



**REGULATIONS FOR SHORT SELLING
UNDER READY MARKET, 2002**

OF

**THE KARACHI STOCK EXCHANGE
(GUARANTEE) LIMITED**

(As amended on November 23, 2011 and sent for Gazette Notification)

THE REGULATIONS FOR SHORT SELLING UNDER READY MARKET, 2002

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 Karachi Stock Exchange (Guarantee) Limited in exercise of the powers conferred by sub-section 1 of section 34 of the Securities & Exchange Ordinance, 1969 (XVII of 1969) with prior approval of Securities & 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 Securities Lending and Borrowing Contract to meet delivery requirements.
- b) "Board" means Board of Directors of the Exchange.
- c) "Clearing Company" means National Clearing Company of Pakistan Limited.
- d) "Downtick" means the price below the previous price of a transaction of security executed through the Karachi Automated Trading System (KATS). In order for a downtick to occur, a transaction price must be followed by a decreased transaction price.
- e) "Exchange" means "the Karachi Stock Exchange (Guarantee) Limited".
- f) "Member" means "Member of the Exchange".
- g) "NCSS" means National Clearing and Settlement System of the Clearing Company.
- h) "Securities Lending and Borrowing [SLB] Contract" shall have the same meaning as ascribed thereto in the NCCPL Regulations.
- i) "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.
 - The squaring-up of an open position in Margin Trading Market as a financee on account of same UIN of same security.

- j) "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 SLB contract executed through SLB Market at Clearing Company in accordance with its Regulations / Procedure to meet delivery requirements on the settlement date.
- k) "SLB Market" shall have the same meaning as ascribed thereto in the regulations framed by the NCCPL in respect of SLB Market.
- l) "SLB Transactions" have the same meaning as provided under the relevant regulations of the Clearing Company.
- m) "Uptick" means the price above the previous price of a transaction of a security executed through the KATS. In order for an uptick to occur, a transaction price must be followed by an increased transaction price.
- n) "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 KATS.

3. **SHORT SELLING**

- (a) Short Sale under Ready Market shall take place through the Karachi Automated Trading System (KATS).
- (b) Short Sale will only be permissible on Uptick or Zero-Plus Tick, for example:

	TIME	RATE	REMARKS
	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

- (c) Notwithstanding anything mentioned in sub-clause (b) above, Short Sale shall be allowed without Up-tick or Zero-Plus Tick up to the following extent:
 - i. **UIN-Wide Position:** A UIN will be allowed to make short sale to the maximum extent of 2% of Average Daily Turnover of the respective security of previous one month.
 - ii. **Member-Wide Position:** A Member for his all UINs including its Clients' Positions will be allowed to make Short Sale to the maximum extent of 4% of Average Daily Turnover of the respective security of previous one month.
 - iii. **Market-Wide Position:** All Members on cumulative basis will be allowed to make Short Sale to the maximum extent of 40% of Average Daily Turnover of the respective security of previous one month.
- (d) Provided that the exemptions mentioned in sub-clause (c) above shall not be available in the following cases:
 - when the price of a security declines up to 2.5% from the closing price of the previous day, the exemptions shall not be available for the remainder of the day;
 - when lower circuit breaker, as prescribed and amended from time to time in Regulations Governing Risk Management of the Exchange, becomes

applicable on the closing price of a security, the exemptions shall not be available for the next two working days;

- when lower circuit breaker, as prescribed and amended from time to time in Regulations Governing Risk Management of the Exchange, become applicable on the closing price of a security consecutively for five working days, the exemptions shall not be available for next fifteen working days after the fifth working day.

4. **PROHIBITION ON BLANK SALES**

Blank sales are not permissible.

5. **SHORT SALE PREREQUISITES**

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; except as stated in sub-clause (c) of clause 3 above; and
- (b) The trade is declared as a Short Sale at the time of placement of order through KATS in a special 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 from time to time, based on the criteria approved by the Board with prior approval of the Commission.
- (ii) The Exchange shall give a reasonable prior notice to the market participants before including or excluding any security from the list of securities eligible for Short Selling as prescribed in the criteria.

9. **PROHIBITION**

No Member who has unsettled MT Transactions as a financier on his Proprietary Account or on Clients' Accounts, through NCCPL against delivery of securities shall use the same securities for Short Selling.

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

- (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, 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 may 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 of Pakistan, make changes in these Regulations after giving reasonable notice.