



REGULATIONS GOVERNING
MARKET MAKERS
OF
KARACHI STOCK
EXCHANGE LIMITED

[AS AMENDED ON NOVEMBER 15, 2012 AND SENT FOR GAZETTE NOTIFICATION]

REGULATIONS GOVERNING MARKET MAKERS OF KARACHI STOCK EXCHANGE LIMITED

PREAMBLE

Whereas in order to provide liquidity in the securities market by obligating the Market Makers to submit both bids and offers for a Designated Product during the Designated Market Making Period, it is deemed expedient to frame Regulations in this regard.

Now, therefore, the Karachi Stock Exchange (Guarantee) Limited in exercise of the powers conferred by Section 34 (1) of the Securities & Exchange Ordinance, 1969 (XVII of 1969) with the prior approval of the Securities and Exchange Commission of Pakistan hereby makes these Regulations.

1. SHORT TITLE AND COMMENCEMENT

- (1) These Regulations may be called “Regulations Governing Market Makers of Karachi Stock Exchange (Guarantee) Limited”.
- (2) These Regulations shall come into force on publication in the official gazette of Pakistan.

2. DEFINITIONS

In these Regulations the following expressions shall, unless the context requires otherwise, have the meanings herein specified below:

- (a) “**Asset Management Company**” (“**AMC**”) has the same meaning as defined in the Regulations Governing Exchange Traded Funds (ETF) of the Exchange;
- (b) “**Authorized Participant**” (“**AP**”) has the same meaning as defined in the Regulations Governing Exchange Traded Funds (ETF) of the Exchange;
- (c) “**Authorized Participant Agreement**” (“**APA**”) has the same meaning as defined in the Regulations Governing Exchange Traded Funds (ETF) of the Exchange;
- (d) “**Board**” means the Board of Directors of the Exchange;
- (e) “**Broker**” means any member of the Exchange engaged in the business of executing transactions in securities for the account of others and for his own account and is registered with the Commission under the Brokers and Agents Registration Rules, 2001.
- (f) “**Commission**” means the Securities and Exchange Commission of Pakistan;
- (g) “**Designated Market Making Period**” means the period, designated by the Exchange, within normal trading hours, during which the Market Maker shall have to submit both bids and offers, either sequentially or simultaneously;
- (h) “**Designated Product**” means any of the securities as defined in Section 2(1)(l) of Securities and Exchange Ordinance, 1969, listed on the Exchange

and declared eligible for Market Making by the Exchange with prior approval of the Commission;

- (i) **“Designated Member”** means a corporate Broker performing market making activities on behalf of the financial institution through a bilateral arrangement who shall make available the bids and offers either sequentially or simultaneously in the Designated Product;
- (j) **“ETF”** has the same meaning as defined in the Regulations Governing Exchange Traded Funds (ETF) of the Exchange;
- (k) **“ETF Unit”** has the same meaning as defined in the Regulations Governing Exchange Traded Funds (ETF) of the Exchange;
- (l) **“Exchange”** means the Karachi Stock Exchange (Guarantee) Limited;
- (m) **“Market Maker”** means a Corporate Broker of the Exchange permitted under these Regulations or a financial institution which satisfies the eligibility criteria devised by the Exchange with prior approval of the Commission to function as a Market Maker in terms of Market Making Agreement;
- (n) **“Market Making Agreement”** means an agreement executed between the Market Maker and the Exchange to perform market making activities under these Regulations;
- (o) **“Market Makers Inventory”** means quantum of Designated Product or its underlying constituent securities that a Market Maker shall be required to maintain in its market making portfolio to facilitate the market making activities in the Designated Product;
- (p) **“Market Making Order/Quote”** means a valid order/quote entered by the Market Maker into the automated trading platform provided by the Exchange for the Designated Product;
- (q) **“Member”** means a Member of the Exchange; and
- (r) **“Spread Limit”** means the maximum difference between the offer price and the bid price that are quoted by the Market Maker for each Designated Product as prescribed under these Regulations. Provided that the bid or offer price shall not exceed the applicable circuit breaker limits for the Designated Product.

3. **SELECTION OF DESIGNATED PRODUCTS FOR MARKET MAKING**

- (1) The Exchange shall formulate the eligibility criteria for selection of Designated Products eligible for market making from time to time with prior approval of the Commission.

Provided that all ETFs shall be classified as Designated Products eligible for market making and shall not be subject to the eligibility criteria formulated by the Exchange under this sub-regulation. The AP for the

ETF shall act as one of the Market Makers for that ETF under these Regulations.

- (2) Such eligibility criteria shall, inter alia, include that securities having any of following characteristics in the respective markets during the review period shall not be eligible for market making:
 - (a) Securities that have been traded more than 50% of the trading days during the review period;
 - (b) Securities with average daily value of trades exceeding Rs. 5,000,000/;
 - (c) Securities where the company is on defaulters' counter/non-compliant segment/in the process of de-listing and/or whose trading is suspended, declared non-tradable and with net worth erosion above 50%; or
 - (d) Securities with impact cost less than one in respective market.
- (3) The Exchange shall carry out a review of the list of eligible securities for market making annually based on data of last six months under intimation to the Commission.
- (4) The Exchange shall give at least 30 days prior notice to the market participants before including or excluding any security from the list of eligible securities for market making.
- (5) The Exchange shall disseminate the list of eligible securities for market making in September every year on the basis of data available for preceding six months. Securities excluded from the said list, shall not be eligible for market making as Designated Product for next tenure of market making.

4. APPOINTMENT OF MARKET MAKER AND ANCILLARY MATTERS

- (1) A person shall be eligible to apply for appointment as a Market Maker if such person,
 - (a) is:
 - (i) a corporate Broker; or
 - (ii) a financial institution which satisfies the eligibility criteria devised by the Exchange with prior approval of the Commission. In such case, the application shall be accompanied with prior written consent from Designated Member.
 - (b) has a minimum equity (net of provisions and capitalized losses if any) of Rs. 100 million as per latest audited financial statements as a measure of financial stability;
- (2) The Exchange shall invite applications from the eligible persons (hereinafter referred to as the "Applicant") referred under sub-regulation (1) above who are desirous to act as Market Makers for each Designated Product. Provided that in the case of the ETF, the Applicant may apply for appointment as Market Maker prior to the formal listing of relevant ETF units on the Exchange.

- (3) The applicant shall provide to the Exchange the following along-with the application under sub-regulation (2) above:
- (a) Application for appointment as a Market Maker as per Form-I;
 - (b) Undertaking to comply with these regulations and to adhere to Market Making Agreement as per Form-II;
 - (c) The most recent audited annual accounts, quarterly accounts and net capital balance certificate;
 - (d) Details of all other businesses of the Applicant, if any, e.g. investment banking, financial consultancy service, money market participation etc;
 - (e) Name(s), address(es), qualification(s) and contact detail(s) of Market Maker's agent(s) and/or trader(s) authorized for market making activities;
 - (f) In case of a financial institution, prior written consent obtained from the Designated Member;
 - (g) Name(s), address(es), qualification(s) and contact detail(s) of staff members having at least three years of relevant capital market experience;
 - (h) List of associates, subsidiaries, holding company etc. with total shareholding mentioned therein; and
 - (i) A refundable minimum security deposit of Rs. 25,000/- or any other amount approved by the Exchange.
 - (j) In the case of funds that have not yet been listed by the Exchange as ETFs under the Regulations Governing Exchange Traded Funds (ETF) of the Exchange, the applicant shall provide a Consent Letter to the Exchange from the AMC relating to such fund certifying that such AMC intends to appoint the Applicant as AP for the ETF.
- (4) The Applicant shall properly disclose its business relationship with the company during last one year in which it desires to act as Market Maker specially if the Applicant generates or has generated business from the issuer of Designated Products directly or indirectly through investment advisory, underwriting or any other material business transaction;
- (5) The Applicant shall be obliged to provide any missing or additional information within such time as may be specified by the Exchange. In case the Applicant fails to comply with the requirements of these Regulations and/or provide the required information/documents within the specified time or any extension thereof, the application shall stand rejected.
- (6) The Exchange may require the Applicant to demonstrate to the satisfaction of the Exchange that it is suitably qualified to make a market in the Designated Product(s) in respect of which the application is made. Further, the Exchange may conduct the on-site inspection to ensure the availability of requisite infrastructure of the Applicant.
- (7) At the time of scrutinizing the application, the Exchange shall evaluate the Applicant based on the criteria as specified in the procedures from

time to time relating to integrity, trading experience, infrastructure, business continuity arrangements, internal information security procedures, risk management policy/procedures and the suitability of persons to be engaged in market making activities as agent/trader in each Designated Product.

- (8) If the Exchange is satisfied that the Applicant is eligible to carry out market making activities and the requisite documents including Market Making Agreement have been submitted as required under these regulations, the Exchange shall appoint such Applicant as Market Maker for a period of one year renewable every financial year and communicate the same in writing to the Market Maker specifying the date and time of commencement of its term as Market Maker.

Provided that in case of an Applicant desirous of acting as Market Maker for an ETF, the Exchange shall, if satisfied, appoint such Applicant as Market Maker conditionally for a period of one year and its term shall start from the date of formal listing of such ETF on the Exchange. If the Market Maker fails to comply with the requirements as prescribed under Regulations Governing Exchange Traded Funds (ETF) of the Exchange or the fund is not listed as an ETF at the Exchange, the appointment of the Market Maker shall be cancelled.

- (9) There shall not be more than five Market Makers at any time for any Designated Product, who shall enter into an agreement with the Exchange for acting as the Market Maker. The agreement shall contain such terms and conditions as the Exchange may in its absolute discretion consider appropriate.
- (10) The Exchange may, from time to time, prescribe or modify the following:
- (a) The maximum allowable Designated Product(s) in which a Market Maker may perform market making activities;
 - (b) The evaluation criteria for evaluation of application for appointment of Market Maker; and
 - (c) The criteria for evaluation of performance of the Market Maker(s).
- (11) A Market Maker may resign after three months of commencement of its term by providing the Exchange at least two months' prior written notice along with the reasons for resignation and specifying the effective date of resignation, provided that a substitute Market Maker in the Designated Product acceptable to the Exchange is ready to take the outgoing Market Maker's role and responsibilities for the remaining period of the said term.

Provided that in case of an ETF, the AP shall provide a No Objection Certificate to the Exchange from the AMC certifying that the AMC has appointed a substitute AP and intends to terminate its APA with the AP which has tendered its resignation as Market Maker.

- (12) In case of renewal of a Market Making Agreement, the Market Maker shall be required to submit request for reappointment at least two months

prior to the expiry of previous appointment and the Exchange shall decide such renewal request before one month of expiry of its tenure. Alternatively where a Market Maker does not wish to continue as Market Maker, it shall have to inform the Exchange about its intention before the commencement of last quarter of its tenure. The market shall be intimated about a new appointee, 30 days prior to its formal functioning as a Market Maker.

Provided that in case of an ETF, the AP shall be required to comply with the requirements specified in the proviso to sub-regulation (11) above.

- (13) The decision of the Exchange in respect of the acceptance or rejection of application of an Applicant shall be final and conclusive. The permission by the Exchange to act as Market Maker shall be non-exclusive, non-transferable and in such conditions as may from time to time be prescribed by the Exchange in its absolute discretion

5. **DISCIPLINARY ACTIONS IN RESPECT OF MARKET MAKING ACTIVITIES**

- (1) The Exchange may immediately, restrict or suspend activities of Market Maker or cancel its appointment where a Market Maker;
 - (a) Is found involved in activities that are not commensurate with the responsibilities assigned to a Market Maker or are detrimental to the interest of market and general investors;
 - (b) Fails to perform its duties as prescribed in Market Making Agreement, these Regulations and any other relevant regulations for the time being in force;
 - (c) Fails to renew its agreement on its expiration;
 - (d) Fails to pay any fine or penalty imposed upon him within the specified time in accordance with these Regulations.

Provided no such action shall be taken by Exchange except after giving the Market Maker an opportunity of being heard. However, in case where it is necessary in the opinion of exchange to take an emergent action in the best interest of market, the Exchange may, after giving a notice in writing, immediately suspend the market making activities of Market Maker. However, subsequent to such suspension the Exchange shall provide the Market Maker with an opportunity of being heard in accordance with procedures and take appropriate action as provided in these regulations.

- (2) In case of suspension, expulsion, default or restriction on trading rights of a Member being appointed as a Market Maker, the Exchange shall immediately restrict the Market Maker to perform its market making activities.

Provided that the Exchange shall notify the AMC prior to taking any action under sub-regulation (1) or (2) above against the AP.

- (3) In case of exceptional circumstances affecting the market, which result in significant order imbalance, the Exchange on the request of the Market

Maker may allow suspension of market making activities in the Designated Products for the requested period.

- (4) If appointment of Market Maker is restricted, suspended or cancelled for any reason in accordance with these Regulations or Market Making Agreement, then the suspended/terminated Market Maker may carry out all other trading activities of a brokerage house.
- (5) The Exchange shall disseminate to the market as soon as possible the information relating to imposition of restriction, suspension or cancellation of appointment of Market Maker through the Public Address System of the Exchange. All such information shall also be made available to general public through KSE website.
- (6) The Exchange may impose financial penalty on the Market Maker up to the amount of transaction fee refunded to such Market Maker during last six months or any additional penalty up to a maximum of Rs. 100,000/.

6. MARKET MAKING AGREEMENT

The activities of a Market Maker shall be governed by these regulations and Market Making Agreement, which shall, inter-alia, include the following:

- i. Rights and obligations of the Market Maker in the Designated Product;
- ii. Duration of the Market Making Agreement and renewals thereof. Provided that such duration of agreement shall be at least one year;
- iii. Conditions under which Market Making Agreement may be terminated;
- iv. Cash and/or agreed Market Making Inventory that the Market Maker shall be obligated to maintain on daily basis and/or lowest volumes threshold for a day to fulfill Market Making obligation;
- v. Time window during trading hours that the Market Maker shall be obliged to ensure presence on the order book;
- vi. The maximum spread between the bid and offer price that Market Maker may maintain for the Designated Product;
- vii. Minimum, maximum and normal order size with agreed specifications;
- viii. The applicable transaction fees (Laga), inventory holding cost i.e. CDC Custody Fee etc;
- ix. Minimum and Maximum Market Making Inventory size shall be linked with free float/total issue size of Designated Product which the Market Maker is obliged to maintain at the end of each day; and
- x. Minimum liquidity for each Designated Product.

7. CIRCUIT BREAKERS AND MARKET HALTS

The security-wise circuit breakers imposed by the Exchange from time to time shall also be applicable on Designated Products.

Further, the Market Maker may not be required to enter two-way quotes where the Designated Product continuously trades for fifteen minutes within one percent below the applicable circuit breakers. Provided that in case of an ETF, the AP may only withdraw quotes as per the conditions covered in its APA with the AMC of such ETF.

8. MAXIMUM SPREADS

- (1) Market Makers shall be required to enter two-way prices within the applicable circuit breakers and Spread Limits. For Designated Products, the maximum Spread Limits shall be as under:
 - i. Band 1: Liquid Securities: 2% or less of the last executed price. This spread limit shall be applicable to securities which have average daily turnover of less than 200,000 shares per day or traded between 50% to 40% of the total traded days during the review period. (This applies to securities which have average daily turnover of less than 200,000 shares/day or traded on less than 75% of the traded days).
 - ii. Band 2: Less Liquid Securities: 3% or less of the last executed price. This spread limit shall be applicable to securities which have average daily turnover of less than 100,000 shares per day or traded between 40% to 30% of the total traded days during the review period. (This applies to Securities which have average daily turnover of less than 100,000 shares/day, or traded on less than 60% of the traded days)
 - iii. Band 3: Least Liquid Securities: 5% or less of the last executed price. This spread limit shall be applicable to securities which have average daily turnover of less than 50,000 shares per day or traded below 30% of the total traded days during the review period.
 - iv. In the case of ETFs, the Exchange shall specify the maximum Spread Limits from time to time with the prior approval of the Commission.
- (2) Where deemed necessary, the Exchange may alter the above Spread Limits from time to time with prior approval of the Commission.

9. MARKET MAKER'S ORDERS/QUOTES

- (1) The minimum size of Market Making Orders/Quotes shall be at least 50 shares or ETF units, whichever applicable.
- (2) It shall be obligatory for a Market Maker to replenish its orders/quotes within 90 seconds following full execution, withdrawal, expiration or any change in the price of either bid or offer.
- (3) The Market Making Orders/must order/quote prices during Designated Market Making Period as mentioned in the Market Making Agreement which may be after 15 minutes of the pre-opening session and 30 minutes before the market's official closing time.
- (4) Market Making Orders/Quotes are to be maintained throughout the Designated Market Making Period, as specified in the Market Making Agreement.

10. FUNCTIONS AND OBLIGATIONS OF MARKET MAKER

- (1) The Market Maker shall, at all time, comply with the applicable regulatory and contractual obligations.

- (2) The Market Maker shall maintain a sufficient inventory for each Designated Product subject to the minimum and maximum inventory requirements for market making activities. The agreed quantity of the Market Makers' Inventory shall be stipulated in Market Making Agreement.
- (3) The Market Maker shall be obliged to make available both buy and sell orders/quotes during the Designated Market Making Period.
- (4) The Market Maker shall be allowed short selling in all Designated Products, excluding ETFs, as prescribed in their relevant Regulations unless explicitly provided in these Regulations. However, such short sale shall be executed in accordance with the Regulations for Short Selling under Ready Market, 2002 of the Exchange.
- (5) The Market Maker shall notify all short sale trades executed to the Exchange at the end of the trading day through automated interface provided by the Exchange. However, the Market Maker shall not be required to declare such orders/quotes through the special window for short sale order while placing such orders/quotes.
- (6) Market Maker shall have sufficient pre-existing interest at the end of each short sale day to validate that the Market Maker can deliver the quantity sold short during the day.
- (7) The Market Maker shall be obliged to replenish its orders/quotes within 90 seconds subsequent to execution of already queued orders/quotes, within the Designated Market Making Period.
- (8) The Market Maker shall keep its market making activities separate from other trading activities. For this purpose, the Market Marker shall:
 - i. Register separate UIN and allocate client code(s) for market making activities;
 - ii. maintain separate ledger account(s);
 - iii. Open and maintain separate CDC Account for Market Making Inventory; and
 - iv. Ensure that any of its authorized agent(s)/trader(s) for market making activities shall not indulge in normal trading activities during Designated Market Making Period.
- (9) The Market Maker must maintain sufficient and appropriate risk management control procedures for its designated agent(s)/trader(s)
- (10) The Market Maker shall be fully responsible for any act of omission or non-compliance of trading rules and/or Market Making Agreement by its authorized agent(s)/trader(s).
- (11) The Market Maker shall pay transaction fees and other levies as specified by the Exchange from time to time. The Exchange may subject to satisfactory performance of the Market Maker reserves the right to allow such Market Maker reasonable discount(s), partial or complete waiver of

transaction fees excluding contributions to the Clearing House Protection Fund, Investor Protection Fund and other regulatory levies and also distribute in full or in part the transaction fees to the respective Market Maker collected from counterparty involved in trades executed with the former.

Provided that the Market Maker cannot claim waiver, discount(s) in transaction fees or distribution of counterparty transaction fee as his right.

- (12) If the Market Maker fails to fulfill its obligations in accordance with the Market Making Agreement for any specific period, the Exchange may impose normal transaction fee for all executed trades carried out by the Market Maker during the period in question or refuse the application of reduced fee facility which may otherwise be available to Market Maker.
- (13) The Market Maker shall provide any information/explanation of any actions, as required by the Exchange from time to time, in relation to its market making activities.
- (14) The Market Maker, subject to Market Making Agreement, may request the Exchange for any privileged information necessary for performance of its market making activities. However, such information shall not contain member and client level information.

[See regulation 4(3)(a)]

FORM OF APPLICATION

The General Manager
Karachi Stock Exchange (Guarantee) Limited
Karachi.

APPLICATION FORM FOR APPOINTMENT AS MARKET MAKER

We hereby apply for the Appointment of Market Maker at the Karachi Stock Exchange (Guarantee) Limited in accordance with these regulations. Our brief particulars are as under:

1. Complete company name (no abbreviations)
2. Company registration number
3. Broker registration number and date of expiry of said registration and in case of a Financial Institution, the particulars of Designated Member including name, broker registration number and date of expiry of its registration.
4. Registered office address and contact details, in case the location at which market making activities will be undertaken is different, please provide complete address and contact details of such location
5. The name(s) and symbol(s) of the Designated Product(s) for which market making activities will be carried out.

We declare that the information given in this form is true to the best of our knowledge and belief and that if any change occurs in the information given in this application and the accompanying documents, we shall report the same to the Exchange on the same day on which the change occurs.

Name and Signature of Authorized Person

[See regulation 4(3) (b)]

FORM OF UNCONDITIONAL UNDERTAKING

In pursuance to the Regulations Governing Market Makers of the Karachi Stock Exchange (Guarantee) Limited, we _____ having our registered office at _____ hereby undertake and bind ourselves as under:-

1. That we undertake to comply the requirements under the Regulations Governing Market Makers of the Karachi Stock Exchange (Guarantee) Limited as amended from time to time; and
2. That we undertake to adhere to Market Making Agreement with the Karachi Stock Exchange (Guarantee) Limited;

Yours faithfully,

Chief Executive/ Authorized person

Common seal of Company