



PAKISTAN STOCK BROKERS ASSOCIATION

(A company setup under section 42 of the Companies Act 2017)

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PSBA/Notice-215

June 25, 2025

NOTICE FOR MEMBERS

INVITATION OF COMMENTS ON THE CONSULTATION PAPER REGARDING MINIMUM FREE-FLOAT REQUIREMENTS

Dear Members,

This is in reference to the consultation paper PSX/N-668 dated June 25, 2025 (attached), whereby the PSX has invited the comments:

In this regard, the members are hereby requested to kindly submit your comments, if any, at psamail024@gmail.com latest by July 02, 2025, so that a consolidated response can be forwarded to the authorities for their consideration.

____sd_____
AKBER ALI
Officer - Secretariat

Copy to:

1. PSBA Website

INVITATION OF COMMENTS ON THE CONSULTATION PAPER REGARDING MINIMUM FREE-FLOAT REQUIREMENTS

We are pleased to inform all stakeholders that, as part of its ongoing efforts to enhance market liquidity, expand investor participation, and align regulatory requirements with international standards, Pakistan Stock Exchange Limited (PSX) is envisaging to introduce minimum free-float requirements for mandatory compliance by all listed companies.

In this regard, Pakistan Stock Exchange Limited is issuing a Consultation Paper (**attached as Annexure A**) proposing certain measures to increase the minimum free-float requirements for all listed companies through amendments in the prevalent regulatory framework.

Maintaining an adequate level of free-float enhances stock liquidity, facilitates efficient price discovery, improves market depth, and encourages greater participation from both retail and institutional investors. It is also considered a global best practice for promoting fairness and efficiency in capital markets.

The Consultation Paper outlines proposed minimum free-float thresholds based on market capitalization tiers, phased implementation timelines, and ongoing compliance obligations for listed companies.

The Consultation Paper is placed on the PSX website for all concerned to provide their written feedback and suggestions, to the Listing Department by emailing at listing@psx.com.pk latest by COB July 04, 2025 (Friday).



Syed Ahmad Abbas
Chief Listing Officer



Ajeet Kumar
Chief Regulatory Officer

Copy to:

The Director / HOD (PRDD), SMD, SECP
The Chief Executive Officer, Pakistan Stock Exchange
The Chief Executive Officer, Central Depository Company of Pakistan Limited
The Chief Executive Officer, National Clearing Company of Pakistan Limited
All Heads of Departments, Pakistan Stock Exchange
PSX Website



Consultation Paper

Increase in free- float & market liquidity

June 2024

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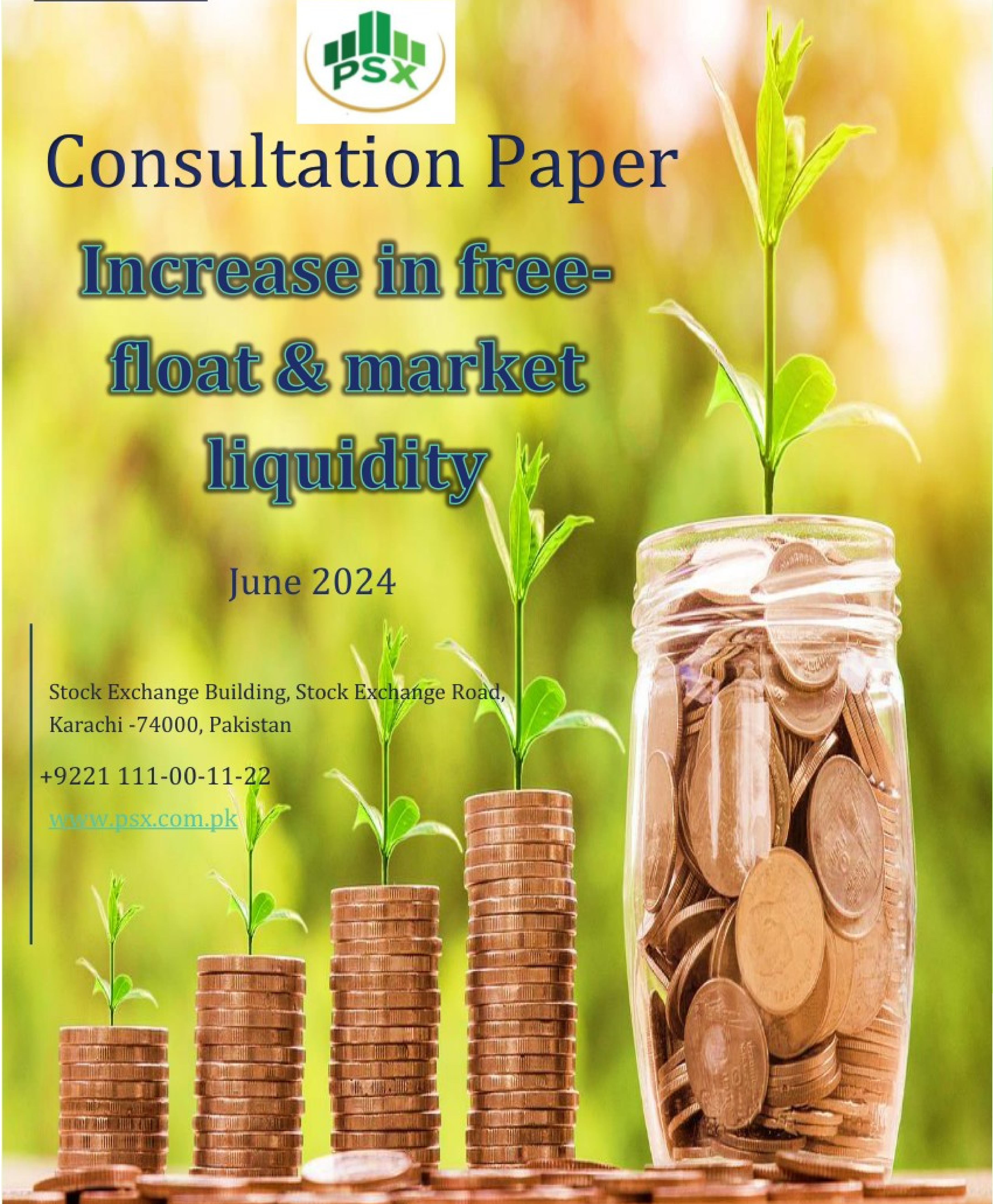


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Executive Summary

This consultation paper proposes new regulatory measures by the Pakistan Stock Exchange (PSX) to enhance market liquidity and depth by enforcing minimum standards for free float among listed companies. Currently, a significant number of listed companies fall short of the required public float, leading to limited trading activity, low investor engagement, and weak price discovery mechanisms.

To address these issues, PSX suggests:

- Implementing tiered minimum free-float requirements based on company size
- Setting compliance timelines of up to three years

The paper also proposes minimum float thresholds for future listings via Schemes of Arrangement. These reforms are aligned with global best practices and are designed to build investor confidence and improve overall market efficiency. Feedback is invited from market participants and regulatory stakeholders to refine the proposed framework.

Introduction

In a rapidly evolving financial ecosystem, free float, the proportion of shares available for public trading is a critical determinant of market efficiency and investor participation.

A robust free float:

- Enhances stock liquidity
- Improves price discovery
- Attracts institutional and retail investors by reducing volatility and transaction costs

PSX has conducted a thorough review of listed companies and identified structural deficiencies in free float. This consultation paper proposes a regulatory amendment to mandate free-float thresholds based on market capitalization tiers.

The recommendations draw upon:

- A data-backed assessment of current company standings
- Feedback from stakeholders including CDC and NCCPL
- Benchmarking against global and regional stock exchanges like NYSE, HKEX, TSE, and ASX

The PSX invites stakeholders to review and comment on the proposed framework, which aims to strengthen Pakistan's capital market by fostering transparency, liquidity, and long-term investor trust.

Free-Float

Definition

Free float refers to the proportion of a company's outstanding shares that are readily available for trading by the general public. It excludes shares held by promoters, directors, senior management, associated companies, or other strategic investors who are unlikely to trade them in the open market. A healthy free float is a fundamental component of a dynamic and efficient stock market, as it directly influences liquidity, investor participation, and price discovery.

PSX Regulation Regarding Free Float

Under the PSX Rule Book, Regulation 5.4.1 specifies the minimum public shareholding requirements for companies, modarabas, and Special Purpose Acquisition Companies (SPACs) at the time of listing through Initial Public Offerings (IPOs) or offers for sale. These requirements define the minimum allocation of capital to the general public, excluding any premium and pre-IPO placements, and vary based on the company's post-issue paid-up capital (PIPC).

The specific thresholds for companies seeking listing are as follow:

Post issue paid up capital (pipc)	Allocation of capital to the general public, excluding premium amount and pre-ipo placement
Up to PKR 2.5 billion	At-least 10% of PIPC Provided that the Company shall be required to subsequently enhance the quantum of public shareholding to 25% within next 3 years of its listing.
Above PKR 2.5 billion and upto PKR 5 billion	At-least 10% of PIPC Provided that the Company shall be required to subsequently enhance the quantum of public shareholding to 15% within next 3 years of its listing.
Above PKR 5 billion and upto PKR 10 billion	At-least 10% of PIPC
Above PKR 10 billion	At-least 5% of PIPC

Companies below Free-Float Requirements

As of June 11, 2025, out of 527 listed companies, 347 companies are maintaining the minimum free float requirements as prescribed in the PSX Regulations and the remaining 180 companies are currently below the said requirement.

Required Post Issue Paid Up Capital	Normal Counter	Non-Compliant Segment	State Owned Enterprise
Up to PKR 2.5 Billion	141	23	2
Above PKR 2.5 billion and up to PKR 5 billion	7	1	0
Above PKR 5 billion and up to PKR 10 billion	4	0	0
Above PKR 10 billion	0	0	2
Total	152	24	4

If the aforementioned 180 companies start maintaining the minimum free-float requirement at all times, the projected increase in free float shares would be 1,336.4 Million shares.

Status	Number of Companies	Current Free-Float Shares (in Mn)	Projected Free-Float Shares (in Mn)	Increase in Free Float Shares (in Mn)
Normal Counter	152	1,525.48	2,683.65	1,158.17
Non-Compliant Segment	24	133.61	200.76	67.15
Public Sector Companies	4	269.27	380.36	111.09
Total	180	1,928.36	3,264.77	1,336.41

It is also proposed that Public Sector Companies (PSCs) may be provided an exemption from this requirement. It is pertinent to mention that even if the aforementioned companies are exempt from the minimum free float requirements, there would still be a substantial increase in number of shares by 1,225.32 million which is still a huge number.

For this purpose, Public Sector Companies is defined as follows:

PSC will have the same meaning as defined in Section 54(2) of Companies Act, 2017: a company, whether public or private, which is directly or indirectly controlled, beneficially owned or not less than fifty-one percent of the voting securities or voting power of which are held by the Government or any agency of the Government or a statutory body, or in respect of which the Government or any agency of the Government or a statutory body, has otherwise power to elect, nominate or

appoint majority of its directors and includes a public sector association not for profit, licensed under section 42.

Jurisdictional Analysis

A comparison of global exchanges shows nearly all enforce minimum free-float thresholds and capital requirements. Many implement penalties for non-compliance.

Jurisdiction	Min. Paid-up Capital	Free Float Requirement	Enforcement	Source
Thailand (SET)	THB 300 Mn	15%	CF/SP signs, delisting	https://www.set.or.th/en/listing/listed-company/simplified-regulations/maintaining-status/free-float
NYSE (USA)	\$40 Mn	1.1 Mn shares	FINRA oversight, affirmations	https://www.nyse.com/publicdocs/nyse/listing/NYSE_Initial_Listing_Standards_Summary.pdf
Tokyo (TSE)	JPY 25 Bn	35%	Disclosure violations penalized	https://www.jpx.co.jp/english/equities/listing/criteria/listing/index.html https://www.jpx.co.jp/english/equities/listing/measure/03.html
Hong Kong (HKEX)	HK\$50 Mn	25%	Suspension for non-compliance	https://www.hkex.com.hk/Products/Listed-Derivatives/Market-Maker-Program/Market-Maker
Australia (ASX)	A\$15 Mn	20%	Enforcement by Listings Unit	https://www.asx.com.au/listings/how-to-list/listing-requirements https://www.asx.com.au/content/dam/asx/about/listing-rules-enforcement.pdf
Shenzhen (SZSE)	RMB 30 Mn	25% or 10%	Disciplinary actions, reporting	http://www.szse.cn/English/listings/standards/index.html http://www.szse.cn/English/rules/siteRule/P020190806407720871488.pdf
Singapore (SGX)	SGD \$1	10%	3-month grace period or delisting	https://rulebook.sgx.com/entiresection/3375
Malaysia (Bursa)	RM 60 Mn	25%	Suspension below 10% float	https://shorturl.at/nNkWa

Empirical Research Supporting Free Float and Liquidity

Market Study /	Authors / Title	Findings	Source
UK	El-Nader (2018), Free Float and Liquidity in the UK Market	Stocks with higher levels of free float are associated with higher levels of liquidity.	(PDF) Stock liquidity and free float: evidence from the UK
Turkey	Çalışkan & Kerestecioğlu (2013), Effects of Free Float Ratios on Stock Prices	The research indicated a strong positive relationship between free float and trading volume.	https://dergipark.org.tr/en/download/article-file/2152058
Turkey	Bostanci & Kiliç (2007), The Effects of Free Float Ratios On Market Performance: An Empirical Study On The Istanbul Stock Exchange	Higher free float correlates with higher liquidity and price increases.	https://www.researchgate.net/publication/320760706_the_effects_of_free_float_ratios_on_market_performance_an_empirical_study_on_the_istanbul_stock_exchange
Hong Kong	Chan et al. (2004), Liquidity and Trading Impact of Government Share Buybacks	Government reduction in free float led to decreased liquidity.	https://www.researchgate.net/publication/228688241_Free_float_and_market_liquidity_evidence_from_Hong_Kong_Government's_intervention
India	Jawed et al. (2022), Free-Float and Stock Liquidity: Evidence from A Policy Experiment	25% public float rule led to significantly better liquidity.	https://ielas.org/ijbe/index.php/ijbe/article/view/19/23
Indonesia	Viratama et al. (2022), Effect of Free Float and Volatility on Stock Liquidity	Positive and significant effect of free float on liquidity.	https://www.researchgate.net/publication/386351189_Effect_of_Free_Float_and_Volatility_on_Stock_Liquidity_in_Indonesia_Stock_Exchange

Recommendations by PSX – Free Float

To enhance market liquidity and bring practices in line with international standards, PSX recommends the introduction of ongoing minimum free-float requirements for all listed companies. These measures are intended to address the persistent shortfall in compliance with

free-float thresholds, which has negatively impacted market liquidity and investor participation. It is further proposed that maintaining the prescribed level of free float become a **continuous obligation** for listed companies throughout their tenure on the Exchange.

Phased Implementation for Existing Companies

Companies that currently meet the minimum post-issue paid-up capital (PIPC) requirement but fall short of the free-float benchmarks should be mandated to gradually increase their free-float over a three-year period from the effective date of the regulatory amendment, as outlined below:

Existing Paid-Up Capital	Minimum Free-Float to be Achieved Within 3 Years
Up to PKR 2.5 billion	25%
Above PKR 2.5 billion and up to PKR 5 billion	15%
Above PKR 5 billion and up to PKR 10 billion	10%
Above PKR 10 billion	5%

This phased approach provides companies sufficient time to adjust their shareholding structures while contributing to improved trading volumes and investor engagement.

Listing via Scheme of Arrangements

PSX also notes a rising trend in listings through Schemes of Arrangement, where companies are entering the market with extremely low public shareholding. To ensure such listings contribute positively to market depth, it is proposed that minimum free-float thresholds be prescribed for these listings as part of PSX regulations.

Stock Splits and Free Float

To enhance market liquidity, PSX recommends that listed companies consider stock splits as a means to increase the number of outstanding shares. While a stock split does not change a company's market capitalization, it lowers the per-share price, making shares more accessible to a broader investor base. This, in turn, can promote higher trading volumes and improve liquidity. Companies are therefore encouraged to pursue stock split especially where increased free float is needed to meet regulatory thresholds.