



## Regulations Governing Futures Contracts of LSE

**Lahore Stock Exchange (G) Ltd.**

**Regulations Governing Futures Contracts of LSE**

**Preamble:**

In terms of Section 34 (1) of the Securities and Exchange Ordinance, 1969, Lahore Stock Exchange (Guarantee) Limited, with the previous approval of the Securities and Exchange Commission of Pakistan, has framed these Regulations for matters concerning Future Contract(s) in securities or indices and matters ancillary thereto. These Regulations shall come into force on publication in the official Gazette.

**1. Definitions:**

“Futures Contract (s) security” means such securities that are notified by the Board and for which Futures Contract (s) are executed;

“Board” means the Governing Board of Directors of the Exchange,

“CDC” means the Central Depository Company of Pakistan,

“Clearing House” means the Clearing House established by the Exchange,

“Commission” means the Securities and Exchange Commission of Pakistan established under the Securities and Exchange Commission of Pakistan Act, 1997,

“Exchange” means the Lahore Stock Exchange (Guarantee) Limited,

“Futures Market” means such market established by the Exchange where Futures Contract(s) in approved securities or indices are traded,

“Member” means any person natural or juristic who is a member of the Exchange,

“Indices” means the group or basket of securities as notified by the Exchange from time to time,

“Regulations” mean these Regulations for Futures Contracts or any modifications made from time to time,

“Securities” mean any share, scrip, debenture, participation term certificate, modaraba certificate, musharika certificate, term finance certificate, bond or such other instrument as the Commission may, by notification in the official Gazette, specify for the purpose, and

“TFC” means Term Finance Certificate.

- 2.
- (a) Futures Contract(s) in securities on the Futures Contract Market of the Exchange, shall be conducted under these Regulations, with such modifications, as may be made from time to time by the Board, with prior approval of the Commission.
  - (b) Trading in the Futures Contract(s), shall take place through such trading system as approved by the Board.
  - (c) There shall be a separate Clearing House Section and exposure deposits for the Futures market. The Clearing House shall have the right to adjust any surplus lying in Ready-counter section of the broker to set off any shortfalls in the Futures-counter section and vice versa.

3. (a) Any member can execute and trade in Futures Contract(s) under these Regulations, if such member notifies the Exchange in writing of the same and makes an initial deposit of Rs.150,000/- in cash for trading in the Futures Market.
- (b) The initial deposit given by a member under sub-clause 3 (a) alongwith any return on it shall be kept in a separate account by the concerned section/department of the Clearing House and will only be used by the Clearing House with respect to meeting the Obligations of a member in the Futures Market.
4. (a) Member (s) dealing in the Futures Contract (s) will need to comply with deposit against exposures requirements as prescribed in the Regulations Governing Members Exposure (which Regulations will apply mutatis mutandi in these Regulations). Further, the deposits shall be paid in advance in the form of cash and approved securities, so that such deposits will comprise of at least 50% in cash and the remaining in the said securities.

In cases where the exposure is due to sale of securities of a particular Company, the securities of such company upto the extent of net sale can be deposited as exposure instead of 50% cash deposit.

Explanation:

“Approved securities” means government securities such as T-bills, FIBs, Dollar bond etc., with zero margin; and/or securities which are eligible for trading under these Regulations with 20% margin; and/or CDC based listed Term Finance Certificates (TFC) not below the ranking of BBB graded by a credit rating company with 10% margin.

However, such deposits will comprise at least 50% in cash and/or in the form of ‘Letter of Credit’ from a bank as approved by the Exchange provided that the deposits in the form of ‘Letter of Credit’ shall not exceed Rs. 5 million. The balance amount may be deposited in securities defined herein before.

- (b) No member shall be allowed to have a sale position regarding Futures Contract(s) in a particular security for more than Rs.40 million unless the actual securities sold over and above the aforesaid limit are deposited with the Exchange or the concerned member gives documentary evidence, in the form and substance acceptable to the Exchange, that the securities are lying in CDC, with a banking company, a DFI/NBFI or with the Clearing House. While calculating the sale position in particular scrip, the purchase and sale position of both futures and T+3 will be taken together.
- (c) For the purposes of these Regulation deposits against member exposures will be payable as under.

Exposure Limits	Deposits Payable
Upto Rs.30 million	7-1/2% of the exposure amount
Over Rs.30 million and Up to Rs.60 million	Rs.2.25 million +10% of the amount exceeding Rs.30 million
Over Rs.60 million and Upto Rs.100 million	Rs.5.25 million + 15% of the amount exceeding Rs.60 million
Over Rs.100 million amount	Rs.14.25 million + 20% of the amount exceeding Rs.100 million.

Margin/deposit payable must be paid in advance. In case this is not done, the concerned section/department of the Clearing House shall forthwith and without notice switch off the terminal of such members who fails to make such margin/deposit or exceed the limit.

- (d) Only those members shall be allowed to trade in Futures Contract(s) who have given the requisite deposits against exposures and losses as provided in sub-clause 4 (c) of these Regulations.
- (e) The listed corporate brokerage houses will not be allowed to deposit their own shares or the shares of their holding and /or subsidiary companies/undertaking as exposures/loss deposit.

#### Explanation

The term “holding and subsidiary company” shall have the same meaning as assigned to them by the Companies Ordinance, 1984 or any amendments thereto.

- (f) In case a member delays any payment to the Exchange beyond specified time, thrice in a calendar year, such member’s initial margin/exposure deposit payable will be doubled for a period of three (3) months. In case delay in payment has occurred for four (4) times in a calendar year, initial margin/exposure deposit payable of that member will be 100% of the exposure taken, for a period of six (6) months.
  - (g) The Exchange may allow an appropriate return to members on cash amount deposited as margin/exposure deposit with the Clearing House.
- 5.
- (a) The contract size for trading in the Futures Market will be determined by the Board, subject to prior approval from the Commission, from time to time before opening of the contract, provided the contract size is greater than the market lot for securities being traded in the ready market.
  - b) When a buyer/seller accepts an offer/bid of a contract (quantity of shares), the contract as per format attached to these Regulations shall be deemed to have taken place between buyer/seller and all such offer/bid made may be accepted up to the limit of the said offer/bid and the members making an offer/bid shall be bound to sell or buy such quantity as is agreed.
  - c) Notwithstanding anything contained hereinabove, on settlement date as notified by the Exchange, a member shall settle his/her/its net position in a security trading in the Futures Market at the Exchange. However, the Exchange can notify before the opening of a contract that its settlement should be cash settled. The procedure for cash settlement of such contract will be notified by the Exchange.
- 6.
- a) Futures Contract(s) shall be for such period as specified by the Exchange through a notice, provided the said period will not be for less than one (1) calendar month and Futures Contract(s) for different tenures can be traded simultaneously.
  - b) At the time of opening any Futures Contract(s) the Exchange shall notify the name of the company, the date of opening of such contract, the date of closing of such contract, the date of settlement of the said contract and other relevant details governing such Contract.
  - c) The contract period for new Futures Contract(s) in a security shall start at least two (2) trading days before close of the existing contract period for such security.
  - d) Removal of any security from the Futures Contract Market shall be done by the, Exchange subject to a reasonable notice and the prior approval of the Commission.

- e) The final settlement price criteria of any Future Contract, which is to be cash settled, shall be determined by the Exchange and will be notified to the members, before the opening of Contract.
- 7.
- a) Cheque(s) and pay order(s) shall be delivered to the Exchange up to 11:30 a.m. or such other time as notified by the Exchange on the day of settlement for a Futures Contract(s) as specified by the Exchange.
  - b) The Clearing House shall receive payments from member(s) on settlement days up to 11:30 a.m. or such other time as notified by the Board under these Regulations. In case a member fails to make any payment to the Clearing House by 11:30 a.m. or such other time as notified by the Board, such member(s) trading terminals shall forthwith be switched off and no notice of such switching off the terminal shall be given to the said member.
8. Payments up to Rs.2,500,000/- for the purpose of clearing or deposit can be made by cheque to the Clearing House. However, payments by member(s) in excess of Rs.2,500,000/- shall be made vide pay orders.
9. In case a seller or buyer fails to deliver/pay with respect to a Future(s) Contract, only such portion as has not been delivered/paid for under the said Contract, shall, at the risk and account of the concerned member, be bought from or sold in the open market by the Clearing House. If the Exchange has intimated cash settlement of a Future Contract as per 5(c) of these regulations, then the Clearing House of the Exchange will square all open position(s) to determine the profit/loss receivable/payable by the member(s).
10. In the event of declaration of dividend, bonus, rights and privileges with respect, to any security being traded in the Futures Market, for which, the Share Transfer Books of a company are to be closed during the pendency of the settlement, the Exchange shall have the right to predate the last day of business and the delivery date of that particular security.
- 11.
- (a) The variation margin (marked-to-market difference/Loss) shall be calculated at the end of each trading day at the closing rate of the day and all the losses in the accounts of the members shall be settled in cash.
  - (b) In case of losses, members shall be required to pay the Clearing House 100% of the amount of losses in cash with basic exemption of Rs.100,000/- (Rupees one lac only). Further in case of sale, losses arising out of fluctuations in a particular scrip exceeding 30% of the opening rate of contract, members may deposit shares actually sold. Losses at the end of each trading session/day shall be paid to the Clearing House in cash before the opening of the market on the next session/day. In case of failure of any member to deposit margin in cash against losses, he will not be allowed to take any fresh position in the next session/next day. However, he will be allowed to reduce his position under the supervision of the Exchange.
  - (c) There shall be weekly clearing on every Friday at the closing rate of the day and all the profits and losses in the accounts of the members shall be settled in cash. However, the distribution of profits arising from fluctuations, in a particular scrip, exceeding 30% of the opening rate of the contract shall be withheld by the Exchange until the settlement of the contracts. The distribution of profit up to 30% will be paid on weekly basis on every Friday.

- (d) There shall be a circuit breaker, for single Stock Futures, in case of price fluctuation of 7.5% or Rs.1.50, whichever is higher, from the closing price of the previous day. No trade in the single Stock Futures will be allowed beyond the above price fluctuation.
  - (e) The management of the Stock Exchange, if so desire, can announce a special clearing in particular scrip(s). In case special clearing is announced, trading in the scrip shall be suspended until such time the outstanding profits and losses are settled in cash and the market shall open after the differences have been settled.
  - (f) If a Futures Contract is to be cash settled then failure by member to deliver variation margin as per time stipulated under these regulations and subsequent notices shall be considered a default and action will be initiated by the Exchange.
12. The Members' Default and Procedure for Recovery of Losses Regulations shall apply mutatis mutandi to the trading and settlement of Futures Contracts.
13. It shall be obligatory upon the member(s) involved in Futures Contract trading under these Regulations to:
- a) Take margins from their clients in accordance with the rates prescribed by the Exchange. The Exchange shall ensure compliance of this requirement through appropriate procedure of auditing and inspection of records of the member(s).
  - b) Identify clients for effective risk management by the Exchange, and
  - c) Such other requirements as notified by the Exchange.
14. Banking companies and financial institutions shall be allowed to become Clearing House members in accordance with such criteria and procedures as may be determined by the Exchange for this purpose.
15. The Clearing House members shall be entities that are separate and distinct from trading members. The Exchange shall specify capital adequacy requirements, both for Clearing House members and trading members from time to time with the prior approval of the Securities and Exchange Commission.
16. The Board may, with the prior approval of the Commission make changes in these Regulations, provided reasonable notice of such changes has been given to member(s) dealing in Futures Contract(s).
17. In addition to the regulations mentioned in 1-16 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.