



## **THE REGULATIONS FOR SHORT SELLING UNDER READY MARKET**

(Amended clause 8 and deleted clause 9 as per approval of SECP dated 25-11-09 and sent for gazette notification on 1-12-09)

**LAHORE STOCK EXCHANGE (GUARANTEE) LIMITED**  
**THE REGULATIONS FOR SHORT SELLING**  
**UNDER READY MARKET**

**PREAMBLE**

WHEREAS at present there are no regulations to regulate Short Selling under Ready Market.

AND WHEREAS in order to regulate Short Selling under Ready Market subject to its proper regulation in line with the International Practice, it is desirable that necessary Regulations be framed in this regard.

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

**1. SHORT TITLE & COMMENCEMENT**

- a) These Regulations may be called the "Regulations for Short Selling under Ready Market, 2002".
- b) These Regulations shall come into force with immediate effect.

**2. DEFINITIONS**

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

- a) "**Blank Sale**" means a sale by a party that does not own shares or the sale does not constitute a sale with pre-existing interest or is a sale by a party that has not entered into a contractual borrowing arrangement to meet delivery requirements.
- b) "**Board**" means the Board of Directors of the Exchange.
- c) "**Downtick**" means the price below the previous price of a transaction of security executed through the ULTRA, the Automated Trading System of the Exchange. In order for a downtick to occur, a transaction price must be followed by a decreased transaction price.
- d) "**Exchange**" means the Lahore Stock Exchange (Guarantee) Limited.

- e) **"Member"** means a member of the Exchange
- f) **"Prior Contractual Borrowing Arrangement"** means a written contract or agreement executed between the borrower and the lender of securities before execution of short sale trade, for enabling the short seller who is the borrower in said contract or agreement to make delivery on the settlement date.
- g) **"Sale with pre-existing interest"** means
- The squaring up of an earlier purchase on the same exchange in the same settlement.
  - The squaring up of an earlier purchase on the same exchange in a different settlement which will settle prior to the settlement of the sale.
  - The squaring up of an earlier purchase on another exchange in a different settlement which will settle prior to the settlement of the sale.
  - The squaring up of an earlier purchase on another exchange in the same settlement.
- h) **"Short Sale"** means a sale by a Member, on his Proprietary Account or on Client's Account, not owning securities at the time of sale or the sale without constituting a Pre-Existing Interest but is a sale on Proprietary Account or Client's Account entered into on the basis of Prior Contractual Borrowing Arrangement to meet delivery requirement on the settlement date".
- i) **"Uptick"** means the price above the previous price of a transaction of a security executed through the ULTRA, the Automated Trading System of the Exchange. In order for an uptick to occur, a transaction price must be followed by an increased transaction price.
- j) **"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 ULTRA.

### 3. **SHORT SELLING**

Short Sale under Ready Market shall take place through the ULTRA, the Automated Trading System of the Exchange

a) Short Sale will only be permissible on Uptick or Zero-Plus Tick, for example:

	<b>TIME</b>	<b>RATE</b>	<b>REMARKS</b>
	Previous closing	19.00	
A	10.00 a.m.	19.05	Short Sale allowed
B	10.02 a.m.	19.10	Short Sale allowed
C	10.10 a.m.	19.10	Short Sale allowed
D	10.11 a.m.	19.05	Not allowed
E	10.12 a.m.	19.05	Not allowed
F	12.00 noon	19.50	Short Sale allowed
G	12.05 p.m.	19.45	Not allowed
H	12.10 p.m.	18.90	Not allowed
I	12.15 p.m.	18.95	Short Sale allowed

#### **PROHIBITION ON BLANK SALES**

4. Blank sales are not permissible.

#### **5. SHORT SALE PRE-REQUISITES**

No Member on his Proprietary Account or Client's Account shall make a Short Sale unless:

- a) The sale is made at an uptick or Zero-Plus Tick; and
  - b) The trade is declared as a Short Sale at the time of placement of order through ULTRA in a special Short Short Sale Order Window designated in the system for the purpose.
6. Short Seller will have to declare Short Sale transactions while placing the order in the system in the manner and procedure as may be prescribed by the Exchange from time to time. This identification would be at the trade level to the Exchange, which would then disclose the cumulative figures for public consumption at the close of market everyday.
7. Short Seller will have to make delivery of the net shares involved in the short selling on the day of settlement.

**8. CRITERIA FOR SECURITIES ELIGIBLE FOR SHORT SELLING**

(i) Short Sales are only allowed in the Securities which are prescribed by the Exchange with prior approval of the Commission, based on their lowest impact cost, highest turnover and maximum free float market capital reviewed at the end of every quarter.

(ii) The Exchange shall give at least 30 days prior notice to the market participants before including or excluding any security from the list of securities eligible for short selling.

**9. PROHIBITION (Deleted vide SECP letter dated 25-11-09 ref no. SMD/SE/2(77)/2006)**

~~(a) No Member on his Proprietary Account or on Client's Account shall be allowed to carry over the short position through CFS Mk II transactions.~~

~~(b) No Member who has financed transactions on his Proprietary Account or on Client's Account, through CFS Mk II against delivery of securities shall use the same securities for Short Selling and/or further lending.~~

**10. NON-COMPLIANCE WITH THE REGULATION**

(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 short/blank sale as follows:

**First Violation**

- 5% of the value of short/blank sale or Rs. 50,000 whichever is higher, plus confiscation of profits made on short/blank sale
- In case of non-compliance in proprietary account, 10% of the value of short/blank sale or Rs. 100,000 whichever is higher, plus confiscation of profits made on short/blank sale 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 short/blank sale or Rs.100,000 whichever is higher, plus confiscation of profits made on short/blank sale
- In case of non-compliance in proprietary account, 20% of the value of short/blank sale or Rs. 200,000 whichever is higher, plus confiscation of profits made on short/blank sale 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 short/blank sale, 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.

### **11. TEMPORARY PROHIBITION ON SHORT SALE**

The Board with the prior approval of the Commission and after notice to the members, temporarily prohibit short sale completely for a specified period with any extension thereof. In case of non-compliance with this regulation by a member, the Exchange shall impose penalty as prescribed under Regulation 10 of these Regulations and/or take any other disciplinary actions.

### **12. AMENDMENT IN REGULATIONS**

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