



## **NOTICE FOR ALL MEMBERS**

Further to letter from the Chairman of the Board of Directors to the Chairman, Securities & Exchange Commission of Pakistan, as given under, which was circulated to the Members yesterday on May 07, 2005, to provide the background information to this letter and to follow the prevailing practice consistently, the underlying correspondence, i.e. Securities & Exchange Commission of Pakistan letter of May 06, 2005 and Chairman, Board of Directors letter May 03, 2005 are also attached herewith.



**Muhammad Yasin Lakhani**

CHAIRMAN

THE KARACHI STOCK EXCHANGE (GUARANTEE) LTD.

May 7, 2005

**Dr. Tariq Hassan**  
Chairman  
Securities & Exchange Commission of Pakistan  
NIC Building, Blue Area  
ISLAMABAD

**Subject: RISK MANAGEMENT FOR THE FUTURES MARKET**

Dear Sir,

This is with reference to your letter No. SMD/SE/2(23)2001 dated May 06, 2005 on the subject.

We have noted that you are in the process of examining the proposals contained in our letter dated May 03, 2005. We have deliberated these issues at length and examined various limits and exposure already in place in the futures market particularly pertaining to May 2005. We would like to share our views with you through this letter on each point before we meet to discuss these issues. We strongly feel that each limit/restriction should be market activity focused and provide a level playing field to both buyers and sellers.

We feel that as against no restriction prior to determination of an overall limit of free float, the following additional restrictions have been imposed:

1. 1% restriction on trading in each scrip in futures by each member based on free float. This was suggested in the meeting of April 1, 2005 in Islamabad without the availability of free float figures. KSE's view was 1% or 5 million shares which is higher. However, it was decided that at any point in time in a single scrip in a future contract shall not exceed 1% of free float of each scrip or the number of contracts determined under a slab system whichever is higher. Subsequently in the meeting of April 21 in Karachi 1% restriction without reference to slab system was insisted upon by SECP.
2. Restricting each member to take exposure upto 10 times of net capital balance.
3. Increase in exposure demanded in highest slab from 20% to 30% and collection of mark to market losses twice a day.
4. Reduction of profit distribution from 30% to 20%.
5. Disallowing of netting from ready to future for the purpose of capital adequacy.