PAKISTAN STOCK BROKERS ASSOCIATION
(A company setup under section 42 of the Companies Act 2017)
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PSBA/Notice-121 November 08, 2023

NOTICE FOR MEMBERS

PROPOSED AMENDMENTS TO SINGLE STOCK CASH SETTLED FUTURES (CSF) CONTRACT MARKET REGULATIONS OF PSX

This is in reference to the notification PSX/N-1140 dated **November 08, 2023 (attached),** whereby the comments have been invited by the PSX:

In this regard, the members are hereby requested to kindly submit your comments, if any, at psamail024@gmail.com latest by **November 13, 2023,** so that a consolidated response is submitted to the authorities for their consideration.

_______**sd**_________
AKBER ALI
Officer - Secretariat

Copy to:

1. PSBA Website

PSX/N-1140 **November 08, 2023**

INVITATION OF PUBLIC COMMENTS

PROPOSED AMENDMENTS TO SINGLE STOCK CASH SETTLED FUTURES (CSF) CONTRACT MARKET REGULATIONS OF PSX

This is to inform the public that the PSX, in exercise of power conferred upon it u/s 7 of the Securities Act, 2015, is proposing amendments to its Regulations in relation to the introduction of reform measures in the CSF Contract Market Regulations.

The key amendments being proposed and other measures introduced in the product are mentioned below:

S. #	Feature	Brief Description
1	Futures Eligibility Criteria for Selection of Securities Eligible for Trading in CSF Contract Market	The criteria are designed to cover the following cases: ▪ All new equity listings are eligible for inclusion in the CSF Contract Market from the day it is available for secondary market trading. ▪ Stocks that fail to meet the DFC criteria related to free float but are otherwise liquid based on DFC liquidity parameters shall be included in the CSF Contract Market. ▪ Stocks excluded from DFC shall be available in CSF Contract Market for a limited period. ▪ A few liquid stocks available in DFC and stocks that are near DFC market wide position limits shall also be available in CSF Contract Market. ▪ In general, 30, 60, and 90 days contracts shall be available for most of the stocks, based on the eligibility criteria.
2	Final Settlement Price	Final settlement price of the CSF Contract Market is aligned with the closing price of the underlying market on the expiry date, in line with international practices.
3	Adjustment in CSF open contracts	If any corporate action is announced in the underlying stock, the CSF contract shall be adjusted in accordance with the ratio method, as prescribed in the PSX's Corporate Action Adjustment Methodology, which is attached herewith as **Exhibit A**.
4	Risk Management	A relaxed risk management regime is proposed by NCCPL for CSF Contract Market that is adequate with the low level of settlement risk.
5	Contract Specifications	The Contract Specifications of CSF Contract Market are proposed to be removed from PSX Regulations and will be notified by the Exchange from time to time.

In terms of Section 7(3) of the Securities Act, 2015, all interested parties are invited to provide written comments on the proposed amendments to PSX Regulations, which are attached as **Annexure A**.

The comments can be submitted through any of the following modes latest by **November 15, 2023** in the manner as suggested in the 'Guidelines for Submission of Comments' which are attached herewith as **Exhibit B**:

Email	comments.rad@psx.com.pk
Mail	Aamir Mushtaq Kanju, Deputy General Manager, Product Management and Research, 6th Floor, Administration Building, Pakistan Stock Exchange Building, Pakistan Stock Exchange Road, Karachi – 74000.

HASSAN RAZA
Chief Product Officer

Cc:
1. The Executive Director/HOD (PRDD), SMD, SECP
2. The Chief Executive Officer, PSX
3. The Chief Executive Officer, CDC
4. The Chief Executive Officer, NCCPL
5. The Chief Executive Officer, PMEX
6. The Chief Executive Officer, E-Clear
7. The Chief Executive Officer, IFMP
8. The Secretary General, PSBA
9. The Chief Regulatory Officer, PSX

"ANNEXURE A"

PROPOSED AMENDMENTS TO PSX REGULATIONS IN RELATION TO SINGLE STOCK CASH SETTLED FUTURES (CSF) CONTRACT MARKET REGULATIONS

EXISTING REGULATIONS	PROPOSED AMENDMENTS	RATIONALE
CHAPTER 2: INTERPRETATION AND DEFINITIONS		
2.4. GENERAL DEFINITIONS: **All Markets:** means the different markets provided by the Exchange and are governed under these Regulations which include Ready Delivery Contract Market (which includes Odd Lots market), Deliverable Futures Contract Market, Cash-Settled Futures Contract Market, Stock Indices Futures Contract Market, Index Options Market, Debt Securities Market and any other market which the Board may provide for with the prior approval of the Commission and individually referred to as a "Market";	**2.4. GENERAL DEFINITIONS:** **All Markets:** means the different markets provided by the Exchange and are governed under these Regulations which include Ready Delivery Contract Market (which includes Odd Lots market), Deliverable Futures Contract Market, **Single Stock** Cash-Settled Futures Contract Market, Stock Indices Futures Contract Market, Index Options Market, Debt Securities Market and any other market which the Board may provide for with the prior approval of the Commission and individually referred to as a "Market";	It is proposed to rename "Cash-Settled Futures Contract Market" to "Single Stock Cash-Settled Futures Contract Market" in PSX Regulations.
Derivative Contracts: means Deliverable Futures Contract, Cash Settled Futures Contract, Stock Index Futures Contract and Index Options Contract;	**Derivative Contracts:** means Deliverable Futures Contract, **Single Stock** Cash Settled Futures Contract, Stock Index Futures Contract and Index Options Contract;	
Futures Contract: Include: (a) Deliverable Futures Contract, **Single Stock** Cash-Settled Futures Contract, Stock Indices Futures Contract and Index Option Contract; and	**Futures Contract:** Include: (a) Deliverable Futures Contract, **Single Stock** Cash-Settled Futures Contract, Stock Indices Futures Contract and Index Option Contract; and	
Futures Eligibility Criteria: means the eligibility criteria for selection of eligible securities for trading in the Deliverable Futures Contract Market and Cash Settled Futures Contract Market as prescribed by the Exchange and duly approved by the Commission;	**Futures Eligibility Criteria:** means the eligibility criteria for selection of eligible securities for trading in the Deliverable Futures Contract Market and **Single Stock** Cash Settled Futures Contract Market as prescribed by the Exchange and duly approved by the Commission;	

EXISTING REGULATIONS	PROPOSED AMENDMENTS	RATIONALE
Futures Market: means a market where Futures Contracts are traded and includes Deliverable Futures Contract Market, Cash-Settled Futures Contract Market, Stock Indices Futures Contract Market and Index Option Contract Market;	**Futures Market:** means a market where Futures Contracts are traded and includes Deliverable Futures Contract Market, **Single Stock** Cash-Settled Futures Contract Market, Stock Indices Futures Contract Market and Index Option Contract Market;	
Theoretical Price: means the Closing Price of a Security for Deliverable Futures Contract and/or Cash-Settled Futures Contracts Markets, if there is no trading in such Security in the respective Market during whole trading day, to be determined as per methodology prescribed under Chapter 19 (Risk Management Regulations);.	**Theoretical Price:** means the Closing Price of a Security for Deliverable Futures Contract and/or **Single Stock** Cash-Settled Futures Contract~~s~~ Markets, if there is no trading in such Security in the respective Market during whole trading day, to be determined as per methodology prescribed under Chapter 19 (Risk Management Regulations);.	
CHAPTER 14: SINGLE STOCK CASH-SETTLED FUTURES CONTRACT MARKET REGULATIONS		
14.1. DEFINITIONS: (a) "Contract Multiplier" shall mean the number of underlying Securities in the CSF Contract, in the manner prescribed in Annexure-A to this chapter. The CSF contract multiplier is subject to change when adjustments are made with respect to corporate actions;	**14.1. DEFINITIONS:** (a) "Contract Multiplier" shall mean the number of underlying Securities in the CSF Contract~~, in the manner~~ **as notified by the Exchange in the Contract Specifications** ~~prescribed in Annexure-A to this chapter~~. The CSF contract multiplier is subject to change when adjustments are made with respect to corporate actions **in accordance with the Corporate Action Adjustment Methodology prescribed by the Exchange**;	Being an operational matter, it is proposed that the Contract Specifications of CSF should be kept outside the PSX Regulations and can be amended at the discretion of the Exchange. This is in line with the Contract Specifications of DFC and SIFC Markets which are notified on PSX website and prescribed outside of PSX Regulations. Moreover, the draft version of Corporate Action Adjustment Methodology prescribed by PSX in this regard is

EXISTING REGULATIONS	PROPOSED AMENDMENTS	RATIONALE
		attached herewith as Exhibit A.
(b) "CSF Contract" shall mean, Standardized Cash-Settled Stock Futures Contract;	(b) "CSF Contract" shall mean, Standardized **Single Stock** Cash-Settled ~~Stock~~ Futures Contract;	It is proposed to rename "Cash-Settled Futures Contract Market" to "Single Stock Cash-Settled Futures Contract Market" in PSX Regulations.
(c) CSF Market" shall mean the market where Cash Settled Futures Contracts are traded;	(d) CSF Market" shall mean the market where **Single Stock** Cash Settled Futures Contracts are traded;	
(e) "Final Settlement Price of a scrip" shall mean the average bid/ask quote of the Security in the Ready Delivery Contract Market which would be calculated as a ratio of A/B where "A" equals the sum of market bid and ask prices taking the best bid and best ask price of the Security during each one minute interval for last two hour trading on the last trading day of the Contract or where no trading takes place on that day, the immediate preceding trading day. "B" equals the total number of bid and ask prices sampled i.e. 240. The final settlement price thus arrived at shall be rounded to the nearest paisa per unit or other such amount per unit determined by the Exchange;	(e) "Final Settlement Price**"** of a ~~scrip" shall mean the average bid/ask quote of the Security in the Ready Delivery Contract Market which would be calculated as a ratio of A/B where "A" equals the sum of market bid and ask prices taking the best bid and best ask price of the Security during each one minute interval for last two hour trading on the last trading day of the Contract or where no trading takes place on that day, the immediate preceding trading day. "B" equals the total number of bid and ask prices sampled i.e. 240. The final settlement price thus arrived at shall be rounded to the nearest paisa per unit or other such amount per unit determined by the Exchange;~~ **CSF Contract shall be the closing price of underlying security in the Ready Market on the expiry date as mentioned in Chapter 19 of these Regulations.**	1) This is to align the CSF settlement price with the underlying asset. 2) Basic principle of futures contract states that the futures prices converge to the spot prices at the expiry. 3) Further, the international research shows that CSF contracts are settled on the Ready/Spot market closing prices. 4) This will also make sure that market has one price of the underlying asset, avoiding any confusion.
(g) "Open Position in a Security" shall mean the sum of long and short positions of a Broker and his clients at any point in time in a Contract for that Security.	~~(g) "Open Position in a Security" shall mean the sum of long and short positions of a Broker and his clients at any point in time in a Contract for that Security.~~	Not relevant for the subject product. Further, the definition has no use in the chapter.
14.2. TRADING:	**14.2. TRADING:**	

EXISTING REGULATIONS	PROPOSED AMENDMENTS	RATIONALE
14.2.1. Trading in CSF Contracts shall take place through the Trading System.	14.2.1. ~~Trading in CSF Contracts shall take place through the Trading System.~~ **The Exchange shall provide a market for trading in CSF Contract by issuing a notice containing the relevant Contract Specifications.**	Editorial changes proposed for clarity.
14.2.3. ELIGIBILITY OF SECURITIES: (a) The Securities eligible for trading in the CSF Market shall be determined and implemented by the Exchange every quarter in accordance with the requirements prescribed for final review and notice period under the Futures Eligibility Criteria.	**14.2.3. ELIGIBILITY OF SECURITIES:** ~~(a)~~ The Securities eligible for trading in the CSF Market shall be determined and implemented by the Exchange **based on the** ~~every quarter in accordance with the requirements prescribed for final review and notice period under the Futures~~ **CSF** Eligibility Criteria.	CSF Contract Market has its own criteria based on DFC parameters and shall regulate CSF eligible stocks.
14.2.4. The Contract specifications for the CSF Contract as determined by the Board and approved by the Commission and attached hereto as Annexure-A, shall form part of these Regulations.	**14.2.4.** The Contract Specifications for the CSF Contract **shall be** as determined by the Board **with prior approval of** ~~and approved by~~ the Commission ~~and attached hereto as Annexure-A, shall form part of these Regulations~~.	Being an operational matter, it is proposed that the Contract Specifications for CSF should be kept outside the PSX Regulations and can be amended at the discretion of the Exchange, as presently done for DFC.
14.2.5. When a buyer/seller accepts a bid/offer of a CSF Contract, the said Contract with the specifications as mentioned in Annexure-A attached hereto this chapter shall be deemed to have been executed between the buyer and the seller.	**14.2.5.** When a buyer/seller accepts a bid/offer of a CSF Contract, the said Contract ~~with the specifications as mentioned in Annexure-A attached hereto this chapter~~ shall be deemed to have been ~~executed~~ **made** between the buyer and the seller.	
14.2.7. Upon opening of any CSF Contract, the Exchange shall notify the name of the Issuer, dates of opening, closing and settlement of the said Contract and other relevant details as mentioned in Annexure-A to this chapter;	**14.2.7.** Upon opening of any CSF Contract, the Exchange shall notify the name of the **underlying stock** ~~Issuer~~, dates of opening, closing and settlement of the said Contract and other relevant details as notified by the Exchange **in the Contract Specifications.**~~;~~ ~~as mentioned in Annexure-A to this chapter~~	The correct term is 'underlying stock' instead of 'Issuer'.
14.2.8. There shall be one standardized 90 days CSF	**14.2.8.** ~~There shall be one standardized 90 days CSF~~	Exchange shall have the discretion to

EXISTING REGULATIONS	PROPOSED AMENDMENTS	RATIONALE
Contract which shall be issued each month on the first trading day following last Friday of each month for each eligible security. However, the Exchange shall also have discretionary powers to introduce a contract of 30 and/or 7 days. The 30 and 90 days contracts shall expire on the last Friday of the respective month of the Contract whereas the 7 days contracts shall start on each Monday or first trading day of the week and shall expire on each Friday (or last working day of the week). No overlapping period is allowed in the CSF Contracts.	~~Contract which shall be issued each month on the first trading day following last Friday of each month for each eligible security. However, the~~ **The** Exchange shall **also** have discretionary powers to introduce a contract of **maturity less than and / or greater than 90 days.** ~~30 and/or 7 days. The 30 and 90 days contracts shall expire on the last Friday of the respective month of the Contract whereas the 7 days~~. **At the time of listing of contract, the Exchange shall notify the details of the Contract Specifications, including the maturity period, in line with clause 14.2.7** ~~contracts shall start on each Monday or first trading day of the week and shall expire on each Friday (or last working day of the week). No overlapping period is allowed in the CSF Contracts~~.	open contracts of any maturity. PSX will open 30, 60 and 90-days contracts. In case of new equity listings, the contract shall open from the date the underlying is available for secondary market trading. Opening of CSF shall be prescribed by PSX in the Contract Specifications, therefore, this amendment is being proposed.
New Insertion	**In case of new equity listing, the contract shall be opened on the date the underlying stock is available for trading in Ready market provided there is a minimum one week available till immediate month expiry.**	
The CSF Contracts shall be identified by the trading symbols of the underlying eligible Securities under the respective CSF Contracts and such trading symbols shall be decided by the Exchange.	~~The CSF Contracts shall be identified by the trading symbols of the underlying eligible Securities under the respective CSF Contracts and such trading symbols shall be decided by the Exchange.~~	
14.2.9. The expiration date/last trading day shall be the last Friday of the respective calendar month in which the 30 or 90 days CSF Contract shall expire and/or	~~**14.2.9.** The expiration date/last trading day shall be the last Friday of the respective calendar~~ ~~**expiry**~~ ~~month. in which the 30 or 90 days CSF Contract shall~~	Expiry date shall be prescribed by PSX in the Contract Specifications, therefore, this clause

EXISTING REGULATIONS	PROPOSED AMENDMENTS	RATIONALE
each Friday of the week in case of 7 days Contract. If the relevant Friday is a trading holiday, then the respective CSF Contract shall expire on the preceding trading day.	~~expire and/or each Friday of the week in case of 7 days Contract. If the relevant Friday is a trading holiday, then the respective CSF Contract shall expire on the preceding trading day.~~	is proposed to be deleted.
14.2.10. In a 90 days CSF Contract, the CSF Contract Multiplier will be adjusted for corporate actions like bonus issue or right issue in the underlying Security. The adjustment will take effect from the day on which trading in Ready Delivery Contract Market commences on ex-entitlement basis. For example; when the CSF Contract Multiplier is 500 and there is a 1-for-2 bonus issue (i.e. for every 2 existing Securities, the holder gets one additional Security), the CSF Contract Multiplier will be adjusted to 750 (500 x 3/2). When the Contract Multiplier is adjusted, the price of each Security in the Contract will correspondingly be adjusted by the Exchange. In the above example, in case of bonus issue, the price of each Security in the Contract will be adjusted to 2/3 of its Closing Price of the trading day which is just preceding to the day on which trading in Ready Delivery Contract Market commences on ex-entitlement basis. For instance, if the price was Rs 150 it would be Rs 100 (150 x 2/3). Similarly, when there is a 1-for-2 right issue, the CSF Contract Multiplier will be adjusted to 750 (500 x 3/2) on the ex-right date. When the CSF Contract Multiplier is adjusted, the CSF Contract price ruling on the ex-right date will	**14.2.10.** ~~In a 90 days CSF Contract, the~~ **The** CSF Contract Multiplier will be adjusted for corporate actions **in accordance with the Corporate Action Adjustment Methodology prescribed by Exchange.** ~~like bonus issue or right issue in the underlying Security. The adjustment will take effect from the day on which trading in Ready Delivery Contract Market commences on ex-entitlement basis. For example; when the CSF Contract Multiplier is 500 and there is a 1-for-2 bonus issue (i.e. for every 2 existing Securities, the holder gets one additional Security), the CSF Contract Multiplier will be adjusted to 750 (500 x 3/2). When the Contract Multiplier is adjusted, the price of each Security in the Contract will correspondingly be adjusted by the Exchange. In the above example, in case of bonus issue, the price of each Security in the Contract will be adjusted to 2/3 of its Closing Price of the trading day which is just preceding to the day on which trading in Ready Delivery Contract Market commences on ex-entitlement basis. For instance, if the price was Rs 150 it would be Rs 100 (150 x 2/3). Similarly, when there is a 1-for-2 right issue, the CSF Contract Multiplier will be adjusted to 750 (500 x 3/2) on the ex-right date. When the CSF~~	The CSF contract shall be adjusted in accordance with ratio method in case of dividends, bonus, right issue or combinations thereon. The Corporate Action Adjustment Methodology is an operational procedure and is proposed to be kept outside the PSX Regulations but will be made readily available for information of the public. The draft methodology is also attached herewith as Exhibit A.

EXISTING REGULATIONS	PROPOSED AMENDMENTS	RATIONALE
correspondingly be increased by the exercise price per Security multiplied by 250. The adjusted price per Security of the CSF Contract would increase, decrease or remain same, depending upon whether the right Securities have been offered at a premium, discount or par respectively, to its Closing Price of the trading day which is just preceding to the day on which trading in Ready Delivery Contract Market commences on ex-right basis. The adjustment of CSF Contract Multiplier shall be applicable only to the CSF Contracts that are trading as of the corporate action date. When the next new Contract is traded its CSF Contract Multiplier shall be reinstated to the original lot size determined by the Managing Director of the Exchange. (No mark to market differences by virtue of such adjustments shall be payable or receivable on the ex-entitlement date). Provided that in case of 30 days CSF Contracts, in the event of declaration of bonus and/or right and/or cash dividend after commencement of Contract pertaining to a Security being traded in the CSF Market for which the transfer books of the Issuer are to be closed during the pendency of the settlement, the Exchange shall predate the last day of trading and the settlement date of that particular Security's	~~Contract Multiplier is adjusted, the CSF Contract price ruling on the ex-right date will correspondingly be increased by the exercise price per Security multiplied by 250. The adjusted price per Security of the CSF Contract would increase, decrease or remain same, depending upon whether the right Securities have been offered at a premium, discount or par respectively, to its Closing Price of the trading day which is just preceding to the day on which trading in Ready Delivery Contract Market commences on ex-right basis. The adjustment of CSF Contract Multiplier shall be applicable only to the CSF Contracts that are trading as of the corporate action date. When the next new Contract is traded its CSF Contract Multiplier shall be reinstated to the original lot size determined by the Managing Director of the Exchange. (No mark to market differences by virtue of such adjustments shall be payable or receivable on the ex-entitlement date).~~ ~~Provided that in case of 30 days CSF Contracts, in the event of declaration of bonus and/or right and/or cash dividend after commencement of Contract pertaining to a Security being traded in the CSF Market for which the transfer books of the Issuer are to be closed during the pendency of the settlement, the Exchange shall predate the last day of trading and the settlement date of that particular Security's~~	

EXISTING REGULATIONS	PROPOSED AMENDMENTS	RATIONALE
Contract before the book closure date. Provided further that in 30 and/or 7 days CSF Contracts where an Issuer announces book closure for any one or more of the above mentioned entitlements before opening of the respective Contract and its book closure falls within the Contract Period, the corresponding 30 and/or 7 days Contracts shall be opened on the first trading day of that month/week on an ex-entitlement basis;	~~Contract before the book closure date.~~ ~~Provided further that in 30 and/or 7 days CSF Contracts where an Issuer announces book closure for any one or more of the above mentioned entitlements before opening of the respective Contract and its book closure falls within the Contract Period, the corresponding 30 and/or 7 days Contracts shall be opened on the first trading day of that month/week on an ex-entitlement basis;~~	
14.2.11. In case where the cash dividend is declared in respect of a Security, no adjustment would be made by the Exchange in the 90 days CSF Contract;	~~14.2.11.In case where the cash dividend is declared in respect of a Security, no adjustment would be made by the Exchange in the 90 days CSF Contract;~~	The contract will be adjusted in accordance with PSX's Corporate Action Adjustment Methodology in case of dividend announcement.
14.3. CLEARING AND SETTLEMENT: **14.3.4. SPECIAL CLEARING AND SETTLEMENT:** NCCPL may announce a special clearing in a CSF Contract or all CSF Contracts or in a particular Security or all Securities in a CSF Contract or all CSF Contracts, subject to the prior approval of the Commission, in the manner as prescribed under NCCPL Regulations. In case a special clearing is announced, trading shall be suspended by the Exchange upon receipt of Notice from NCCPL. The market would remain suspended till further notice from NCCPL. On resumption of the market, three	**14.3. CLEARING AND SETTLEMENT:** ~~**14.3.4. SPECIAL CLEARING AND SETTLEMENT:**~~ ~~NCCPL may announce a special clearing in a CSF Contract or all CSF Contracts or in a particular Security or all Securities in a CSF Contract or all CSF Contracts, subject to the prior approval of the Commission, in the manner as prescribed under NCCPL Regulations. In case a special clearing is announced, trading shall be suspended by the Exchange upon receipt of Notice from NCCPL. The market would remain suspended till further notice from NCCPL. On resumption of the market, three~~	 This clause is proposed to be deleted as market halt, as prescribed in PSX Regulations, will be applicable.

EXISTING REGULATIONS	PROPOSED AMENDMENTS	RATIONALE
new Contracts would open from the date of resumption in place of the three suspended Contracts, expiring on the original expiry date as per these Regulations.	~~new Contracts would open from the date of resumption in place of the three suspended Contracts, expiring on the original expiry date as per these Regulations.~~	
14.4. SUSPENSION OR DISCONTINUATION OF CASH-SETTLED FUTURES CONTRACT MARKET:	**14.4. SUSPENSION OR DISCONTINUATION OF SINGLE STOCK CASH-SETTLED FUTURES CONTRACT MARKET:**	Consequential renaming of this clause.
Chapter 19: RISK MANAGEMENT REGULATIONS		
19.1. METHODOLOGIES: (b) In case no trade takes place during the whole trading day in the Deliverable Futures Contract Market or Cash-Settled Futures Contract Market in a particular Security, the Closing Price of that Security for respective futures market will be updated on the basis of Theoretical Price. (c) The Theoretical Price for a Security tradable under Deliverable Futures Contract and/or Cash-Settled Futures Contracts Markets, if there is no trading in such Security in the respective market during whole trading day, is determined as per following methodology: (i) The Closing Price of underlying Security in the Ready Delivery Contract market x {1+(One Month KIBOR+4%) / 365 X DTM}; (ii) In case of ex-entitlement Contracts, the Theoretical Price will be adjusted based on ex-price adjustment formulas determined by the Exchange. Whereas DTM stands for Date to	**19.1. METHODOLOGIES:** (b) In case no trade takes place during the whole trading day in the Deliverable Futures Contract Market or **Single Stock** Cash-Settled Futures Contract Market in a particular Security, the Closing Price of that Security for respective futures market will be updated on the basis of Theoretical Price. (c) The Theoretical Price for a Security tradable under Deliverable Futures Contract and/or **Single Stock** Cash-Settled Futures Contracts Markets, if there is no trading in such Security in the respective market during whole trading day, is determined as per following methodology: No Change Whereas DTM stands for Date to	As above.

EXISTING REGULATIONS	PROPOSED AMENDMENTS	RATIONALE
Maturity which will be equivalent to days difference in the trading date of the Ready Delivery Contract market and last trading date of Deliverable Futures Contract or Cash-Settled Futures Contract on any trading date, on which such DTM is being determined.	Maturity which will be equivalent to days difference in the trading date of the Ready Delivery Contract market and last trading date of Deliverable Futures Contract or **Single Stock** Cash-Settled Futures Contract on any trading date, on which such DTM is being determined.	
Chapter 24: CENTRALIZED CUSTOMERS PROTECTION COMPENSATION FUND (CCPF) REGULATIONS		
Schedule-I LEVY COLLECTED FROM SECURITIES BROKERS AS CONTRIBUTION TO THE CCPF Cash-Settled Futures Contract Market-contract Provided that with effect from April 17, 2024 or such other date as specified by SECP, or in the case of balance of Customer Compensation Fund falling below the amount specified by the SECP, whichever comes first, the following shall be applicable: Cash-Settled Futures Contract Market-contract	Schedule-I LEVY COLLECTED FROM SECURITIES BROKERS AS CONTRIBUTION TO THE CCPF **Single Stock** Cash-Settled Futures Contract Market-contract Provided that with effect from April 17, 2024 or such other date as specified by SECP, or in the case of balance of Customer Compensation Fund falling below the amount specified by the SECP, whichever comes first, the following shall be applicable: **Single Stock** Cash-Settled Futures Contract Market-contract	

******End of proposed amendments******

“EXHIBIT A”

DRAFT CORPORATE ADJUSTMENT METHODOLOGY FOR CSF CONTRACT

October 2023

Pakistan Stock Exchange (PSX)

PAKISTAN
STOCK EXCHANGE
LIMITED

Contents

1. INTRODUCTION

This paper covers the Pakistan Stock Exchange’s (PSX) proposed methodology regarding adjustments in listed futures contracts, settled in cash, due to corporate actions in the underlying stock.

Corporate actions are those events by the companies that may affect the stock price and /or outstanding shares of the company. There are different examples of such corporate actions, each having a specific underlying motive by the company.

Investors can also take important clues about financial health, life cycle stage, and short-term view of the company from their corporate actions. Corporate action is a major decision that typically needs to be approved by the company's board of directors and authorized by its shareholders.

Corporate actions can be mandatory (that apply to all shareholders) and voluntary (that provide choice to the existing shareholders). For example, a cash dividend is a mandatory event whereas the right issue is voluntary.

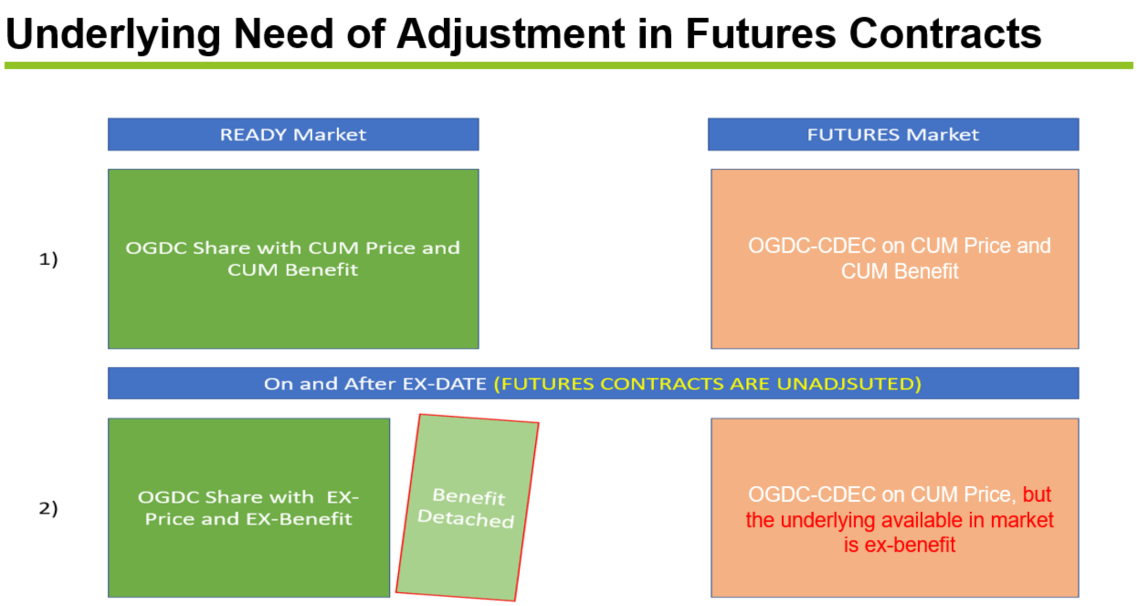
Following are some of the corporate adjustment events that are popular in the international markets:

- Dividends
- Bonus issues / Stock Dividend
- Rights issues
- Stock splits and reverse stock splits
- Subdivision or consolidation of share capital
- Demergers
- Liquidation
- Mergers and takeovers

As they affect the share price and/or outstanding shares, therefore, it is important to understand the nature of adjustment required in the Cash/Ready and the Futures markets due to such events.

2. UNDERLYING NEED OF ADJUSTING THE FUTURES CONTRACTS

Whenever a stock, on which a Futures contract is open, undergoes corporate action, the characteristics of such stock on ex-date changes i.e., it is now traded with some kind of benefit detached from it. Whereas, the investors with the open futures positions on such stock had agreed on the terms with cum price/cum benefit basis. Hence, whenever a stock undergoes corporate action, its Futures contract also needs to be adjusted i.e., to either settle on cum basis or ex-basis, in parallel to the Cash (Ready) market. In addition to this, futures are derivative contract that derives their value from the underlying asset. These contracts are mostly used for hedging the existing exposure and investing in assets cheaply to track their performance. With adjustments in the underlying asset, hedging, and tracking exposure, both get impacted.



A similar concept applies when shares in the ready market are adjusted on ex-basis due to dividends, rights shares, etc. The future rate agreed was for underlying which were trading in ready market on cum basis, but due to corporate action, the shares on original expiry would be on ex-benefit basis.

One such way to create fairness is the **Ratio Method.** In this method, the terms of the contracts are adjusted in parallel to the adjustment in the Cash (Ready) market. The Futures prices and contract size are adjusted such that the value of positions before and after the corporate actions are the same. This method is very well known in almost all international exchanges.

3. Adjustments in Ratio Method:

Any adjustment in CSF contracts for corporate actions would be carried out on the last day on which a security is traded on a cum-entitlement basis in the underlying equities (Ready) market, after the close of trading hours (i.e., CSF adjustments will be parallel to the adjustment in the Ready market).

Adjustments will entail modifications to contract specifications as listed below (such that the basic premise of adjustment i.e, value of futures positions before and after the adjustment remain the same, except due to taxation implications, if applicable)

a) Futures close price shall be adjusted to arrive at the Ex-Futures price
b) Contract size/multiplier shall be adjusted to arrive at the (non-standard) adjusted contract size
c) As the contracts are made non-standardized due to corporate action events, therefore, the contract codes shall also reflect the same; hence an additional alphabet 'N' and a digit '1' should be added to represent the non-standard contract with one adjustment made. For subsequent adjustments due to corporate actions, the same practice shall be followed and the symbol will be amended to N2. In our example, ODGC-CDEC codes for one adjustment shall be amended to OGDC-CDECN1 and for subsequent amendments as OGDC-CDECN2, OGDC-CDECN3, etc.
d) Pending "Good Till Cancel" and "Good Till date" orders (if any) for the related contracts shall be canceled due to reset of the Futures prices and contract size.
e) The adjustment shall be made on all contracts with open positions. If there are no positions in any contract with underlying stock that undergoes corporate action, then PSX may consider closing it on the adjustment date and open a new ex-price STANDARD contract with the original maturity date. Alternatively, only the price may be adjusted OR price and lot size, both may be adjusted as per convenience. Note that if we leave such a contract, its price would still be ex-at close as the theoretical price rule will apply for such contracts with no trades.
f) Non-standard contracts will be adjusted again if the underlying goes for another corporate action before the original expiry. In this regard, the codes will reflect the same as described above.
g) PSX will compute the adjustment factor in the manner described below for each specific corporate action event. The adjustment factor will be multiplied by the closing Futures price to determine the Ex-Future price whereas it will be divided by the prevailing contract size to determine the adjusted contract size.

h) Adjustment factor will be rounded to 10 decimal places, ex-futures prices will be adjusted to two decimal places and contract size shall be truncated in such a way that the number is the whole number
i) Difference in actual adjusted contract and the truncated whole number contract is adjusted through adjustment in the Ex-Future price of CSF contract
j) Taxation impact will be incorporated in case of Cash Dividend, bonus and any combinations thereupon. Rate of Filer shall be used.
k) Exchange shall have the right to not incorporate the taxation impact in one or any of the mentioned actions with prior intimation

A. ADJUSTMENT METHODOLOGIES

Dividends:

If a company declares a cash dividend, then the contract multiplier and the price will be adjusted in such a way that the total exposure remains intact, as if a similar position was taken in the ready market, so that both the long and short parties are not disadvantaged, and one party does not gain at the expense of the other without the movement in the underlying security market price.

The following provides a detailed illustration for dividend adjustment:

In the READY market, prices of the stocks, undergoing cash distribution, are adjusted by deducting the cash dividend amount per share from the previous day's closing price on the ex-date.

Stock Price $_{EX}$ = Stock Price $_{CUM}$ – Cash Dividend Per Share

The Future CSF price shall be adjusted based on the ratio of Ex-price to Cum price. The important thing to note is that no adjustment is made related to the tax impact on the Ex-Future price because this would cause the price to become inconsistent with the ready market. It's important to maintain alignment with the ready market because if there is no trade in the CSF market, then the price quoted will be a theoretical price calculated based on the underlying LDCP of the ready market.

Assume that a CSF contract was trading at Rs. 107.26 (while the underlying Ready market stock was at Rs. 107) and experiences a cash dividend of Rs. 10 per share. Its ex-price in the ready market becomes Rs. 97.

Adjustment Factor = (Stock Price $_{CUM}$ – Cash Dividend Per share) ÷ Stock Price $_{CUM}$

Ratio for adjustment in CSF = (107-10) / 97 = 0.9065420561 (up to 10 decimal places)

New Ex-Future Price (CSF) = Rs. 107.26 x 0.9065420561 = Rs. 97.235701

Non-Standard Contract Multiplier = 500 shares / 0.90652420561 = 551.5463918 shares

Dividend Tax rate (Filer) = 15%

New contract multiplier after tax adjustment = Initial CSF shares + {(1 - Tax rate) x (Change in shares)}

New contract multiplier after tax adjustment = 500 + {(1-0.15) x (551.543918 - 500)} = 543.814433

However, it is not possible to have a fractional number of shares, so we truncate the number of shares as already mentioned above

New Non-standard contract multiplier = 543.00

After truncation, the remaining value needs to be divided in such a way that it is reflected through an increase in the New Ex-Future price of CSF. Again, a ratio will be used:

Adjusted New-Ex Future Price (CSF) = New Ex-Future Price x Non-standard contract multiplier ÷ New Non-standard contract multiplier

Adjusted New-Ex Future Price (CSF) = Rs. 97.23570093 x 543.814433 / 543 = Rs. 97.38154

As the price is quoted to 2 decimal places, we round it to 2 decimal places, i.e., Rs. 97.38.

Value of Cum Position (CSF) = 500 x 107.26 = Rs. 53,630

Value of Ex-position (CSF) = (543 x 97.38) = Rs. 52,877.34

Value of tax = 53,630 - 52,877.34 =Rs. 752.66

Bonus Issue:

In the Ready market, closing prices of the stock is adjusted a day before the ex-date of stock undergoing bonus issue. It is adjusted by using the following formula:

Stock Price $_{EX}$ = (Stock Price $_{CUM}$ x 100) ÷ (Bonus shares + 100)

Similarly, if a company declares bonus shares, then again the contract multiplier and the price needs to be adjusted as depicted in the following illustration:

Assume that a CSF contract was trading at Rs. 107 (while the underlying Ready market stock was also at Rs. 107) and experiences a bonus issue of 10.15% shares. Its ex-price in the ready market becomes Rs. 97.14

Adjustment Factor = Stock Price $_{EX}$ ÷ Stock Price $_{CUM}$

Ratio for adjustment in CSF = 107 / 97.14 = 0.9078529278 (up to 10 decimal places)

New Ex-Future Price (CSF) = Rs. 107 x 0.9078529278 = Rs. 97.14

Non-standard Contract Multiplier = 500 shares / 0.9078529278 = 550.75 shares

Bonus Tax rate(Filer)= 10%

New contract multiplier after tax adjustment = Initial CSF shares + {(1 - Tax rate) x (Number of Bonus shares)}

New contract multiplier after tax adjustment = 500 + {(1-0.1) x (550.75 - 500)} = 545.675

However, it is not possible to have a fractional number of shares, so we truncate the number of shares.

New Non-standard contract multiplier = 545.00

After truncation, the remaining value needs to be divided in such a way that it is reflected through an increase in the New Ex-Future price of CSF. Again, a ratio will be used:

Adjusted New-Ex Future Price (CSF) = New Ex-Future Price x Non-standard contract multiplier ÷ New Non-standard contract multiplier

Adjusted New-Ex Future Price (CSF) = Rs. 97.14x 545.675 / 545 = Rs. 97.26057

So, as the price is quoted to 2 decimal places, we round it to 2 decimal places, i.e., Rs. 97.26.

Right Issue:

In the Ready market, closing prices of the stock is adjusted a day before the ex-date of stock undergoing right issue. It is adjusted by using the following formula:

Stock Price $_{EX}$ = {(Stock Price $_{CUM}$ x 100) + (Right Issue x Right Issue Price)} ÷ (Right Issue + 100)

Likewise, if a company declares right issue, then the contract multiplier and the price will be adjusted as depicted in the following illustration:

Assume that a CSF contract was trading at Rs. 107.26 (while the underlying Ready market stock was at Rs. 107) and experiences a right issue of 20% additional shares for each share held at a premium of Rs.50. Its ex-price in the ready market becomes Rs. 99.17

Adjustment Factor = Stock Price $_{EX}$ ÷ Stock Price $_{CUM}$

Ratio for adjustment in CSF = 99.17 / 107 = 0.9268224299 (up to 10 decimal places)

New Ex-Future Price (CSF) = Rs. 107.26 x 0.9268224299= Rs. 99.41097

Non-standard contract Multiplier = 500 shares / 0. 9268224299 = 539.47766 shares

No tax on right issue of additional shares

However, it is not possible to have a fractional number of shares, so we truncate the number of shares.

New Non-standard contract multiplier = 539.00

After truncation, the remaining value needs to be divided in such a way that it is reflected through an increase in the New Ex-Future price of CSF. Again, a ratio will be used:

Adjusted New-Ex Future Price (CSF) = New Ex-Future Price x Non-standard contract multiplier ÷ New Non-standard contract multiplier

Adjusted New-Ex Future Price (CSF) = Rs. 99.41097x 539.47766/539 = Rs. 99.49907

So, as the price is quoted to 2 decimal places, we round it to 2 decimal places, i.e., Rs. 99.50.

Combination of Corporate Adjustments:

The underlying stocks ex-price is computed using the following formula, else remain same as practiced above:

$$\textbf{Stock Price}_{EX} = \frac{\{(\text{Stock Price}_{CUM} - \text{Cash Dividend}) \times 100\} + \{\text{Right Issue} \times (\text{Face value} + \text{Premium} - \text{Discount})\}}{100 + \text{Bonus Issue} + \text{Right Issue}}$$

The combinations can be of Bonus and Right issue, Bonus and Dividend, Dividend and Right or all three at the same time i.e. Bonus, Right and Dividend. However, it is important to note that the combinations can vary if the right is issue at discount, par or at a premium.

The steps followed will be similar to what is mentioned above for different corporate adjustments.

If a company simultaneously announce the dividend, bonus and right, then the adjustment in price of CSF and contract multiplier will be adjusted in such a way that the exposure remains consistent.

4. ADJUSTMENTS AT CLEARING HOUSE

Whenever PSX adjusts the Futures contracts based on Ratio method due to corporate actions in the underlying stocks, it will adjust the closing price, contract size, and contract symbol. The clearing house shall use the ex-futures prices, and revised contract sizes to compute the revised positions (which remain the same before and after the adjustments). Following will be the clearing house stance before the adjustment in case of Bonus Issue (Above Example):

						Open Interest				
	Margin Rate	Contract Size	Futures Price (Rs)	Position Value (Rs)	Margin Amount (Rs)	Shares	Contract	Amount (Rs)	Free Float Shares^	Position Limit (%)
Before	15%	500	143.00	71,500	10,725	500	1	71,500	645,139,260	0.000078
After	15%	575	124.35	71,501	10,725	575	1	71,501	645,139,260	0.000089
Difference	**0%**	**75**	**N/A**	**1**	**0**	**75**	**0**	**1**	**0**	**0.000011**

- As witnessed, the margin rate would remain same which is computed by the clearing house using the VAR methodology.
- Total position value remains same (some rounding difference), hence margin requirements is unchanged before and after the adjustment in futures price and contract size.
- Open interest, in international futures market, is represented in terms of contracts and amount, rather in terms of underlying shares. As seen, the open interest in terms of contracts and amount remain same before and after the corporate adjustment.
- There is a change in position limits, primarily increased whenever a corporate event occurs (other than capital decrease corporate actions).
- Since the outstanding shares and free float shares are adjusted due to bonus and right issue by the Central Depository Company (CDC), but this update happens after a quarter.

Following would be revised scenario if bonus 15% issue is adjusted in the free float shares.

						Open Interest				
	Margin Rate	Contract Size	Futures Price (Rs)	Position Value (Rs)	Margin Amount (Rs)	Shares	Contract	Amount (Rs)	Free Float Shares^	Position Limit (%)
Before	15%	500	143.00	71,500	10,725	500	1	71,500	645,139,260	0.000078
After	15%	575	124.35	71,501	10,725	575	1	71,501	741,910,149	0.000078
Difference	**0%**	**75**	**N/A**	**1**	**0**	**75**	**0**	**1**	**96,770,889**	**0**

^Free Float Shares x (1 + Additional Bonus / Right shares %)

In case of dividend adjustment, if we use adjusted free float shares to compute position limits for non-standard contracts, there is no difference before and after the adjustment in futures:

						Open Interest				
	Margin Rate	Contract Size	Futures Price (Rs)	Position Value (Rs)	Margin Amount (Rs)	Shares	Contract	Amount (Rs)	Free Float Shares^	Position Limit (%)
Before	15%	500	143.00	71,500	10,725	500	1	71,500	645,139,260	0.000078
After	15%	530	134.83	71,460	10,719	530	1	71,460	684,238,609	0.000078
Difference	**0%**	**30**	**N/A**	**40**	**6**	**30**	**0**	**40**	**39,099,349**	**-**

^Free Float Shares/Adjustment factor for Dividend

Hence, Clearing House seems to require adjustment in Free Float shares of non-standardized contracts, else is all taken from PSX (Ex-Price, Adjusted Contract Size, Adjustment Factor/Bonus or Right Issue)

This was discussed with NCCPL and it was there view that all the changes at their end is operations and systems related and can be done.

5. CORPORATE ACTIONS NOTICE

The Exchange will inform participants of any Corporate Actions via the publication of a corporate action announcement notice. It will be published in respect of a corporate action when information is made public by the company and gives sufficient certainty of that company's intention to perform a corporate action. It will detail the adjustment methodology along with the adjustment factor the exchange intends to apply. Where necessary, at the close of business on the last day that a company's shares are trading cum-entitlement, the Exchange will publish another corporate action Notice confirming adjustments made to futures contracts.

6. GENERAL GUIDELINES

PSX foresees that, in many situations Futures contracts will be adjusted under this policy document. However, due to changing dynamics and complex acquisition transactions, it should be noted that in certain circumstances, this may not be possible or appropriate. In such cases, PSX solely retains the right to determine how the existing contracts should best be adjusted (if at all).

For corporate actions such as merger, acquisitions, consolidation, spin-off etc which are very rare, the exchange shall consider forced settlement procedure for creating fairness among the parties.

As a practice, PSX will issue one or more corporate action notices in respect of each corporate action where adjustment to a futures contract is required or expected under the terms of this policy document.

This policy document details the policy of PSX concerning adjustment in futures contracts due to corporate actions. It is issued pursuant to, and should be read in conjunction with, the PSX rule book.

"EXHIBIT B"

GUIDELINES FOR SUBMISSION OF COMMENTS

1. PSX invites the interested parties to provide their comments and views with specific reference to the subject matter of the proposed amendments to PSX Regulations notified in this Notice.

2. The comments can be submitted through any of the following modes:

Email	comments.rad@psx.com.pk
Mail	Aamir Mushtaq Kanju, Deputy General Manager, Product Management and Research, 6th Floor, Administration Building, Pakistan Stock Exchange Building, Pakistan Stock Exchange Road, Karachi – 74000.

3. At the time of submission of comments, respondent is advised to provide the information, as per **Table-A** below, so that PSX may contact him/her for clarification or deliberation on the comments, if needed. Anonymous responses may be disregarded by PSX.

Table-A

TO BE FILED BY THE RESPONDENT	
Name of respondent	
Name of company (if applicable)	
Designation (if applicable)	
Contact Number	
Email Address	

4. The respondent may request confidential treatment for his/ her identity and all or any part of comments due to their proprietary, confidential or commercial nature, by clearly marking the information in **Table-B** below:

Table-B

DISCLOSURE OF IDENTITY AND COMMENTS
Please check the box(es) if you wish to remain confidential: ☐ I wish to have my identity remain confidential. ☐ I wish to keep all or any part of my comments confidential. If respondent wishes to keep any part(s) of comments confidential, then he/she is required to clearly specify such part(s) of comments.

5. To ensure quality and promote transparency, PSX will publish the relevant comments of respondents and its management's response thereon in the form of a **Response Paper** on its website, within a reasonable timeframe, after close of public consultation session, unless the respondent has made a confidentiality request.

6. Any policy or rule amendment may be subject to regulatory concurrence. For this purpose, respondents should note that notwithstanding any confidentiality request, PSX will share all their response(s) with the Securities and Exchange Commission of Pakistan (Apex Regulator).

7. By submitting comments, respondents are deemed to have consented to the collection, use and disclosure of data that is provided to PSX, unless respondents wish to have their identity or comments remain confidential.