violation within one year of first violation, the amount of penalty shall be twice the amount of last imposed penalty, plus confiscation of profits made on sale without pre-existing interest, plus, in case of non-compliance in proprietary account, switching off all terminals, except one, to restrict right to trade, up to a maximum period of 07 days.

- (b) The Exchange shall be responsible for monitoring compliance with this regulation.

7. DEPOSITS & MARGINS

- (i) Any member of the Exchange can enter into Deliverable Futures Contracts under these Regulations if he deposits Rs.50,000/= as basic deposit for trading in the Deliverable Futures Market. 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 Deliverable Futures Contract Market.

Provided that the basic deposit paid by a broker under these Regulations may be utilized against exposure margin of such broker in the Deliverable Futures Contract 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.

- (ii) The Members entering into Deliverable Futures Contracts shall pay deposits against their Exposures in accordance with Regulations Governing Risk Management of Islamabad Stock Exchange, as amended from time to time.
- (iii) The Exchange shall allow return to Members on the cash amount deposited as Exposure Margin with the Clearing House at the rate paid by the respective banks opted by the Members after retaining 1% as service charges by the Exchange.
- (iv) Each Member entering into Deliverable Futures Contract shall pay Mark-to-Market Losses in accordance with the Regulations Governing Risk Management of Karachi Stock Exchange subject to basic exemption of Rs.100,000/- in respect of payment of Mark-to-Market Losses.
- (v) Concentration Margin shall be applicable as may be prescribed by the Exchange in accordance with the Regulations Governing Risk Management of Islamabad Stock Exchange, as amended from time to time
- (vi) The scrip-wise outstanding positions of Members' proprietary and his client(s) will be revalued at relevant Daily Settlement Price and shall be transferred to the next trading day. The system shall consider such revalued amounts as the traded

values, based on which exposures will be calculated”.

- (vii) In case of failure of any member to deposit Exposure Margins/MTM Losses, he will not be allowed to take any fresh position. However, the said member will be allowed to reduce his position as prescribed under the Members’ Default Management Regulations of the Exchange.
- (viii) In case a member delays any payment to the Exchange and/or Clearing Company for meeting any of his obligations in the Deliverable Futures Market beyond the specified time thrice in a calendar year, his Basic Deposit will be doubled for a period of 3 months. In case delay in payment has occurred for 4 times in a calendar year, the Basic Deposit of that member will be quadrupled for a period of 6 months.

Provided that the enhanced amount of basic deposit shall not be utilized against the exposure margin of such Member.

- (ix) 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.

8. Clearing & Settlement

- (i) The Clearing House/Clearing Company shall receive payments from Members on settlement days within the time specified as per the Regulations of 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) In the event of declaration of dividend, bonus, right and privileges pertaining to securities being traded in the Deliverable 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 business and the settlement date of that particular security.
- (iii) **Daily Clearing**
 - (a) There shall be Daily Clearing at the Daily Settlement Price of the day and MtM amounts, after adjustments of MtM Losses received during the day in cash, in respect of a Member’s Proprietary or Client account in a particular scrip, 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) The Exchange shall withhold MtM profits, if any, of a Member on his Proprietary or Client account in a particular scrip until its Final Settlement.

However, MTM profit, if any, of a Member on his Proprietary or Client account in a particular scrip will be adjusted against the MtM Loss in the same scrip of such Member's Proprietary or Client Account on UIN basis.

(iv) **Final Clearing & Settlement**

- (a) There shall be Final Clearing on last day of Contract Period at Final Settlement Price of that day on T+2 settlement basis through the Clearing House/Clearing Company. However, Mark to Market Losses shall continue to be collected on a daily basis, based on closing price of the security for the purpose of Risk Management in the Ready Market, till the time, the net positions are settled.
- (b) MtM Profits withheld by the Exchange will be paid to the respective members on the T+2 settlement day through Clearing Company.

(v) **Special Clearing**

Where the Exchange determine that circumstances warrants in the best interest of the Market and Market Participants that suspension of the scrip(s) is necessary, the Exchange may announce a special clearing in the particular Contract.

In case special clearing is announced, trading in particular scrip(s) shall be suspended until such time the MtM Losses are settled in cash and the market shall open after all MtM Losses have been settled in the suspended scrip(s).

9. MEMBERS' DEFAULT

In case of default by any Member, default proceedings will be undertaken by the Exchange and/or Clearing Company, pursuant to their respective Regulations.

10. SUSPENSION OR DISCONTINUATION OF DELIVERABLE FUTURES CONTRACT MARKET

- i) The Board may at any time, with the prior written approval of the Commission and on such conditions and manner if any as the Commission may specify, permanently discontinue the Deliverable Futures Contract Market, or temporarily suspend the operation of the said market for a specified period of time.
- ii) The Board shall, if instructed by the Commission so to do and on such conditions and manner as the Commission may specify, permanently discontinue the Deliverable Futures Contract Market, or temporarily suspend the operation of the said market for a specified period of time.

11. FURTHER AMENDMENTS IN THE REGULATIONS

- (i) The Board may, with the prior written approval of the Commission, make changes in these Regulations after giving reasonable notice.
- (ii) In addition to the regulations mentioned in regulations 1-9 above, the Exchange may in its wisdom impose further risk mitigating conditions to protect the interest of Exchange as well as to provide comfort to investors both local and international.

12. REPEAL

The existing Regulations Governing Futures Contract of the Exchange are hereby repealed

ANNEXURE -1**CONTRACT SPECIFICATIONS OF DELIVERABLE FUTURES CONTRACT**

Contract Size	500 Shares
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.
Contract Period	1 calendar month
Opening of Contract	Monday, preceding the last Friday of the month, if Monday is not a trading day, then immediate next trading day.
Overlapping Period	Maximum Five Days (not less than two days).
Expiration Date/Last trading day	Last Friday of the calendar month, if last Friday is not a trading day, then immediate preceding trading day
Settlement	T+2 settlement falling immediate after the close of contract.
Depository of underlying security	Central Depository Company of Pakistan Limited