

**Notification No.: PMEX/MKT, BD&CSS/2023/30**

**August 31, 2023**

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**Solicitation of Public Comments on Proposed Amendments to the PMEX Rule Book**

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This is to inform the public that the PMEX, in exercise of power conferred upon it under Section 7 of the Futures Market Act, 2016, is proposing to carry out amendments to the PMEX Rule Book in relation to utilization of settlement guarantee fund for customers of futures brokers.

In terms of Section 7(3) of the Futures Market Act, 2016, the proposed amendments along with the rationale are placed on PMEX website, for eliciting public opinion thereon, within a period of seven days.

The proposed amendments are enclosed herewith as **Annexure A** or may be accessed at the following link:

<https://www.pmax.com.pk/public-comments/>

All concerned are requested to submit their written comments, if any, on the proposed amendments to the undersigned in hard form or through email at [compliance@pmax.com.pk](mailto:compliance@pmax.com.pk) latest by **September 07, 2023**.

For further information and assistance, please feel free to contact our Customer Support Services by phone on 111-11-PMEX (7639) or by email at [support@pmax.com.pk](mailto:support@pmax.com.pk).

Best regards,



**Tariq Sabih**  
Chief Regulatory Officer

**Encl.: As stated above.**



# **Annexure A**

**Proposed Amendments to PMEX Rule Book**

Existing Regulations	Proposed Amendments	Rationale
<b>Chapter I - Interpretation and Definitions</b>		
(q) Clearing Bank means a bank that is designated or appointed to provide banking and other facilities to the Exchange, the Clearing House and Brokers of the Exchange to facilitate clearing and settlement functions.	(q) Clearing Bank means a bank that is designated or appointed to provide banking and other facilities to the Exchange, the Clearing House, <del>and</del> Brokers of the Exchange <u>and their Customers</u> to facilitate clearing and settlement functions.	Consequent to Direct Funds Model.
(r) Clearing House means the clearing house of the Exchange and includes a place where and the system by which the claims and liabilities of Brokers in respect of different Futures Contracts confirmed by the Exchange are received, adjusted, settled and paid and for the purposes of these Regulations it refers to the settlement system managed and operated by the Exchange.	(r) Clearing House means the clearing house of the Exchange and includes a place where and the system by which the claims and liabilities of Brokers <u>and their Customers</u> in respect of different Futures Contracts confirmed by the Exchange are received, adjusted, settled and paid and for the purposes of these Regulations it refers to the settlement system managed and operated by the Exchange.	To include claims and liabilities of customers.
(mmm) Settlement Guarantee Fund means the fund established and maintained by the Exchange pursuant to Section 26 (1) (d) of the Act by a trust deed made between the Exchange and the trustees named in the said trust deed, in whom the Settlement Guarantee Fund is vested, for the purpose of payment of the required amount(s) to the Exchange from time to time for satisfying Broker(s) obligations to the Exchange in case of the default of such Broker(s) in terms of these Regulations.	(mmm) Settlement Guarantee Fund means the fund established and maintained by the Exchange pursuant to Section 26 (1) (d) of the Act by a trust deed made between the Exchange and the trustees named in the said trust deed, in whom the Settlement Guarantee Fund is vested, for the purpose of payment of the required amount(s) to the Exchange from time to time for satisfying Broker(s) <u>and their Customer(s)</u> obligations to the Exchange in case of the default of such Broker(s) <u>and their Customer(s)</u> in terms of these Regulations.	Amendment proposed to cover customer obligations in case of default.
<b>Chapter III – Trading Rights Entitlement (TRE) Certificate of the Exchange</b>		
<b>3.15 General Obligations of a TRE Certificate Holder / Broker:</b> The TRE Certificate Holder / Broker is the primary obligor of the Exchange and would be responsible for all its own and its Customers liabilities to the Exchange.	<b>3.15 General Obligations of a TRE Certificate Holder / Broker:</b> The TRE Certificate Holder / Broker <u>and its Customers</u> <del>is are</del> the primary obligor of the Exchange and would be responsible for all <del>its own and its Customers</del> <u>their</u> liabilities to the Exchange.	To segregate customer obligation from the broker.
<b>3.16</b> Each TRE Certificate Holder / Broker will ensure that its Customers and Authorized Persons shall adhere to the provisions of the Act, Broker Regulations, Regulations, Articles and any other additional condition stipulated by the Commission or the Board, from time to time. However, the obligation of the Broker to the Exchange remains notwithstanding any non-compliance by their Customers and Authorized Persons. The TRE Certificate Holder / Brokers are the ultimate obligors of the Exchange and all and any recourse would be made to the Brokers.	<b>3.16</b> Each TRE Certificate Holder / Broker will ensure that its Customers and Authorized Persons shall adhere to the provisions of the Act, Broker Regulations, Regulations, Articles and any other additional condition stipulated by the Commission or the Board, from time to time. However, the obligation of the Broker to the Exchange remains notwithstanding any non-compliance by their Customers and Authorized Persons. <del>The TRE Certificate Holder / Brokers are the ultimate obligors of the Exchange and all and any recourse would be made to the Brokers.</del>	To remove ultimate obligation and recourse to the broker.

<b>Chapter V - Trading on the Exchange</b>		
<p><b>5.14 Liability of Brokers and Customers:</b> A Broker shall be liable for all the trades executed on the ETS, arising out of orders entered into the system by it and its Authorized Persons or Customers. The Broker shall be solely responsible for all the acts of commission and/or omission of Authorized Persons or Customers, employees and other persons deployed by such Broker, in relation to performance of obligations arising there from, connected therewith and incidental to such acts of commission and/or omission.</p>	<p><b>5.14 Liability of Brokers and Customers:</b> A Broker shall be liable for all the trades executed on the ETS, arising out of orders entered into the system by it and its Authorized Persons <del>or Customers</del>. The Broker shall be solely responsible for all the acts of commission and/or omission of Authorized Persons <del>or Customers</del>, employees and other persons deployed by such Broker, in relation to performance of obligations arising there from, connected therewith and incidental to such acts of commission and/or omission.</p>	<p>To remove liabilities of customers from broker.</p>
<b>Chapter VI - Trading System</b>		
<p><b>6.5 Brokers liable for all Trades:</b> The Broker shall continue to be liable for all trades executed on the ETS for orders entered into the ETS on behalf of its Customers. Broker shall be responsible for all the actions of their Authorized Persons and their Customers.</p>	<p><b>6.5 Brokers liable for all Trades:</b> The Broker shall continue to be liable for all trades executed on the ETS for orders entered into the ETS <del>on behalf of its Customers</del>. Broker shall be responsible for all the actions of their Authorized Persons <del>and their Customers</del>.</p>	<p>To remove liabilities of customers from broker.</p>
<b>Chapter XII – Settlement Guarantee Fund</b>		
<p><b>12.1 Establishment of Fund:</b> 12.1.1 The Board shall establish a fund to be called the Settlement Guarantee Fund in respect of all Future Contracts transacted by Brokers of the Exchange to be cleared and settled by the Clearing House. The Fund shall be utilized to fulfill obligation in the event of failure of any Broker to honour its settlement obligation towards the Exchange.</p>	<p><b>12.1 Establishment of Fund:</b> 12.1.1 The Board shall establish a fund to be called the Settlement Guarantee Fund in respect of all Future Contracts transacted by Brokers of the Exchange <u>and their Customers</u> to be cleared and settled by the Clearing House. The Fund shall be utilized to fulfill obligation in the event of failure of any Broker <u>and/or its Customer(s)</u> to honour <del>its</del><u>their</u> settlement obligation towards the Exchange.</p>	<p>Coverage of customers provided.</p>
<p><b>12.2 Review of Settlement Guarantee Fund</b> 12.2.1 The Exchange shall, at regular intervals, assess the adequacy of Settlement Guarantee Fund and determine minimum amount of Settlement Guarantee Fund to meet settlement obligations arising on account of failure of any Broker(s) based on the valuation models prescribed by the Exchange with prior approval of the Commission.</p>	<p><b>12.2 Review of Settlement Guarantee Fund</b> 12.2.1 The Exchange shall, at regular intervals, assess the adequacy of Settlement Guarantee Fund and determine minimum amount of Settlement Guarantee Fund to meet settlement obligations arising on account of failure of any Broker(s) <u>and/or its Customer(s)</u> based on the valuation models prescribed by the Exchange with prior approval of the Commission.</p>	<p>Settlement obligations of customers covered.</p>
<p><b>12.3 Utilization of Settlement Guarantee Fund:</b> 12.3.1 The utilization of the Settlement Guarantee Fund shall be limited to the extent of the amount available in the Settlement Guarantee Fund. In the event of any shortfall, the Exchange or trustees shall endeavor to manage the shortfall in accordance with the provisions of this Chapter. Provided that utilization of the Settlement Guarantee Fund shall only be limited to settlement of all Future Contracts transacted by Brokers under these Regulations.</p>	<p><b>12.3 Utilization of Settlement Guarantee Fund:</b> 12.3.1 The utilization of the Settlement Guarantee Fund shall be limited to the extent of the amount available in the Settlement Guarantee Fund. In the event of any shortfall, the Exchange or trustees shall endeavor to manage the shortfall in accordance with the provisions of this Chapter. Provided that utilization of the Settlement Guarantee Fund shall only be limited to settlement of all Future Contracts transacted by Brokers <u>and their Customers</u> under these Regulations.</p>	<p>Amendments proposed to utilize settlement guarantee fund in case of customers settlement obligations consequent to default.</p>

<p>12.3.2 The Settlement Guarantee Fund may be utilized for the following purposes:</p> <p>(a) whenever a Broker is, or is likely to be, declared a defaulter as defined in Regulation 14.1, the Exchange may utilize the Settlement Guarantee Fund to the extent necessary to fulfill the Broker's obligations including, but not limited to, in meeting any loss or liability of the Exchange as central counter party arising from the Broker being, or likely to be, declared a defaulter;</p> <p>(b) paying for expenses and fees involved in establishing and maintaining the Settlement Guarantee Fund such as management fee prescribed with prior approval of the Commission, professional fee, applicable taxes, legal charges and all other expenses incidental to the management and administration of the Settlement Guarantee Fund out of the income of the fund;</p>	<p>12.3.2 The Settlement Guarantee Fund may be utilized for the following purposes:</p> <p>(a) whenever a Broker <u>or its Customer</u> is, or is likely to be, declared a defaulter as defined in Regulation 14.1, the Exchange may utilize the Settlement Guarantee Fund to the extent necessary to fulfill the Broker's <u>or its Customer(s)</u> obligations including, but not limited to, in meeting any loss or liability of the Exchange as central counter party arising from the Broker <u>or its Customer</u> being, or likely to be, declared a defaulter;</p> <p>(b) paying for expenses and fees involved in establishing and maintaining the Settlement Guarantee Fund such as management fee prescribed with prior approval of the Commission, professional fee, applicable taxes, legal charges and all other expenses incidental to the management and administration of the Settlement Guarantee Fund out of the income of the fund;</p> <p><u>(c) to cover any shortfall necessary (as determined by the Board) arising out of the clearing and settlement obligations of Brokers and their Customers to maintain the strength and financial integrity of the Exchange;</u></p> <p><u>(d) any other purpose, as may be specified by the Board with the approval of the Commission, from time to time.</u></p>	
<p><b>12.8 Limitation of Liability:</b> The Settlement Guarantee Fund shall not be utilized or otherwise be available for (i) the obligations of any party who is not a Broker; (ii) the obligations of a Broker to its Customer and any losses incidental thereto; (iii) the obligations of a Broker to another Broker, in each case, in respect of transactions which are not executed on the Exchange.</p>	<p><b>12.8 Limitation of Liability:</b> The Settlement Guarantee Fund shall not be utilized or otherwise be available for (i) the obligations of any party who is not a Broker <u>or its Customer</u>; (ii) the obligations of a Broker to its Customer and any losses incidental thereto; (iii) the obligations of a Broker to another Broker, in each case, in respect of transactions which are not executed on the Exchange.</p>	<p>To provide coverage to customers for utilization of settlement guarantee fund.</p>
<b>Chapter XIV - Default</b>		
<p><b>14.1 Declaration of Default:</b> A Broker may be declared as a defaulter by direction / circular / intimation of the Exchange if the Broker:</p> <p>(a) is unable to fulfil its obligations; or</p> <p>(b) admits or discloses its inability to fulfil or discharge its duties, obligations and liabilities; or</p> <p>(c) fails or is unable to pay within the specified time the damages and the money differences due on a closing-out affected against it under these Regulations; or</p> <p>(d) fails to pay any sum due to the Exchange or to submit or deliver to the Exchange on the due date, delivery and receipt orders, statement of differences and commodities, balance sheet and such other clearing forms and other statements as may be required under these Regulations; or</p> <p>(e) fails to pay or deliver to the Exchange all monies within such</p>	<p><b>14.1 Declaration of Default:</b> A Broker <u>or its Customer</u> may be declared as a defaulter by direction / circular / intimation of the Exchange if the Broker <u>or its Customer</u>:</p> <p>(a) is unable to fulfil its obligations; or</p> <p>(b) admits or discloses its inability to fulfil or discharge its duties, obligations and liabilities; or</p> <p>(c) fails or is unable to pay within the specified time the damages and the money differences due on a closing-out affected against it under these Regulations; or</p> <p>(d) fails to pay any sum due to the Exchange or to submit or deliver to the Exchange on the due date, delivery and receipt orders, statement of differences and commodities, balance sheet and such other clearing forms and other statements as may be required under these Regulations; or</p>	<p>To include declaration of customer default.</p>

<p>time as the Exchange may specify; or  (f) fails to abide by the arbitration proceedings as laid down under these Regulations; or  (g) has failed to pay any margins, deposits, fines and fees or any other applicable dues to the Exchange or any other Broker as the case may be; or  (h) has failed to effect delivery as specified under these Regulations.</p> <p>Notwithstanding the above provisions, the Exchange may declare a Broker a defaulter in any other instance as it deems appropriate. Such Broker would be referred to as a Broker in Default or a defaulting Broker.</p>	<p>(e) fails to pay or deliver to the Exchange all monies within such time as the Exchange may specify; or  (f) fails to abide by the arbitration proceedings as laid down under these Regulations; or  (g) has failed to pay any margins, deposits, fines and fees or any other applicable dues to the Exchange or any other Broker as the case may be; or  (h) has failed to effect delivery as specified under these Regulations.</p> <p>Notwithstanding the above provisions, the Exchange may declare a Broker <u>or its Customer</u> a defaulter in any other instance as it deems appropriate. Such Broker <u>or its Customer</u> would be referred to as a Broker <u>or Customer</u> in Default or a defaulting Broker <u>or Customer</u>.</p>	
<p><b>14.4 Consequences of Default:</b>  A Broker who is declared defaulter by the Exchange shall at once cease to be a TRE Certificate Holder of the Exchange and all its assets in control of the Exchange shall vest with the Exchange forthwith which includes but not be limited to such additional rights directly or remotely attached with TRE Certificate of the Exchange. All branches and registration of Authorized Persons of the said defaulter shall be considered as cancelled forthwith.</p>	<p><b>14.4 Consequences of Default:</b>  (a) A Broker who is declared defaulter by the Exchange shall at once cease to be a TRE Certificate Holder of the Exchange and all its assets in control of the Exchange shall vest with the Exchange forthwith which includes but not be limited to such additional rights directly or remotely attached with TRE Certificate of the Exchange. All branches and registration of Authorized Persons of the said defaulter shall be considered as cancelled forthwith.</p> <p><b>(b) <u>The Customer of a Broker who is declared defaulter by the Exchange shall immediately be black-listed and the name and other particulars of that Customer shall be placed on the website of the Exchange. Further, all his assets in control of the Exchange shall vest with the Exchange forthwith which includes but not limited to funds and assets lying with other Broker(s) of the Exchange. The Exchange may notify to other market entities such as PSX/NCCPL for taking necessary action as per their regulatory framework and the defaulter Customer shall not be allowed to trade on the Exchange.</u></b></p>	<p>Consequences of customers default provided.</p>
<p><b>14.5 Default Waterfall:</b>  The default waterfall of the Exchange shall be in the following order:</p> <p>(a) Defaulting Broker’s monies deposited with the Exchange.  (b) Funds realized by using cash equivalent deposited by such Broker as collateral to the Exchange.  (c) Proceeds from closing out of open positions of the defaulting Broker.  (d) Amount received under any insurance policy obtained, where applicable/available, to satisfy shortfall in meeting the settlement obligation on account of default by a Broker</p>	<p><b>14.5 Default Waterfall:</b>  The default waterfall of the Exchange shall be in the following order:</p> <p><b><u>In case of Broker:</u></b>  (a) Defaulting Broker’s monies deposited with the Exchange.  (b) Funds realized by using cash equivalent deposited by such Broker as collateral to the Exchange.  (c) Proceeds from closing out of open positions of the defaulting Broker.  (d) Amount received under any insurance policy obtained, where applicable/available, to satisfy shortfall in meeting the settlement obligation on account of default by a Broker subject to its availability.</p>	<p>Default Waterfall of customer defined for utilization of settlement guarantee fund.</p>

<p>subject to its availability.</p> <p>(e) Amount utilized from the Settlement Guarantee Fund in accordance with Chapter 12 of these Regulations provided that utilization of the SGF shall only be limited to settlement of Exchange trades. However, funds utilized from SGF shall be replenished in accordance with Chapter 12 of these Regulations.</p>	<p>(e) Amount utilized from the Settlement Guarantee Fund in accordance with Chapter 12 of these Regulations provided that utilization of the SGF shall only be limited to settlement of Exchange trades. However, funds utilized from SGF shall be replenished in accordance with Chapter 12 of these Regulations.</p> <p><u>In case of Customer:</u></p> <p><u>(a) Defaulting Customer’s monies and assets deposited with the Exchange.</u></p> <p><u>(b) Amount utilized from the Settlement Guarantee Fund in accordance with Chapter 12 of these Regulations.</u></p>	
<p><b>14.6 Notice of Default to the Exchange Brokers and Participants:</b></p> <p>On a Broker being declared a defaulter a notice to that effect shall be placed forthwith on the trading system of the Exchange.</p>	<p><b>14.6 Notice of Default to the Exchange Brokers and Participants:</b></p> <p>On a Broker <u>or Customer</u> being declared a defaulter a notice to that effect shall be placed forthwith on the trading system of the Exchange.</p>	<p>To include notice of default for customers.</p>
<p><b>14.7 Restriction on Trading:</b></p> <p>a) A Broker who has been declared a defaulter shall not be able to trade on the Exchange.</p> <p>b) Insolvent Defaulters: Broker, who has been adjudicated as insolvent, shall be declared a defaulter and shall not be able to trade on the Exchange.</p>	<p><b>14.7 Restriction on Trading:</b></p> <p>a) A Broker <u>or its Customer</u> who has been declared a defaulter shall not be able to trade on the Exchange.</p> <p>b) Insolvent Defaulters: Broker <u>or its Customer</u>, who has been adjudicated as insolvent, shall be declared a defaulter and shall not be able to trade on the Exchange.</p>	<p>Trading restriction placed on defaulted customers.</p>
<p><b>14.10 Lien:</b></p> <p>The (i) monies paid by way of margin or other securities or assets pledged or hypothecated by a Broker or on behalf of their Customers in lieu of margin under the provision of Regulation 8.9; (ii) all monies deposited by a Broker towards security deposit; (iii) the proceeds from sale, auction or disposal of any TRE Certificate rights of the Exchange (subject to any deductions for expenses relating or incidental to the sale, auction or disposal, as the case may be); (iv) Proceeds from closing out of open positions of the defaulting Broker and (v) any other amounts lying with the Exchange or in the Settlement Guarantee Fund, shall in each case be subject to a first and paramount lien and pledge (with a right of sale and set off) for all sums due to the Clearing House and/or the Exchange, as applicable, including but not necessarily limited to, the due, proper and punctual performance of any engagements, obligations and/or liabilities of a Broker or Customer arising out of or incidental to a Futures Contract or any other matters dealt with in these Regulations.</p>	<p><b>14.10 Lien:</b></p> <p>The (i) monies paid by way of margin or other securities or assets pledged or hypothecated by a Broker or <del>on behalf of their</del> <u>its</u> Customers in lieu of margin under the provision of Regulation 8.9; (ii) all monies deposited by a Broker towards security deposit; (iii) the proceeds from sale, auction or disposal of any TRE Certificate rights of the Exchange (subject to any deductions for expenses relating or incidental to the sale, auction or disposal, as the case may be); (iv) Proceeds from closing out of open positions of the defaulting Broker <u>or Customer</u> and (v) any other amounts lying with the Exchange or in the Settlement Guarantee Fund, shall in each case be subject to a first and paramount lien and pledge (with a right of sale and set off) for all sums due to the Clearing House and/or the Exchange, as applicable, including but not necessarily limited to, the due, proper and punctual performance of any engagements, obligations and/or liabilities of a Broker or Customer arising out of or incidental to a Futures Contract or any other matters dealt with in these Regulations.</p>	<p>Lien requirements for customers included.</p>