



KSE/N-1524

Dated: March 07, 2013

NOTICE FOR SOLICITATION OF PUBLIC COMMENT
SUBJECT: IMPROVING EFFICIENCY OF STOCK INDEX FUTURES
CONTRACTS (SIFC) & DELIVERABLE FUTURES MARKET (DFM)

In its meetings of January 3, 2013 and February 14, 2013, the Market Development and New Product Committee of the KSE have recommended certain changes in regulations governing the operation of Stock Index Future Contracts with a view to making this product more attractive for the investors.

BACKGROUND

Globally, Cash Settled Futures (CSF) Contracts have been used for leverage purposes. In Pakistan too, under SECP's guidance, CSF were introduced in 2007/2008. However, given the market participants familiarity with our deliverable products, Cash Settled Future products did not take off. This was especially due to the fact that DFM margin requirement is 50% in Cash and 50% in Securities, whereas in CSF, 100% margin requirement is in Cash.

PROPOSED REGULATORY CHANGES

In view of the above, the Market Development & New Product Committee (MDNPC) has proposed three major changes in Regulations related to Stock Index Futures Contracts (SIFC) and two changes in Regulations related to deliverable futures, in order to bring liquidity to both the deliverable and cash settled futures, operating under derivatives segment of our equity market.

1. Uniform Universe of Securities for SIFC, DFM and CSF:

Stock Index Future Contracts (SIFC) has significant potential for growth provided the lacunas related to their operating mechanism are streamlined to facilitate market participants and investors.

Enabling active investors to devise and implement a trading strategy is the basic pre-requisite for success of the product-mix available at KSE. At present, Stock Index Futures are offered on KSE-30 Index and a trader cannot perfectly hedge through buying in deliverable futures or Cash Settled Futures and selling them in Stock Index Futures. This is because Cash Settled and Deliverable Futures are not available in following six securities.

KSE-30 Securities not Available in DFC/CSFC		
Sr. No.	Symbol	Security Name
1	APL	Attock Petroleum Ltd
2	HBL	Habib Bank Ltd.
3	ICI	ICI Pakistan Ltd.
4	JSCL	Jahangir Siddiqui. & Company Limited
5	MTL	Millat Tractors Limited
6	NRL	National Refinery Limited

Absence of above KSE-30 Stocks in Single Stock Futures and Deliverable Futures is said to be a reason for low liquidity in the ready market as well as in futures markets as it denies perfect hedge facility to investors engaged in short-term trading.