



**REGULATIONS GOVERNING  
STOCK INDEX FUTURES CONTRACT  
“SIFC”**

## REGULATIONS GOVERNING STOCK INDEX FUTURE CONTRACT

### 1. PREAMBLE

WHEREAS in order to introduce Stock Index Futures Contract at the Lahore Stock Exchange it is desirable that necessary Regulations be framed to regulate Stock Index Futures Contract.

NOW THEREFORE, in exercise of the powers vested under section 34(1) of the Securities and Exchange Ordinance, 1969, the Lahore Stock Exchange (Guarantee) Limited with the prior approval of the Securities and Exchange Commission of Pakistan, hereby makes the following Regulations;

### 2. SHORT TITLE AND COMMENCEMENT

(i) These Regulations shall be called "The Regulations Governing Stock Index Futures Contract".

(ii) These Regulations shall come into force with immediate effect.

### 3. DEFINITIONS

(i) "**Board**" means, "Board of Directors of the Lahore Stock Exchange (Guarantee) Limited".

(ii) "**Broker**" means, "Any member of the Exchange engaged in the business of executing transactions in securities/derivatives for the account of others and for his own account and is registered with the Commission under the Brokers and Agents Registration Rules, 2001."

(iii) "**Clearing Company**" means, "the National Clearing Company of Pakistan Limited"

(iv) "**Commission**" means, "Securities and Exchange Commission of Pakistan".

(v) "**Contract**" means, "Standardized Stock/Sector Index Futures Contract".

(vi) "**Contract Multiplier**" means, "the Contract Multiplier for Stock/Sector Index Futures Contract shall be Rs.10 or any other amount as may be

determined by the Exchange from time to time with the prior approval of the Commission".

- (vii) **"Contract Unit"** means, "The contract unit shall be the numerical value of the underlying stock index." . '
- (viii) **"Contract Value"** means, "Contract Unit multiplied by the contract multiplier (as per specified in the contract specifications) and expressed in Pakistani Rupees.
- (ix) **"Daily Settlement Value of the Stock index Futures Contract"** means. "Volume Weighted Average value of last half hour of trading in the relevant Stock / Sector Index Futures Contract for cash settlement, multiplied by the contract multiplier and expressed in Pakistani Rupees".
- (x) **"Exchange"** means, "The Lahore Stock Exchange (Guarantee) Limited".
- (xi) **"Final Settlement Price of the Stock/Sector Index Futures Contract"** means, "the price calculated based on a set of 121 readings of 15 second intervals (price points) of the underlying index levels taken between the last half an hour of trading. The highest and lowest 20 price points will be ignored and the closing price computed as an average of the remaining 81 price point will be the Final Settlement Price for the settlement of the contract."
- (xii) **"Index"** means, "The KSE-30 Index" or Sector Index as may be defined by the Board for the purpose of trading in Stock Index Futures Market.
- (xiii) **"Open interest in a Stock Index Futures Contract"** means, "the total value of Contracts of a Broker or his clients, in a Stock Index Futures Contract that have not been offset and closed at any point in time by an opposite transaction.
- (xiv) **"Position in a Stock/Sector Index Futures Contract"** means, "the sum of long and short positions of a broker and/or his clients at any point in time in a Stock Index Futures Contract ".
- (xv) **"Stock/Sector Index Futures Contract (SIFC)"** means, "an Exchange "Index Contract" subject to these Regulations; and as per the contract specifications provided in Annexure A or as may be defined by the Board and approved by the Commission.
- (xvi) **"Stock Index Futures Market"** means, "a Market made available by the Exchange for execution of SIFC subject to these Regulations"

#### 4. **TRADING**

- (i) Trading in SIFC shall take place only through Lahore Automated Trading System (ULTRA).
- (ii) Any broker of the Exchange can enter into Stock Index Futures Contract under these Regulations subject to prior notification in writing and payment of Rs. 250,000/- in cash to the Exchange, as basic deposit. This deposit along with any return earned on it is to be kept separate by the Exchange.

- (iii) The Contract specifications as determined by the Board and approved by the Commission and attached hereto as annexure A, shall form part of these Regulations.
- (iv) When a buyer/seller accepts a bid/offer of a contract, the contract as specified as per format attached to these Regulations, shall be deemed to have taken place.
- (v) All offers/bids made may be accepted for or up to the limit of the offer/bid and the broker making an offer/bid shall be bound by the contracts.
- (vi) Upon opening of any Contract, the Exchange shall notify the name of the contract and the date of opening and closing of such Contract, the date of settlement of the said Contract and other relevant details as per Annexure A governing such Contract.
- (vii) There shall be one standardized 90 days contract which would be issued each month on the first trading day following last Friday of each month. Each contract shall expire on the last Friday of the third month of the contract. The contracts would be known by the month in which the contract is to expire e.g. a November SIFC would commence on the first trading day following last Friday in August and would expire on the last Friday of November.
- (viii) The Expiration Date/Last Trading Day shall be the last Friday of the third month of the contract. If the last Friday is a trading holiday the contract shall expire on the previous trading day.
- (ix) There will be no adjustment for cash Dividends, Bonus and Right issue in the Stock Index Future Contracts.
- (x) In case Stock Index Futures Contract trades beyond the limit of five percent from the previous day's closing price of the contract, the Exchange shall announce a market halt in Stock Index Future Market for at least 30 minutes and all outstanding losses till such time shall be collected by the Exchange. In case of default in payment of such losses, default proceedings shall be initiated against the defaulting broker.
- (xi) Circuit Breaker shall also be applicable in Stock Index Futures Market in case of movement of 7.5%, above or below the previous day closing price. In case of first trading day of a contract, circuit breaker shall apply on movement of 7.5% above or below the opening price of the day as determined during the pre-open session. No circuit breaker will be applicable on the last day of trading in a SIFC.

**5. CLEARING, SETTLEMENT AND RISK MANAGEMENT**

- (i) Deposit against exposure would be payable by the Brokers at flat 12.50% of the total exposure in SIFC Market. Any change in the percentage of deposit against exposure would be subject to prior approval of the Commission.

- (ii) Deposit against exposures would be paid 50% in cash and rest in any of the top 25 securities selected on the basis of highest average daily turnover and lowest impact cost during the last 6 months. For the purpose of valuing these securities as collateral, standard VaR based haircut would be applied on these securities.
- (iii) All orders shall be subject to Pre-trade Margin verification and collection thereof.
- (iv) Mark-to-market profit/loss shall be calculated at the end of each trading day on all Positions in SIFC at the "Daily Settlement Value" in the following manner:

**NETTING REGIME ON MARK-TO-MARKET LOSS COLLECTION  
AND PROFIT DISTRIBUTION APPLICABLE TO STOCK INDEX FUTURE  
CONTRACT**

Netting shall only be permitted in profits and losses of the same client or broker's proprietary position in different SIFC with different expiries. No other netting of profits and losses arising on positions in SIFC shall be permitted inter alia including netting of profits and losses across different markets, across different clients or across futures contracts based on different indices.

- (i) In case of mark-to-market loss, members are required to pay 100% of the amount of loss in cash.
- (ii) There shall be a daily Clearing and Settlement and profit/losses shall be collected/ disbursed at the "Daily Settlement Value", in cash by the Clearing Company before commencement of trading on the next day in the manner prescribed by the Clearing Company in its Regulations and Procedures thereof.
- (iii) Upon closing of SIFC, final settlement shall take place on the next trading day after expiry of SIFC and the resulting profits or losses, calculated on the basis of "Final Settlement Price" shall be settled in cash. The collection and payment of profits or losses on final settlement to/from brokers shall be done by the Clearing Company within the stipulated time and in the prescribed manner as per its Regulations and Procedures thereof
- (iv) In case any broker fails to make any payment to the Exchange and Clearing Company within the stipulated time, the Exchange and Clearing Company shall initiate necessary action against such broker as per their respective default Regulations.
- (v) Open interest of a broker, at any point in time, in the SIFC Market per product (KSE-30/Each Sector Index) shall not exceed 10% of the total open interest or 10,000 contracts (whichever is higher) in the stock / relevant Index Future Contracts. Any change in this limit would be made on the recommendation of the Board with the prior written approval of the

Commission. Net long and short positions of the broker and his clients shall be added for the purpose of calculating broker level open interest.

- (vi) Open interest of a client of a broker, at any point in time, in the SIFC Market per product (KSE-30/Each Sector Index) shall not exceed 1% of the total open interest or 1000 contracts (whichever is higher) in Stock/Sector Index Future Contracts. Any change in this limit would be made on the recommendation of the Board and with the prior written approval of the Commission.
- (vii) For the purpose of calculating the above mentioned open interest limits the cumulative open interest in all the Stock Index Future Contracts would be taken into account.
- (viii) Total open interest of a broker in CFS Market shall not exceed 15 times of the Net Capital Balance of such broker.
- (ix) Total open interest of a broker in Futures Market (Cash-Settled and Deliverable Stock Futures Contracts and Stock / Sector Index Future Contracts) shall not exceed 10 times of the Net Capital Balance of such broker.
- (x) For the purpose of determining Market wide total Open Interest in any SIFC, sum of either all net buy positions or all net sale positions on UIN basis in the SIFC shall be considered.
- (xi) For the purpose of determining broker-level and client level open interest, no netting shall be allowed across offsetting position in SIFC with different expiry date, for calculation of Position Limits.

**NETTING REGIME APPLICABLE TO 90 DAYS STOCK INDEX FUTURE CONTRACTS FOR DETERMINING THE MARKET EXPOSURE.**

- (i) Netting shall only be permitted between buy and sell positions in the same Stock/Sector Index Future Contracts with the same expiry date for the same client. No other netting shall be permitted inter alia including netting across different markets, across different clients, across SIFC having different expiry dates or across index futures contracts based on different indices.
- (ii) WHERE the Exchange determines that circumstances warrant in the best interest of market and market participants that a pre-close of the contracts is necessary, the Exchange may announce special clearing in the following manner:
  - a. The Exchange will announce a special clearing with prior approval of the Board.
  - b. For the purpose of settlement of outstanding SIFC, the Exchange will calculate a reference price as fair-value of the contract on which all outstanding contracts will be settled.
  - c. Fair-Value is to be arrived at as a function of cash or underlying index value plus financing charges (determined as a function of KIBOR rates) less any dividends that would accrue with the purchase and carry of all Index constituent until the final settlement date.

d. The following formula shall be used to calculate fair-value for stock index futures:

$$= \text{Underlying index} [1 + r(x/365)] - \text{dividends}$$

Where r=rate of interest and x=number of days to maturity.

- (iii) Special margin shall be payable by a member in respect of an SIFC if the difference between daily settlement price in such contract and the first day's daily settlement price of the contract either side (i-e upward or downward) is greater than 20%, or where the daily settlement price of the contract is outside the band of 15% of the underlying Index. (Higher-amount from above calculations will be applicable as special margins). Where the unidirectional price movement is upwards each client of a member who is a net buyer shall be required to pay a special margin in cash equal to such difference. Where the unidirectional price movement is downward each client of a member who is a net seller shall be required to pay a special margin in cash equal to such difference.

## 6. GENERAL

- (i) It shall be obligatory upon the brokers transacting in SIFC Market under these regulations to:-
- a. Take such margins from their clients which shall not be less than the margins as prescribed in these regulations and the same margin shall be deposited to the Exchange against the respective exposure of the clients. The Exchange shall ensure compliance of this requirement.
  - b. UIN regulations would be applicable on the Stock Index Future Contract.
- (ii) In addition to the regulations mentioned in Clause 5 above, the Exchange may impose any further risk mitigating conditions and risk management measures to protect the interest of Exchange as well as to provide comfort to investors both local and international with the prior written approval of the Commission.
- (iii) 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. The Exchange shall have the powers to investigate and/or take appropriate action in case any contravention of these Regulations and/or malpractice by a member or his client is detected.
- (iv) The Board may, with the prior approval of the Commission, make changes in these Regulations after giving reasonable notice.
- (v) The LSE Management shall place on its website necessary and relevant information with respect to Open Interest and theoretical future price (fair-value) of SIFC on daily basis.

**ANNEXURE 'A'****CONTRACT SPECIFICATION FOR STOCK INDEX FUTURES CONTRACT (SIFC)**

<b>Underlying Index</b>	KSE-30 Index
<b>Contract Multiplier</b>	Rs. 10 per index point or any other amount as may be determined by the Exchange from time to time with the prior approval of the Commission
<b>Minimum Fluctuation (Tick Size)</b>	One Index Point
<b>Maximum Fluctuation (Tick Size)</b>	N/A
<b>Regular Trading Hours</b>	Monday-Thursday: 9:45 a.m. - 2:15 p.m. Friday : 9:30 a.m. - 12:00 p.m. 2:30 p.m.- 4:00 p.m.
<b>Position Limits</b>	<ul style="list-style-type: none"><li>• Open interest of a broker, at any point in time, in the SIFC Market per product (KSE 30/Each Sector Index) shall not exceed 10% of the total open interest or 10,000 contract (which ever is higher) in the Stock /Sector Index Future Contracts.</li><li>• Open interest of a client of a broker, at any point in time, in the SIFC Market per product (KSE 30/Each Sector Index) shall not exceed 1% of the total open interest or 1,000 contract (which ever is higher) in the Stock Index Future Contracts.</li></ul> <p>Any change in this limit would be made on the recommendation of the Board and with the prior written approval of the Commission</p>
<b>Period of Contract</b>	90 days
<b>Opening of Contract</b>	First Trading day of the next week following the close of the contract.
<b>Overlapping Period</b>	None.
<b>Expiration Date/ Last Trading day</b>	Last Friday of the calendar month in which the contract is to expire.
<b>Final Settlement</b>	Collection of Losses on T+0 basis, and disbursement of profit on T-1 basis through NCCPL's Pay & collect system.

<b>Contract Unit</b>	The contract unit shall be the numerical value of the underlying stock index
<b>Contract Value</b>	The value of the Contract at the time of making the Contract shall be the price agreed to by the parties at that time multiplier and expressed in multiplied by the contract multiplier and expressed in Pakistani Rupees
<b>Final Settlement Value</b>	Final Settlement Price of the Stock/Sector of the Index Futures Contract shall be the price calculated based on a set of 121 reading of 15 second intervals (price points) of the underlying index levels taken between the last half an hour of trading. The highest and lowest 20 price points will be ignored and the closing price computed as an average of the remaining 81 price point will be the Final Settlement Price for the settlement of the contract.
<b>Daily Settlement Value</b>	Volume Weighted Average value of the half hour of the trading in the relevant Stock Index Futures Contracts for cash settlement, multiplied by the contract multiplier and expressed in Pakistani Rupees
<b>Margin Requirements</b>	Exposure Margin shall be 12.5%.