

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

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 trade cancellation policy and procedure to suspend/shutdown trading in the event of disaster/crisis.

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.pmex.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@pmex.com.pk latest by **September 11, 2024**.

Best regards,



Tariq Sabih
Chief Regulatory Officer

Encl.: As stated above.

Annexure A

Proposed Amendments to PMEX Rule Book

Trade Cancellation Policy & Procedure to Shut Down Trading

Existing Regulations	Proposed Amendments	Rationale
CHAPTER VI: TRADING SYSTEM		
<p>6.1 Access to Trading: 6.1.4 The Exchange may provide the architecture and the infrastructure related thereto, to the extent possible, to facilitate the Brokers and their Customers to establish connectivity with the ETS or any other trading system of the Exchange. The Exchange shall have absolute right to specify the maximum number of ports to access the ETS that may be allotted to a Broker at the absolute discretion of the Exchange and the conditions for such allotment. The Exchange shall also have the absolute right to restrict the installation of ports in any place.</p> <p>The Exchange may suspend or shutdown trading in the event of any crises/disaster or ETS is inoperative or inaccessible pursuant to any reason as specified in Regulation 5.10 or absence of liquidity in the Futures Contract(s) or occurrence of any other situation affecting the market in the manner prescribed in the procedures determined by the Exchange with the prior approval of the Commission from time to time.</p>	<p>6.1 Access to Trading: 6.1.4 The Exchange may provide the architecture and the infrastructure related thereto, to the extent possible, to facilitate the Brokers and their Customers to establish connectivity with the ETS or any other trading system of the Exchange. The Exchange shall have absolute right to specify the maximum number of ports to access the ETS that may be allotted to a Broker at the absolute discretion of the Exchange and the conditions for such allotment. The Exchange shall also have the absolute right to restrict the installation of ports in any place.</p> <p>The Exchange may suspend or shutdown trading in the event of any crises/disaster or ETS is inoperative or inaccessible pursuant to any reason as specified in Regulation 5.10 or absence of liquidity in the Futures Contract(s) or occurrence of any other situation affecting the market in the manner prescribed in the following procedures determined by the Exchange with the prior approval of the Commission from time to time.</p> <p><u>(a) Crisis Events</u> <u>The following may lead to a crisis:</u></p> <ul style="list-style-type: none"> • <u>Loss of access to ETS;</u> • <u>Power failure;</u> • <u>Internet disruption and cyber attacks;</u> • <u>Delay in price feed from the vendor/source exchange;</u> • <u>Absence or shortage of liquidity or absence of market maker;</u> • <u>Any act of terrorism; and</u> • <u>Any other situation affecting the market and the same shall be recorded in writing.</u> <p><u>(b) Crisis Management Committee</u> <u>The crises management committee (CMC) of the Exchange shall assess the situation and recommend in writing to the Managing Director to declare a crisis situation. The CMC shall comprise of following officers of the Exchange:</u></p> <ul style="list-style-type: none"> • <u>Chief Risk Officer</u> • <u>Chief Operating Officer</u> • <u>Chief Business Officer</u> 	<p>To include procedure to suspend or shutdown trading in the event of any crisis.</p>

	<ul style="list-style-type: none"> • <u>Chief Financial Officer</u> <p><u>(c) Actions</u> <u>The Exchange may take any or all of the following actions in a crisis situation:</u></p> <ul style="list-style-type: none"> <u>(i) Reduce order size in any or all Futures Contracts;</u> <u>(ii) Reduce position limits on any or all Futures Contracts;</u> <u>(iii) Put any or all Futures Contracts in close-out mode;</u> <u>(iv) Suspend or shutdown trading in any or all Futures Contracts;</u> <u>(v) Close all open positions in any or all Futures Contracts at prevailing market price.</u> <p><u>(d) Market Notification</u> <u>The Exchange shall promptly issue an alert upon taking any of the above actions under intimation to the Board and the Commission.</u></p> <p><u>(e) Resume of Business</u> <u>The CMC shall recommend to the Managing Director to resume the business as usual after the crisis is over.</u></p>	
<p>6.9 Trades on the system: Trades generated on the system are irrevocable and 'locked in'. The Exchange may, with prior approval of the Commission, specify from time to time the manner in which trade cancellation can be effected.</p>	<p>6.9 Trades on the system: Trades generated on the system are irrevocable and 'locked in'. The Exchange may, with prior approval of the Commission, specify from time to time the manner in which trade cancellation can be effected in <u>order to provide level playing field to all of its Brokers and their Customers and to ensure the integrity of the market, hereby adopts the following procedure which empowers the Exchange in ordinary or extraordinary situations, to cancel trades either reported by Broker(s) or its Customers within thirty minutes of trade execution or any unusual trades as observed/identified by the Exchange.</u></p> <p><u>If an issue is reported after thirty minutes of trade execution, the Exchange has the authority, but not an obligation to review the trade. This procedure may be applied whenever any of the following conditions occur:</u></p> <ul style="list-style-type: none"> • <u>Any mal-functioning in the ETS due to any reason whatsoever.</u> • <u>Any problems in the price feed which may include price quote delay, bad ticks, non-availability of pricing from the source or any other such issues.</u> 	<p>Consequential amendments to include trade cancellation policy as agreed with the SECP.</p>

- Any act or activity on part of any person which may have prevented the Broker or its Customer to determine the fair market price in listed Futures Contracts.
- Any other act or omission which in the opinion of the Exchange is considered as un-business-like conduct and any ancillary or other event(s) which may prevent the Broker or its Customer to act fairly in the market.
- Other conditions as specified by the Exchange.

6.9.1 The prevalent price would be determined based on the price in reference markets. This price can be determined from various independent price sources such as price feed vendors, international exchanges or other reference markets where same products are traded. In case of Futures Contracts based on local commodities, the prevalent price would be determined in line with the settlement price methodology defined in the respective contract specifications.

6.9.2 Trades which occur within the NCR, as determined by the Exchange, will generally not be cancelled or adjusted. However, the Exchange has the right to cancel such trades when it is evident that the trades have been executed at Unfair Price. The Exchange may review a trade based on its analysis of market conditions or a request for review by a Broker or its Customer(s). The Exchange shall issue an alert regarding trade under review.

6.9.3 In applying the NCR, the Exchange shall determine the fair value market price for that contract at the time the trade occurred. In such case, the Exchange may consider a time duration as deemed appropriate for determination of Fair Price. The Fair Price would be determined based on prices received during that duration.

6.9.4 After due assessment, the Exchange would cancel or adjust Unfair Trades through reversal of financial impact on questionable trades.

6.9.5 The financial impact may be determined by replacement of Unfair Price with a Fair Price.

6.9.6 The financial impact may also be determined by the gain/loss computed in mark-to-market session on Unfair Trades.

6.9.7 The Exchange may cancel all such transactions through which:

- positions opened and closed at Unfair Price;
- positions opened at Fair Price and closed at Unfair Price;
- positions opened at Unfair Price and closed at Fair Price;

- position opened at Unfair Price and left opened for settlement.

6.9.8 The Exchange may decide not to cancel or adjust transactions based on material impact. The materiality factor may be decided if profit/loss impact is not greater than 1% of total profit/loss.

6.9.9 For all cancellations, all accompanying charges such as Brokers' commission, fees and taxes will be reversed as well.

6.9.10 If a cancellation is affected, the Exchange will not be liable for any trading decisions that are based on such cancelled trades. Further, the Exchange will not be responsible for any cascading effects of the cancellation such as a cancellation resulting in an open position or a change in position effected as a result of such cancelled trades.

6.9.11 The Exchange may revise the NCR depending on the situation through notification.

6.9.12 NCR for Futures Contracts to be listed in future will be decided at the time of listing and announced through notification.

6.9.13 Whenever the Exchange decides to cancel a trade it shall issue an alert regarding cancellation of trade along with justification.

In this regulation, unless inconsistent with or repugnant to the subject or context hereof, the following words and expressions shall have the meanings as assigned hereunder:

- (a) "Non-Cancellation Range (NCR)" means the price range in which generally no transaction can be cancelled or adjusted.
- (b) "Unfair Price" means a price that does not exist in reference market at the time of execution of trade in the Exchange or in a time range as deemed appropriate by the Exchange.
- (c) "Fair Price" means a price that exist in international market at the time of execution of trade in the Exchange or in a time range as deemed appropriate by the Exchange.

"Unfair Trades" means a buy or sell transaction through which a position is either opened and/or closed at Unfair Price within or beyond defined NCR.