



**THE MARGIN TRADING
REGULATIONS OF LAHORE STOCK
EXCHANGE (GUARANTEE)
LIMITED**

THE MARGIN TRADING REGULATIONS OF LAHORE STOCK EXCHANGE (GUARANTEE) LIMITED

1. Preamble:

Whereas, it was mandatory under the Margin Trading Rules, 2004, notified by the Securities and Exchange Commission of Pakistan, to make detailed regulations for the members (Brokers) with respect to grant of Margin Financing and Margin Trading facilities to clients and to regulate such trading, it is expedient to make new regulations for the purpose.

Now therefore, 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) makes, with the prior approval of the Security and Exchange Commission of Pakistan, the following Regulations namely:-

2. Short Title and Commencement:

- (i) These regulations shall be called "The Margin Trading Regulations"
- (ii) These regulations shall come into force with immediately effect.

3. Definitions:

In these regulations, unless the context otherwise require;

- a. "**Board**" means "Board of Directors of the Exchange"
- b. "**Exchange**" means "Lahore Stock Exchange (Guarantee) Limited"
- c. "**Member**" means "an active Member of the Exchange who has been duly registered with the securities and Exchange Commission of Pakistan under the Broker and Agent Regulation Rules 2001".
- d. "**Other Regulations**" means "All the other rules and regulations of the Exchange for the time being in force and as may be amended from time to time."
- e. "**Capital Adequacy**" means "Trading Limits assigned to the members equivalent to 25 times of their respective certified Net Capital Balance"
- f. "**Last Quoted Price**" means "the closing price as reported by the Exchange, on each trading day, for the purposes of risk management and collection of mark-to-market differences".

All other words /terms used in these regulations, but not defined shall have the same meaning as are assigned to them in the Margin Trading Rules, 2004 and/or any other law, statute, rules or regulations, for the time being enforce.

4. Selection Criteria of Approved Securities:

- (i) Approved ordinary shares of listed companies shall be eligible for the purposes of Margin Trading and Margin Financing, under these Regulations.
- (ii) In every April and October, the Exchange shall, with prior approval of the Commission, announce the list of Approved Securities, which shall be effective from the commencement of first week of July and first week of January, respectively.
- (iii) The review period of determine the Approved Companies, based on the pre-defined criteria shall be from October to March for companies to be effective from first week of July and April to September for Companies, which shall be effective from first week of January.
- (iv) The number of eligible scrips for Margin Trading and Margin Financing shall be recommended by the Board and will be fixed and approved by the Commission. The selection of such eligible scrips from time to time, shall be made on the basis of highest liquidity, market capitalization and minimum paid-up capital of Rs 200 million. The liquidity and market capitalization of such shares shall be determined based on their average daily turnover in the Ready Market, which shall not be less than 5000 shares and average of month-end market capitalization, in the immediate proceeding six months.
- (v) An Initial Public Offer (IPO), provisionally listed at the Exchange shall after formal listing, qualify for Margin Trading and Margin Financing under these Regulations, with the approval of the Commission, provided that its liquidity and market capitalization factor, as mentioned in clause iv above, based on its trading in provisional counter only, shall exceed from such factor of last ranked scrip already available in the list of eligible scrips. A scrip so qualifies shall replace the existing last scrip in the list of eligible scrips.
- (vi) The companies on Defaulters' counter of the Exchange shall not qualify for Margin Trading and Margin Financing.
- (vii) The Companies whose trading is suspended at the Exchange shall not qualify for Margin Financing, till removal of such suspension by the Exchange. In case where trading in a company is suspended by the Exchange subsequently, such company shall be deemed to be ineligible for the purpose of Margin Trading and Margin Financing, under these Regulations, after expiry of one month from the date of suspension and all the borrowers in such scrip, under Margin Financing, shall ensure successful settlement of such financing transactions, in timely manner.
- (viii) The companies which are not declared eligible and made live in the CDC. by Central Depository Company of Pakistan Limited, shall not qualify for Margin Trading and Margin Financing.
- (ix) The companies having any sort of going concern qualification in the Auditors' Report of their last published annual audited accounts shall not qualify for Margin Trading and Margin Financing.

5. Eligibility of Members:

The Members of the Exchange, who shall comply with the Net Capital balance requirements, all the time, in terms of the Third Schedule to the Securities and Exchange Rules, 1971, shall be eligible to carryout Margin Trading and Margin Financing.

6. Capital Adequacy Requirements:

(i) The members shall submit the certified Net Capital balance as of 30th June, and 31st December, on the prescribed formal, latest by 30th September and 31st March, respectively.

(ii) The sum of Margin Financing, by a Member, at any point in time, shall not exceed fifteen times, of his/its Net Capital balance as prescribed under the Securities and Exchange Rules, 1971.

7. Limit on Margin Financing Exposure:

(i) The single exposure of Margin Financing to a client by a Member, at any point in time, shall not exceed 10% of the total Margin Financing exposure limit, as mentioned in Clause 6(ii) above, of such Member in Margin Financing.

8. Reporting & Maintenance of Record:

(i) The Members shall submit the daily and weekly reports in respect of their margin transactions, on the prescribed format, in the manner prescribed by the Exchange, from time to time.

(ii) The Members shall maintain proper books of accounts, CDC Accounts and memorandum records in respect of Margin Trading Margin Financing, deliveries of securities and pledging of securities.

(iii) The Exchange shall have the right to obtain from a Member (s) any such information, documents, correspondence and papers, as may be required by the Exchange.

9. Surveillance & Compliance Monitoring:

(i) The Exchange shall monitor the Margin Trading and Margin Financing transactions of the Members, on continued basis. By virtue of such monitoring, the exchange shall have the right to obtain any information, whatsoever, from the members.

(ii) The Exchange shall have the right to formulate and implement any other surveillance and/or disciplinary and/or risk management measure (s), in consultation with the commission, as the Exchange may deem fit and appropriate.

10. Members Responsibilities:

- (i) The Members including in Margin Trading and Margin Financing shall ensure that all the procedure, functions, notifications and documentation as prescribed by the Exchange, in this respect from time to time, are strictly followed.
- (ii) The Members basic in house functions, in respect of Margin Trading and Margin Financing shall inter-alia include the following:
 - (a) Obtain duly filled in Application Form, as prescribed by the Exchange, from the client/prospective client, seeking Margin Trading and Margin Financing facilities.
 - (b) Execute Margin Agreement, containing minimum conditions as may be prescribed by the Exchange, with the client/prospective, client, seeking Margin Trading and Margin Financing facilities.
 - (c) Open and maintain a dedicated CLIENT MARGIN ACCOUNT in bank and corresponding Margin Accounts in their books of account and Accounts in the CDS, for every client, carrying out Margin Trading and availing Margin Financing.
 - (d) Maintain margin of clients, based on the Last Quoted Price, of the preceding day, make margin calls and collect margin thereof.
 - (e) In case of failure of client to pay against margin call, within the time prescribed, liquidate the margin account to the extent to reach the prescribed level or margin. In the event of circuit breakers, liquidation above a certain value would be exercised in consultation with the management of the Exchange.
 - (f) Retain the Margin Trading and Margin Financing information and records, inter-alia including, bank statement of Client Margin Account, books of accounts, application forms, Margin Agreement, at-least for a period of three years from the closure of account or execution of transaction or provision of facilities.
 - (g) Make timely reporting to the Exchange, in the manner as prescribed from time to time.
 - (h) Assess the clients credit risks on continued basis.
 - (i) Brokers shall formulate policies and implement procedures prior to extending any Margin Trading and/or Margin Financing facilities to their clients.

11. APPLICABILITY OF REGULATIONS ON CLIENT:

The Clients of the Members who indulge in Margin Trading and Margin Financing with/through the Members of the Exchange shall comply with the Margin Trading Rules, 2004 and these Regulation at all times.

12. PENALTIES

- i) Notwithstanding anything contained in these Regulations or any other law/statute/rules or other Regulations for the time being in force, any violation of any provision of these Regulations, by a Member shall be subject to.
 - (a) a penalty of Rs. 25,000 for each violation, which shall be recoverable from the Member by making payment to the Exchange or by adjustment from any receivables or dues of the Member from the Exchange and/or
 - (b) withdrawal of the Margin Trading and Margin Financing facilities of such members, with immediate effect for a period of not less than one month.
- ii. Such violations and action taken by the Exchange under Clause 12(i) shall be brought to the knowledge of the Members of that exchange, the management of the remaining Exchanges and the Commission.
- iii. Where the number of violations of the Regulations by a Member exceed three in a calendar year, the Exchange shall forward the name of such Member alongwith the underlying details of current and past violations to the Board of intimate the same to the Commission for necessary action.

13. GENERAL

- i) The Board may, with the prior approval of the Commission formulate any additional Regulations and/or make changes in these Regulations as deem fit and appropriate.
- ii) The Members shall extend Margin Trading and Margin Financing facilities to their clients in the manner prescribed by the Exchange from time to time and for such purposes shall use the same formats and specimen documentations, as prescribed by the Exchange.
- iii) Margin Financing should preferably be provided on transactions executed through the Automated Trading System of the Exchange. However in case margin financing is provided on the transactions executed outside the Automated Trading System the same shall be reported to the Exchange on a daily basis in the manner provided by the Exchange.

ANNEXURE A

AGREEMENT FOR MARGIN TRADING AND MARGIN FINANCING

This Agreement is made at _____ on the _____ day of _____, 2004 between Mr./M/s. _____ member, Lahore Stock Exchange (Guarantee) Limited having his/its office at _____ (hereinafter referred to as the "Broker") and Mr./M/s. _____ an individual/partnership firm/company resident of having office at _____ (hereinafter referred to as the "CLIENT") for the administration of margin account for the purpose of margin trading.

Whereas

- (a) The Broker is a Member of Lahore Stock Exchange (Guarantee) Limited (hereinafter called the Stock Exchange") and registered with the Securities and Exchange Commission of Pakistan (hereinafter called the Commission") and meets the minimum net capital and capital adequacy requirements as presently in force or amended by the Commission in consultation with the Stock exchanges from time to time.
- (b) The Client is an Account Holder of the Broker having executed and submitted and Standardized Account Opening Form prescribed by the Commission and has applied to the Broker for grant of Margin Financing to facilitate him/it to carryout Margin Trading of Securities.
- (c) The Broker has agreed to grant margin finance facility to the Client for the purchase of securities as approved by the Commission for the purpose of Margin Trading subject to the provisions of the Margin Trading Rules, 2004 and the directions of the Commission and the Stock Exchange from time to time.

THIS AGREEMENT WITNESSETH AND THE PARTIES HERETO AGREE AS UNDER

1. At the request of the Client, the Broker has approved a limit of Rs. _____ for the purpose of Margin Trading in approved securities by the Client. This limit is subject to the range fixed by the Commission from time to time generally, any direction by the Stock Exchange to reduce the outstanding, position of the Client to a certain level within the time specified by the Stock Exchange, the complete withdrawal of said facility the Broker to the Client or any other action that the Stock Exchange may deem fit and proper in this regard.
2. The Broker has made his/its satisfaction that the Client is eligible to avail the Margin Trading and Margin Financing facility and not fall in the disqualified category of persons mentioned under Rule 5 of Margin Trading Rules 2004. Further the Client hereby affirms and declares that he/it is not one of the persons mentioned in the above mentioned Rules declared ineligible for availing the said facilities.
3. The Margin Trading shall be carried out by the Client only in securities approved by the Commission from time to time.
4. The Client shall ensure that a minimum maintenance margin of _____ is always kept in his/its margin account. However, it is understood that the margin maintenance requirement is subject to enhancement as may be directed by the Commission. The Broker may enhance the above margin requirement for the already executed trades

- after notifying the Client at-least three days prior to the implementation of the revised margin requirement.
5. The margin to be maintained by the Client in the margin account shall be either in the form to cash and/or approved securities deposited as collateral by the Client as a percentage of current market value of the securities held in a margin account kept for the purpose of Margin Financing and margin trading. If as a result of market fluctuations, the value of the securities deposited in margin falls below the maintenance requirement level, the Broker shall give the Client a margin call in writing.
 6. If the Client fails to deposit additional cash or securities as a margin within one business day of the margin call, the Broker shall have absolute discretion without notice to the Client to liquidate his/its margin account, including the securities deposited or purchased and carried in such account, to the extent that the margin is maintained at the required level. In such an event, the Broker shall have the authority to use his discretion and on best effort basis shall sell or dispose off any or all the collateral securities in any lawful manner in order to meet the fixed margin requirements as may be specified from time to time.
 7. The Broker is hereby authorized by the Client to mortgage, pledge or hypothecate the securities deposited or bought on behalf of the Client by the Broker to any financial institution for a sum not exceeding the outstanding balance in the margin account.
 8. The Client may withdraw from his margin account sale proceeds or any part thereof in cash and/or any securities for the time being deposited in his/its margin account, provided that the value on the margin deposit in the said margin account does not fall below the maintenance margin after such withdrawal.
 9. The margin amount of the Client shall be kept by the Broker in his separate bank account titled "Client Margin Account" and shall not be used by the Broker for his own business. Similarly, the securities either deposited as margin or purchased on Margin Financing shall be kept by the Broker in a separate Central Depository Account and may be deposited, pledged in favour of the financial institution in accordance with the Margin Trading Rules, 2004 and this Central Depository Account shall be used only for the purpose of margin trading.
 10. It is hereby distinctly understood that the grant of this Margin Trading facility by the Broker to the Client is subject to the provisions of Margin Trading Rules 2004 and the Margin Trading Regulations 2004 with such variations and modifications as may be made from time to time. The Client has read understood and agreed to abide by the provisions of the said Rules and Regulations. Further all applicable procedures, prescribed documents policies notifications etc, issued by the Stock Exchange in respect of Margin Trading and Margin Financing shall also be binding on the Client. If any fine is imposed or other adverse action is taken by the Commission or the Stock Exchange against the broker due to non-compliance of any of the provisions of the said Rules and Regulations and/or any direction of the Commission or the Stock Exchange by the Client, the Client shall indemnify and keep indemnified the Broker against all losses costs, expenses, demands, proceedings and compensate the Broker in all respect to the full extent.
 11. This Agreement is subject to the provisions of the Margin Trading Rules 2004, the Margin Trading Regulations 2004 and directions presently in force and as may be issued from time to time by the Commission and/or the Stock Exchange. These Rules and Regulations presently in force with such amendments as may be made in

future alongwith the said directions shall be fully binding on both the Broker and the Client and shall prevail over the terms of his agreement in case of any conflict.

IN WITNESS WHEREOF the parties hereto have executed this Agreement on the date and year mentioned above.

BROKER

CLIENT

WITNESSES

(Signature, Name and Addresses)

1. _____
Name _____
Address _____
NIC No. _____

2. _____
Name _____
Address _____
NIC No. _____

ANNEXLRE B

MARGIN TRADING AND MARGIN FINANCING APPLICATION FORM

(Note: Each and every column must be filled in)

Account Opening Form Reference No.	_____	Date	
Name of Brokerage House	_____		
Client ID/Account No.	_____		
CDC Account No.	_____		

Financing

I/We, _____ hereby apply for Margin Trading and Margin Financing.

I/We declare that since last five years.

- i) I/We have not applied to be adjudicated as an insolvent and that I/We have not suspended payment and that I/We have not compounded with my/our creditors;
- ii) I/We am/are not un-discharged insolvent;
- iii) I/We have not been declared defaulter in repayment of loan of a bank/financial institutions, and
- iv) I/We have not been convicted by a court of law for an offence involving moral turpitude;

I/We have read understand and agree to the terms and Conditions of the Margin Trading Rules, 2004 and the Margin Trading Regulations. 2004 and agree to abide by all the provisions, terms and conditions contained therein at all times.

I/We confirm that all the information in this application is complete and accurate and what is stated above is true and correct to the best of my/our knowledge and belief

Name & Address of the Applicant _____

Signature of Applicant

Date

CUEIST CREDIT RISKS ASSESSMENT CRITERIA

Annexure C/3

Individual:

1. Employment status, emoluments/earnings perks, tenure etc
2. Age.
3. Nationality.
4. Payment capability by verifying utility/credit card bills.
5. If self-employed, nature of profession/business, earnings, continuity and age of earnings, its consistency.
6. Ownership of personal property or other assets, such as vehicle.
7. Number and nature of dependents.
8. Experience in dealing in capital market.
9. Basic understanding of laws, rules, regulations and procedures of operating in capital market.
10. Status of other borrowings, such as home/car/personal loans, leasing, etc.
11. Confirmation of satisfactory credit worthiness from other lenders/bankers.
12. Monitoring of client's Margin Trading and Margin Financing exposures with other brokerage house(s).
13. Obtaining undertaking from the client stating that there is no dispute with any other brokerage house(s). in case of dispute(s) with other brokerage house(s) analysis of such dispute(s).
14. Obtaining irrevocable authority to recover the receivable.

Corporation:

1. Analysis of historical current and prospective financial information.
2. Analytical Review of past, current and prospective key financial ratio.
3. Confirming that Memorandum of Association allows investment in the capital market either on cash or credit.
4. Obtaining irrevocable authority to recover the receivables.
5. Analysis of goodwill and credit worthiness of sponsors/major shareholder and Directors.
6. Ensuring that Client possesses NTN Certificate.
7. Status of other borrowing.
8. Confirmation of satisfactory credit worthiness from other lenders/bankers.
9. Overall standing in accordance with the Prudential Regulations of the State Bank of Pakistan.
10. Ensuring approval of the Board of Directors, through certified copy of Board Resolution.
11. Monitoring of client's Margin Trading and Margin Financing exposures with other brokerage house(s).
12. Obtaining undertaking from clients stating that there is no dispute with any other brokerage house(s). In case of dispute(s) with other brokerage house(s), analysis of such dispute(s).