



Trading System Update – Auto Liquidation

All brokers are hereby informed that the Exchange has made the following changes in auto liquidation features with effect from Monday July 29, 2013.

Partial Auto-Liquidation - System Update

1. Broker can define auto-liquidation method as **Full (ALL) at Market** or **Partial at Market**;
2. In partial auto-liquidation, the trading system will first cancel working order(s) of subject contract *before* the start of auto liquidation process. The subject contract is selected based on the criteria defined in point 3 below.
3. In partial auto-liquidation method, system will then liquidate those contract positions which have maximum loss or minimum unrealized profit, based on the Market Maker's Bid/Offer price.
4. Trading system will evaluate threshold breach at 10 seconds interval in the normal course of operation; based on the market maker's latest bid/ Offer price. This may change from time to time.
5. Client's Net Liquidity will be updated on trading terminal at 20 seconds interval in the normal course of operation. This may change from time to time.
6. Partial auto-liquidation method will not be applicable on intraday margin trading accounts. All intraday trader positions will be auto-liquidated at market price as notified in circular PMEX\Operations\14-2013 dated April 11, 2013.
7. Default value of auto-liquidation method is set as **Full (All) at Market** and minimum threshold value is 10 % of PMEX required margins as defined in earlier circular PMEX\Operations\17-2013 dated May 15, 2013.

Important Note:

1. In partial auto-liquidation method, calendar spread positions can be liquidated partially and client may incur loss on remaining open positions due to prevailing market condition. Please see example 2 in Annexure A.
2. In partial auto-liquidation method, the client net liquidity may go negative. Lower threshold settings may cause negative balances with sufficient market volatility. Positions are evaluated periodically.



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3. 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.
4. 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.
5. 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 as a result of auto-squaring.
6. If positions are not auto liquidated due to any reason, broker shall still remain liable for the positions and related market risk in all trading accounts.
7. Brokers are advised to take auto-liquidation acknowledgment or under taking from their clients and give them in-depth understanding about auto-liquidation functionality and risks related thereto as notified in earlier circulars.

In case the exchange finds any issues in the new system, the system will be reverted back to the previous version of the system. Following procedure will be followed in that case:

- Market will be stopped for about 120 minutes and then started again.
- All working orders will be cancelled by the Exchange.
- All trades will remain in the system until the time of reversion.

Exchange reserves the right to cancel trades executed due to any system errors and/or issues.

Brokers are requested to inform Exchange if any malfunctioning or other issues arise during live trading. Please take snapshot of the said error and send at support@pmex.com.pk for its resolution.

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



Example 1: Partial Auto Liquidation

Annexure A

(Without Calendar Spread Positions)

Let's assume that a client bought 1 contracts of GO1oz-SE13 @ 1290 and bought 1 contract of Crude10-SE13 at 106.

Liquidity balance in client margin trading account at start of trading = Rs. 9,000

PMEX Initial Margin requirement

- GO1oz-SE13 = Rs 5,000 per contract
- Crude10-SE13 = Rs 4,000 per contract

Assume that auto liquidation threshold value set by the broker is 50 % of PMEX initial margin (9000 x 50% = 4,500) and liquidation method is Partial at Market Price;

SBP PKRUSD rate for Profit and Loss computation is Rs 100 per USD.

Assume that there is no transaction cost like trading fee, commission etc.

Further assume that the market is moving against client open positions and liquidation threshold level has been breached;

Contract Description	Positions	MM Bid Price	Realised PL	Un-Realised PL (MM Price)
GO1oz – SE13	1 (Long)	1260	-	(3,000)
Crude10 – SE13	1 (Long)	104.4	-	(1,600)
Total Profit Loss Current Session (At MM price) (A)	(4,600)		-	(4,600)
Funds Deposit or SODNLV (B)	9,000			
Net Liquidity (C= B – A)	4,400			
Initial Margin Requirement - D	9,000			
Liquidation Threshold at 50% D x 50 %	4,500			
Threshold Breached (Net Liquidity less than Threshold Value)	-100			



Client Current Working Orders – Before Partial Liquidation

Contracts	Order ID	Lots	Price	Trigger Price	Order Type	Type
GO1oz – SE13	110	1	1300	-	Limit	Sell
GO1oz – SE13	111	1	Market	1258	Stop Loss Market	Sell
Crude10 – SE13	105	1	109		Limit	Sell
Crude10 – SE13	106	1	Market	104	Stop Loss Market	Sell

Under partial auto-liquidation method, trading system will cancel all working order(s) of GO1oz-SE13 contract followed by market orders to liquidate all open positions in GO1oz-SE13 contract.

Client Open Positions, Net Liquidity and Working Order Status after Partial Liquidation

Contract Description	Positions	MM Bid Price	Realised PL	Un-Realised PL (MM Price)
GO1oz – SE13	0	1260	(3,000)	-
Crude10 – SE13	1 Long	104.4	-	(1,600)
Total Profit Loss Current Session (At MM price) (A)	(4,600)		(3,000)	(1,600)
Funds Deposit or SODNLV (B)	9,000	-		
Net Liquidity (C= B – A)	4,400			
Initial Margin Requirement - D	4,000			
Liquidation Threshold at 50% D x 50 %	2,000			



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Working Orders Status – After Partial Liquidation

Contracts	Order ID	Lots	Price	Trigger Price	Order Type	Type
Crude10 – SE13	105	1	109		Limit	Sell
Crude10 – SE13	106	1	Market	104	Stop Loss Market	Sell

In case of full (All) liquidation method, all working orders will be cancelled followed by squaring-off all open positions.

Example 2: Partial Auto Liquidation – With Calendar Spread Positions

Let's assume that a client bought 1 contracts of GO1oz-SE13 @ 1290 and sold 1 contract of GO1oz-OC13 at 1260 and bought 1 contract of Crude10-SE13 at 108

Liquidity balance in client margin trading account at start of trading was Rs. 14,000

PMEX Initial Margin requirement

- GO1oz-SE13 = Rs 5,000 per contract
- GO1oz-OC13 = Rs 5,000 per contract
- Crude10-OC13 = Rs 4,000 per contract

Assume that auto liquidation threshold value set by the broker is 55% of PMEX initial margin (14,000 x 55% = 7,700) and liquidation method is Partial at Market Price;

SBP PKRUSD rate for Profit and Loss computation is Rs 100 per USD.

Further assume that the Crude Oil market is moving against client open positions and liquidation threshold level has been breached;

Contract Description	Positions	MM Bid / Offer Price	Realised PL	Un-Realised PL (MM Price)
GO1oz – SE13	1 Long	1250	-	(4,000)
GO1oz – OC13	- 1 Short	1252	-	800
Crude10 – OC13	1 Long	104.5		(3,500)
Total Profit Loss (At MM price) (A)	(6,700)		-	(6,700)
Funds Deposit or SODNLV (B)	14,000			
Net Liquidity (C= B – A)	7,300			
Initial Margin Requirement - D	14,000			
Liquidation Threshold at 55% D x 55 %	7,700			
Threshold Breached (Net Liquidity less than Threshold Value)	-400			



Client Current Working Orders – Before Partial Liquidation

Contracts	Order ID	Lots	Price	Trigger Price	Order Type	Type
Crude10 – SE13	105	1	109	-	Limit	Sell
Crude10 – SE13	106	1	Market	104	Stop Loss Market	Sell
GO1oz – SE13	110	1	1,300	-	Limit	Sell
GO1oz – SE13	111	1	1,225	-	Limit	Buy

Under partial liquidation method, trading system will cancel all working order(s) of GO1oz-SE13 contract followed by market orders to liquidate all open positions in GO1oz-SE13 contract.

Client Open Positions, Net Liquidity and Working Order Status after Partial Liquidation

Contract Description	Positions	MM Bid / Offer Price	Realised PL	Un-Realised PL (MM Price)
GO1oz – SE13	0	1250	(4,000)	-
GO1oz – OC13	- 1 Short	1252	-	800
Crude10 – OC13	1 Long	104.5		(3,500)
Total Profit Loss (Current Session) (At MM Bid / Offer Price) (A)	(6,700)		(4,000)	(2,700)
Funds Deposit or SODNLV (B)	14,000			
Net Liquidity (C= B – A)	7,300			
Initial Margin Requirement - D	9,000			
Liquidation Threshold at 55% D x 55 %	4,950			
Buying Power (BP) Remaining	4,050			



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Working Orders Status after Partial Auto-Liquidation

Contracts	Order ID	Lots	Price	Trigger Price	Order Type	Type
Crude10 – SE13	105	1	109	-	Limit	Sell
Crude10 – SE13	106	1	Market	104	Stop Loss Market	Sell
GO1oz – OC13	111	1	1,225	-	Limit	Buy

All GO1oz-SE10 working orders have been cancelled.