

Circular No.: PMEX/MKT, BD&CSS/2014/43

December 12, 2014

INCREASE IN AUTO-LIQUIDATION LEVEL

All brokers are hereby informed that the Exchange has decided to increase the minimum auto-liquidation threshold from 15% to 20% of Initial Margin. This change will be applicable on all futures trading accounts with effect from *December 16, 2014*.

Trading Rules relating to Exchange Auto-Liquidation Threshold Levels are annexed with this circular for your reference.

Brokers are advised to understand the factors in relation to auto liquidation as mentioned below:

- The Exchange shall not be responsible for any losses incurred due to the introduction and use of this new policy
- Brokers and their clients are responsible to maintain the required margins in their trading accounts during trading sessions to reduce the risk of auto liquidation
- Brokers are 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 undertaking from their clients and give them in-depth understanding about this functionality and related risks

Principal Risk Factors Associated with Auto Liquidation

There are several risk factors associated with auto-liquidation which are mentioned below:

- A trading account may be automatically liquidated if Exchange has received wrong data (bad ticks)
- Client positions may be liquidated if there is an error in VaR margin computation or a key punch error in recording Exchange margins
- Client positions may be liquidated if Exchange VaR margins have been increased due to notified gazette holidays

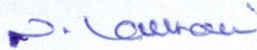


- If the account value changes overnight, the account can be auto liquidated once the market opens
- Market volatility may cause an account to be auto-liquidated on short or relatively no notice to clients
- Trading accounts may be auto-liquidated if client's funds are not allocated in a timely manner

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

For further information and assistance, please feel free to contact our Customer Support Services by phone on 021-111-623-623, 0300-8213-324 and 0300-8756-623 or by email at support@pmex.com.pk.

Best regards,



Nauman Lakhani
Head of Marketing, Business Development
& Customer Support Services

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

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