



**PAKISTAN  
MERCANTILE  
EXCHANGE**

**Circular No.: PMEX/Operations/17-2013**

**May 15, 2013**

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**Trading System Update – Exchange Auto Liquidation Threshold Level**

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All brokers are hereby informed that the Exchange has decided to enforce auto-liquidation Threshold on all futures trading accounts with effect from Monday May 20, 2013.

**Trading Rules – Exchange Auto-Liquidation Threshold Level**

The following rules have been defined in the trading system;

1. All futures trading accounts will be subject to the Exchange minimum auto-liquidation Threshold value.
2. Auto-liquidation Thresholds will be defined in terms of percentage only.
3. The minimum value will be computed as a percentage of Exchange margin requirements of account's open positions. Current value is 10% of Exchange margin.
4. Absolute Liquidation thresholds will no longer be supported by the system and all existing absolute values will be converted to percentage based threshold value from the effective date of this circular.
5. Brokers can increase Threshold value above the Exchange defined value.
6. Trading accounts subject to auto-liquidation threshold will be allowed to trade in liquid contracts only.
7. In the event that an account liquidity value is less than the Threshold, the auto-liquidation process will be started by the Exchange ETS. The auto-liquidation function will cancel all working orders followed by closing-out of all open positions of the account.
8. Trading system evaluates client threshold breach approximately after every 20 seconds in the normal course of operation; based on the market maker's latest bid/offer price. This may change from time to time.
9. All trading accounts wherein the Exchange has prohibited short selling will not be subject to auto liquidation threshold.
10. All trading accounts marked for intraday trading will be subject to percentage threshold value as specified by the Exchange in circular No.: PMEX/Operations/14-2013. i.e 30% of Exchange's half day VaR margin requirement of account's open positions.



11. The Exchange reserves the rights to change minimum auto-liquidation threshold percentage value and any other parameters related thereto.

**Important Note:**

- The Exchange shall not be responsible for any losses incurred due to the introduction and use of this new policy. All positions in the PMEX ETS system from the effective date of this circular imply that the respective client agrees to the terms and conditions of trading set forth in this circular.
- Broker and their clients will be responsible to maintain at least minimum required margin in their trading account during trading session to reduce the risk of auto liquidation.
- Brokers will be responsible for ensuring fulfillment of all margin calls as per PMEX rules and regulation and payment of debit balances in client accounts that may result from auto liquidation.
- If positions are not auto liquidated due to any reason, broker shall still remain liable for the positions and related market risk in all their trading accounts.
- Brokers are advised to take auto liquidation acknowledgment or under taking from their clients and give them in-depth understanding about this functionality and risks related thereto.

***Principal Risk Factors Associated with Auto Liquidation.***

There are several risk factors associated with auto-liquidation; for instance:

1. A trading account could be automatically liquidated if Exchange has receives wrong data (bad ticks) from the market.
2. Client positions may also be liquidated if there is an error in VaR margin computation or a key punch error in recording Exchange margins.
3. Client positions may auto liquidate if Exchange VaR margins have been increased due to notified gazette holidays such as as bank holidays.
4. If the account value changes overnight, the account can be auto liquidated upon the market open.
5. Market volatility could cause an account to be auto-liquidated on short or relatively no notice to client.
6. Trading account(s) could be auto-liquidated if client's funds are not allocated in a timely manner to their trading account(s).

Brokers are requested to take note of above and inform their clients about the said changes.



For and on behalf of  
**Pakistan Mercantile Exchange Limited - PMEX**

**Shehzad Hussain Makhani**  
Head of Operations