

Pakistan Mercantile Exchange Limited

Subject: Fines for Non-Compliance

The Exchange has defined Compliance and Regulatory norms for Members and Brokers under various provisions of PMEX General Regulations, Commodity Exchange and Futures Contract Rules, 2005, code of conduct for brokers of the Exchange and other statutory provisions. Violation of these norms will attract fines/disciplinary action from the Exchange.

Fines, unless explicitly specified otherwise, are effective immediately at the time of violation which in general the Exchange may impose and recover after adopting due procedure and process as laid down under General Regulations 2007 of the Exchange. The Exchange may adopt summary proceedings on such violations which are of trivial in nature and in other cases the Exchange shall adopt due procedure as laid down under General Regulations 2007. The fines amount mentioned herein for imposition in all cases is the minimum amount and higher fines may be imposed by the Exchange/concerned officer depending on nature of violation, intention of the violator and impact of violation at other stakeholders and at Exchange. Moreover, imposition of fine is without prejudice to other regulatory powers conferred by General Regulations 2007 whereby the Exchange has authority to take other disciplinary/regulatory actions against the violator including but not limited to suspension, termination, revocation of membership rights etc. hence, the Exchange reserves its right to initiate any of the disciplinary actions as provided under General Regulations 2007 of the Exchange and or to impose fines.

Fines must be deposited by the Member/Broker in the Exchange specified account maintained at designated Clearing Bank(s) **within 7 calendar days** or any other period specified by the Exchange. At the end of the specified period, **late fee @ 1% per day on fine amount will be levied by the Exchange maximum upto 15 days and thereafter, the Exchange shall adopt other procedures for initiating action against the concerned member.**

Any default in payment of fines will be treated as violation of the Regulations and the Exchange can take such disciplinary actions against the defaulting Members/ Brokers as it may deem fit. All fines are non-refundable and cannot be offset against any other transaction.

Fines relating to Books of Accounts

Regulation / Rule / Byelaw / Circular	Violation	Disciplinary Action	
		One or a few instance(s) (Amount in Rs)	Multiple instances (Amount in Rs)
	<u>Books of Accounts</u>		
Reg. 3.7 & 4.9 Rule 19 & 22,	<p>Misrepresentation for applying membership rights & or Non-execution of broker client agreement.</p> <p>Execution of broker client agreement with material changes in the prescribed format which contradicts of clauses specified by the Exchange in standardized Account opening form/agreement</p> <p>Execution of broker client agreement otherwise than in the prescribed format</p>	<p>10,000/- per client</p> <p>10,000/-</p> <p>10,000</p>	<p>10,000/- per client</p> <p>25,000/-</p> <p>20,000/-</p>
Reg. 3.37 & 4.9	<p>Non-issue of Risk Disclosure Document</p> <p>Issue of Risk Disclosure Document otherwise than in the prescribed format</p> <p>Both non-issue of Risk Disclosure document and Risk disclosure document otherwise than in the prescribed format in multiple instances</p>	<p>5,000</p> <p>3,000</p>	<p>10,000/-</p> <p>5,000/-</p> <p>10,000/-</p>
Reg. 3.13	Non-Registration as broker with the Commission within six months of obtaining membership rights and failure of existing members to register with the Commission as broker under Commodity Exchange and Futures Contract Rules 2005 read with General Regulations 2007 by December 31, 2010.	Upfront fine of Rs. 25,000 + fine of Rs. 1,000/- per day default upto 7 working days and thereafter, the Exchange may suspend membership rights.	

Regulation / Rule / Byelaw / Circular	Violation	Disciplinary Action	
		One or a few instance(s) (Amount in Rs)	Multiple instances (Amount in Rs)
	Non-segregation of client money and securities and failure to maintain accurate record of proprietary and client trades, cash balances etc.	10,000	
Reg. 4.21	Non-preservation of record for 5 years in respect of client and house accounts and failure to submit the same before Exchange in case of requirement.	5,000/-	10,000
	<u>Banking Account Operations</u>		
Reg. 4.26, 6.4	Utilization of funds and commodities of one client for and on behalf of another client or for brokers own account.	10,000	20,000/-
Reg. 4.16	Outstanding transactions not settled by giving or receiving deliveries shall be closed out with a imposition of fine	10,000/-	20,000/-

Fines relating to Membership

	<i>Violation</i>	<i>Action by the Exchange</i>	<i>Levy</i>
3.11(a)(b)(c)	Exchange initiated call for information; Non-compliance of maintaining Net Capital Balance and Net Worth Statements by every member and submission of undertaking that NCB shall always be kept segregated from NCB required for any stock exchange for which the member holds membership rights.	In addition to upfront fine of Rs. 5,000/-, the Exchange reserves right to impose further fine of Rs. 1,000/- per day default and or to initiate disciplinary action against the Member / Broker (Compliance shall start with effect from January 01, 2011)	Rs. 1,000 per day
3.39- b-(h)	Non-submission of audited financial statements within time specified by the Exchange.		Rs. 1,000 per day default.

	<i>Violation</i>	<i>Action by the Exchange</i>	<i>Levy</i>
3.11	Non submission of statements of Net Capital and Net Worth within time prescribed by the Exchange	Upfront fine of Rs. 5,000/- and further fine of Rs. 500/- per day default	
Reg. 3.23	Failure to provide notification in relation to change in the structure of board and or failure to supply to the Exchange any information in shareholding pattern which may ultimately lead to change in beneficial shareholding and an attempt to include persons in the Board and to give them shareholding who are not eligible to get membership rights of the Exchange.	In addition to upfront fine of Rs. 10,000/- the Exchange reserves right to initiate disciplinary action against the Broker.	Rs. 1,000 per day on each day of violation
Reg. 3.10	To carry on the business as broker other than registered name. To sell, transfer, pledge, mortgage, charge, lien or other encumbrance over membership rights, benefits or privileges as a Member. (Transfer is subject to approval of Board).	In addition to the fine of Rs. 100,000/- Exchange reserves the right to Withdraw trading facility of the broker	Rs. 25000
Reg. 3.23	Appointment of CEO/directors of the member who are not eligible to admit as member/director as per Exchange General Regulations 2007 read with Companies Ordinance and SEC relevant laws.	non compliance to the Exchange relevant Regulation/directive, a fine of be levied of Rs. 25,000/- on an attempt of the broker to add any director not eligible to be director or member of the Exchange	
Regulation 3.16	Failure of broker to provide information in relation to	Rs. 1,000/- per case	

	<i>Violation</i>	<i>Action by the Exchange</i>	<i>Levy</i>
Reg. 3.39 (b)(a)	<p>termination/transfer of key employee and to notify in writing any change in the particulars of key employees</p> <p>Fraud by Broker or its employees or any other violation as specified under Regulation 3.39 and transactions at the Exchange without broker registration with the Commission.</p>	Upto Rs. 100,000/- and or to render the member unfit to be a member or broker of the Exchange.	
Reg. 3.21 3.22	<p>Failure of broker to notify the Exchange upon happening any events like failure to comply with any regulations, passing of resolution which results appointment of receiver, liquidator, winding up process, bankruptcy or broker, member or any of shareholder</p>	In addition to fine upto Rs. 50,000/- the Exchange reserves it's right to temporarily suspend trading rights of the broker/member and a reprocessing of the application will go through the board	
Reg. 3.39 (vii)	<p>Violation at the publication of the Advertisement to induce the clients to trade by providing lucrative and misleading information and without attaching disclaimer of the Exchange</p>	In the event of non-compliance the exchange reserves the right to penalize or revoke membership rights and or to impose fine upto Rs. 50,000/-.	

Fines relating to Margins and Clearing Deposits

	<i>Violation</i>	<i>Action by the Exchange</i>	<i>Levy</i>
Reg. 3.44, 7.4, 7.5.6, 8.2,8.5 & 8.6	<p>Fund shortages or non-payment against obligations:</p> <ul style="list-style-type: none"> - Non-fulfillment of either the whole or part of the margin obligations - Non fulfillment of Mark to Market variations - Non-fulfillment of either the whole or part of the settlement obligations 	<p>Exchange reserves the right to close out the position.</p> <p>The Exchange shall reserve its right to take additional risk management measures either to reduce the position limits or to enhance the VAR limit or any other measures to improve risk management and to take stringent action against the broker upon continuous violation.</p>	<p>Fine @1.00 % per day computed on the amount outstanding from the day on which monies are due to be paid until the day all obligations including shortfall in deposits are fulfilled.</p> <p>(Subject to a Minimum of Rs.1,000/- per instance). In case of continuous violation, the Exchange shall reserve its right to impose fine @ 2% per day to be computed as stated above and or to take strict disciplinary & regulatory action as laid down under General Regulations 2007 like transfer of positions and to square up the same etc.</p>
Reg. 13.8, 13.9	Clearing Limit breach	Broker will be forced to reduce their exposure before end of trading day in order to bring the exposure below the clearing limit.	<p>1st time violation: Warning letter</p> <p>2 or more violations:</p>

	<i>Violation</i>	<i>Action by the Exchange</i>	<i>Levy</i>
		In the event of non-compliance closing out proceedings will be initiated.	Charges on the amount of default @ 1.00% per day of violation (Subject to a minimum of Rs. 1,000 per instance)

Fines relating to Position Limits

Breach of Exchange specified and SECP approved position limits (especially in products where fetching of prices are limited to local sources and are not internationally linked, the Exchange shall reserve its right in addition to imposition of fines to take more stringent actions as specified under General Regulations 2007 of the Exchange). The breach of position limit by broker own account or Clients' account will be considered as violation by the Broker and in such an eventuality, the Exchange shall reserve the right to close out or reduce the positions in excess of the prescribed position limit for a particular commodity and/or contracts by adopting due procedure.

1. Monetary fines on the Broker for violations are as under:

- a) Where the violation is more than 2% of the prescribed limit(s):
(Limit exceeded) X (closing price of the day) X (number of days such violation continued) X (0.02) **OR** Rs. 10, 000, whichever is **higher**
- b) Where the violation is up to 2% of the prescribed limit(s):
(Limit exceeded) X (closing price of the day) X (number of days such violation continued) X (0.02) **OR** Rs. 10, 000, whichever is **lower**
- c) The member has to ensure reduction in position and to bring it within the prescribed limit(s) by the next trading day after the day of the violation. In case such violation continues, the Exchange would square off the excess position without any further notice to the Broker or their Clients and the Exchange will not be responsible for the consequences of such action.

2. In case, the instance at 1 (a) above is observed for more than 3 times in a month across the market, the Exchange would suspend the concerned member for a period of one week.

3. In case, the instance at 1 (b) above is observed for more than 6 times in a month across the market, the Exchange would impose a monetary penalty as below,
(Limit exceeded) X (closing price of the day) X (number of days such violation continued) X (0.02) **OR** Rs. 10,000, whichever is **higher.**

Fines relating to client Dealing

	<i>Violation</i>	<i>Action by the Exchange</i>	<i>Levy</i>
Reg.14.16 (b),4.19, 4.20/4.22.	Failing to give or receive delivery Off market trades or pricing/ or before contract commencement trade/ or trade of contract not registered or in contravention of basis varieties that is not specified by the Exchange.	Immediate suspension of access to Exchange systems and initiation of disciplinary action	Rs. 10,000 per instance.
Rule 25, Reg. 3.29,3.30,3.31 & 3.32,	artificial pricing, False or misleading appearance, causing price fluctuations or price manipulation	Access of Exchange systems denied	Rs. 25,000 per instance & disgorgement of profit earned by illegal means.
Reg. 6.1.8	Contravention to enter Contracts of the clients other than ETS.	Access to Exchange systems denied	Rs. 5,000 per instance
Reg. 3.36, 5.7.4	Breach of confidentiality .	Exchange reserves the right to take disciplinary action	Rs. 5,000 per instance
Reg. 5.19	Dealing with unregistered intermediaries or suspended/ expelled/defaulters member or employees of another brokers involved in ongoing fraud or misconduct who are prohibited to trade on the exchange	Exchange reserves the right to suspend trading rights of the member/client and initiation of disciplinary action	1% of the value of trades subject to a minimum of Rs 10,000/-
Rule 20, Reg. 3.40	Misconduct or breach of any disciplinary matter	withdraw any or all of the Membership rights and privileges	Rs. 10,000
Reg. 3.39 to 3.42, 5.3	Non maintain of proper trading decorum, disobeying all or any regulatory requirements		

Fines relating to Delivery

	<i>Violation</i>	<i>Action by the Exchange</i>	<i>Penalty Amount</i>
Reg. 10.6, 10.18 , 10.17.	Non-fulfillment of delivery obligations by the Seller or buyer in delivery of commodity or payment of the price as the case may be or Bad delivery by the seller..	Positions will be cash settled and disciplinary actions will be taken by the Exchange, against the defaulting Members, as it may deem fit.	Positions will be closed out at the higher of prevailing spot rate on the date of closing out and the final settlement price. In addition, 10% of the close-out price will be charged as a fine.
Reg. 10.1,10.13, 10.14, 14.9	Delivery in Part, Odd lots at expiry of the contract	Odd lot positions will be cash settled on the expiry of the contract.	5% of value of odd lots

Fines relating to Operations

	<i>Violation</i>	<i>Action by the Exchange</i>	<i>Levy</i>
Reg. 4.8, 4.11	Entering incorrect Client's details in TAMS/Back Office/Confirmation of trades within 24 hours of its execution to clients	Fine upto Rs. 5,000/-	In addition to upfront fine of Rs. 5000/- additional fine of Rs. 1,000/- per additional incident.
Reg. 3.33, 5.12, 5.13, 6.3, 6.6	Order/trade management and contract note compliance	Fine Upto Rs. 5000/-	
Reg. 4.5, 4.12	Subject to Exchange specification minimum or max. Brokerage fee, broker charging higher fee from clients and charging taxes other than withholding tax from them.	Fine upto Rs. 5,000/-.	
Reg. 5.9(h)	Failure to record of transactions executed by the brokers and reporting thereon in the determined forms.	Fine Upto Rs. 5000	

Fines relating to Exchange Systems

	<i>Violation</i>	<i>Action by the Exchange</i>	<i>Levy</i>
1	Using a stolen USB Key or a Digital Certificate.	Immediate suspension of access to Exchange systems and initiation of disciplinary action	Rs. 1,000 per instance.
2.	Intentional deletion of Digital Certificate from the USB Key.	Access of Exchange systems denied	Rs. 1,000 per instance.
5.7.3	Attempting to use Exchange application without the SSO.	Access to Exchange systems denied	Rs. 1,000 per instance
Reg. 6.1.4, 5.10(a) (c)?	Change of network devices and/or installation of network software without prior approval of Exchange.	Exchange reserves the right to suspend trading rights of the Broker/Client.	Rs. 5,000 per instance
Reg. 5.15(a) (c)	Installing non-Exchange related applications on a terminal that is dedicated for trading at Exchange .	Exchange reserves the right to suspend trading rights of the Broker/Client.	Rs. 5,000 per instance
	Failure to have updated anti-virus on a machine being used for Exchange trading.	Exchange reserves the right to suspend trading rights of the member.	Rs. 1,000
Reg. 5.10,5.15(b)	Attempt to disrupt Exchange network services by subjecting the network to any non-trading activity.	Immediate suspension of access to Exchange systems and initiation of disciplinary action	Rs. 10,000
Reg. 5.15(d)	De-compilation/reverse engineering of any application provided by Exchange .	Immediate suspension of access to Exchange systems and initiation of disciplinary action	Rs. 10,000

Any change in penalties will be communicated to Brokers via circulars before their applicability.

Nothing in the above schedules limits Broker responsibilities with regards to complying with Regulations of the Exchange and prescribed Rules of the Commission. The Exchange reserves the right to initiate disciplinary action at any time against any Broker who will act in contravention of the Rules of the Commission and or Regulations/directions of the Exchange. The Exchange also reserves its right to impose penalties in addition to the fines mentioned in aforesaid schedule if the Exchange feel that violation committed by the Broker has not only affected normal trading activities but also has jeopardized adversely the rights of other market participants or has threatened very existence of the Exchange or its smooth operations or such violation has a recurring pattern despite serving warnings/fines/actions by the Exchange.

In case of queries please contact Membership department at UAN 111-623-623