



KARACHI AUTOMATED TRADING SYSTEM (KATS)

REGULATIONS

OF

**THE KARACHI STOCK EXCHANGE
(GUARANTEE) LIMITED**

(As amended on April 01, 2011 and sent for Gazette Notification)

KARACHI AUTOMATED TRADING SYSTEM (KATS) REGULATIONS

In exercise of the powers conferred on it by sub-section (i) of Section 34 of the Securities & Exchange Ordinance, 1969 (XVII of 1969), the Karachi Stock Exchange (Guarantee) Limited with the previous approval of the Federal Government have made the following Regulations called the "Karachi Automated Trading System (KATS) Regulations" which shall come into force at once.

PREAMBLE:

WHEREAS the Karachi Stock Exchange (Guarantee) Limited has decided to introduce automated trading through Karachi Automated Trading System (KATS);

AND WHEREAS it is necessary and expedient to frame regulations for operation, regulation and control of the KATS;

NOW, THEREFORE, the Board of Directors of The Karachi Stock Exchange (Guarantee) Limited, with the prior approval of the Federal Government hereby make these regulations which shall come into force with effect from the date of publication in the Official Gazette :

1. **SHORT TITLE AND EXTENT:**

- (a) These regulations may be called "Karachi Automated Trading System Regulations (KATS)" of the Karachi Stock Exchange (Guarantee) Limited.
- (b) These Regulations shall apply to the Members in respect of trading conducted through Karachi Automated Trading System (KATS).

2. **DEFINITIONS:**

- (a) "Board" means the Board of Directors of the Karachi Stock Exchange (Guarantee) Limited as defined in the Articles of Association of the Exchange.
- (b) "Disaster" means a situation in which the primary site of the Automated Trading System of the Exchange becomes inoperative or in-accessible for any reason, as may be declared by the Exchange or intimated by the Member to the Exchange.
- (c) "Exchange" means The Karachi Stock Exchange (Guarantee) Limited.
- (d) "Hours of Operation" means the time periods on each day that the Exchange is open for trading during which KATS is available to the Members for automated trading in the Exchange.
- (e) "KATS or Karachi Automated Trading System" means the securities automated trading system introduced by the Karachi Stock Exchange (Guarantee) Limited.
- (f) "Members" means a member of the Karachi Stock Exchange (Guarantee) Limited as defined in the Articles of Association of the Exchange.
- (g) "Order" means a valid sale or purchase order placed by a Member through KATS.
- (h) "Negotiated Deal" means a deal which has been negotiated between two parties outside the regular market.
- (i) "Special Terms Orders" means an order which has special conditions for trading.
- (j) "Tick Size" means the minimum price increment/decline at which trades can be made on the KATS.
- (k) "Unique Identification Number (UIN)" means:
 - (i) in case of individual Pakistani client of a Member – Computerized National Identity Card Number (CNIC);
 - (ii) in case of individual foreigner / overseas Pakistani citizens (without CNIC) client of a Member – Passport number;
 - (iii) in case of legal entity (whether local or foreign, natural or legal) client of a Member – its Registration number;

- (iv) in case of a individual broker – broker registration number issued by SECP, for proprietary trades;
- (v) in case of in tra-exchange trading by individual broker – broker registration number with suffix 1 for trading on behalf of clients;
- (vi) in case of corporate broker – company registration, for proprietary trades;
- (vii) in case of intra-exchange trading by corporate broker – company registration number with suffix 1 for trading on behalf of clients;
- (viii) for mutual funds, where registration number is not available – SECP will issue UIN based on the Mutual Fund Asset Management Company's (AMC) registration number and a suffix of one onwards for the number of funds that the AMC has floated. For example, if AMC registration is 5645675 and the AMC has floated 5 funds the number given will be: 5645675/1 for the first fund, 5645675/2 for the second fund and so on;
- (ix) in case of foreign institutional investor – UIN will be of the international broker dealer.

Explanation:

Provided that the term "Client" for the purpose of UIN shall mean the clients of a Member of the Exchange and the Member himself if he trades on its own account.

3. **HOURS OF OPERATION:**

The Hours of Operation for automated trading through KATS shall be notified from time to time by the Exchange with the approval of the Board.

4. **ELIGIBILITY:**

The Exchange shall notify the companies that shall be eligible for trading on the KATS.

5. **AVAILABILITY:**

(a) The Exchange will make available KATS to the Members by providing trading workstation connections. The number of trading workstations for each Member shall be decided by the Board.

(b) Every Member registered as Broker with the Securities & Exchange Commission of Pakistan under the Brokers' and Agents Registration Rules, 2001 shall mandatorily get and maintain one Disaster Recovery (DR) Terminal at a remote place outside the Exchange premises, which shall be connected to DR Site of the Exchange.

However, such DR Terminal:

(i) If installed at the place other than the registered Office/Branch Office of the Member shall be 'view only' terminal during normal operations of the Exchange and will be activated only for trading purposes during the period of Disaster declared by the Exchange or intimated by the Member to the Exchange. While activating DR Terminal for trading purposes, Exchange shall ensure that normal trading workstations are not connected with KATS. As soon as the Exchange or the Member declares removal of Disaster status, the DR Terminal will be switched-back to 'view only' from the 'trading' terminal;

(ii) If installed at the registered Office/Branch Office of the Member, it will function as a normal trading workstation connected with the KATS during normal operations of the Exchange and will be switched over to DR Site of the Exchange during the period of Disaster.

(c) The Exchange may shutdown automated trading in the event that KATS is inoperative or inaccessible to more than such number of trading workstations as may be prescribed by the Board.

- (d) If the Board of Directors is satisfied that the trading through KATS cannot be resumed within reasonable time then the Board may allow the trading in the Exchange on the conventional outcry system for such time as it deems fit.
6. **TICK SIZE:**
The Tick Size will be 1 (one) paisa for all orders placed on KATS, unless otherwise specified in the relevant Regulations governing a specific market.
7. **QUEUE PRIORITY:**
(a) Orders that cannot be immediately executed shall be queued for future execution in a specific order of priority mainly based in the following order:-
- (i) Price
 - (ii) Time of entry
- Any other factors affecting the order of queue priority shall be determined and notified by the Exchange with the prior approval of the Board.
- (b) In case an order is executed partly, the remaining part of such Order shall not lose its priority.
- (c) The Queue Priority shall be determined by KATS through an interactive process and the order of priority displayed by KATS shall be conclusive except in the case of manifest error which shall be determined by the Board.
8. **INSERTION OF CLIENT'S CODE IN EVERY BID AND OFFER THROUGH KATS**
(a) Every Member while inserting a bid and offer through KATS for each of his clients, shall insert unique Client Codes for those clients which are maintained by them in their back office system and registered with NCCPL. These Client Codes are linked / mapped to UIN through the interface of National Clearing Company of Pakistan Limited. These Client Codes should not be re-assigned to another client of the member even after the closure of the account.
- (b) Every Member shall ensure that the shares purchased or sold against a Client Code are posted to the respective Sub-Account / Investor Account of that particular client with CDC upon settlement of trades through the Exchange.
9. **DISCLOSED AND UNDISCLOSED VOLUME:**
(a) An Order may specify the total share volume and may specify a lesser amount that is disclosed to the market. The disclosed volume shall not exceed the total volume.
- (b) Total and disclosed volume of an order must be a marketable lot.
- (c) An increase in Disclosed Volume will cause a new time stamps and change in Queue Priority but a decrease in Disclosed Volume will not cause a new time stamp or change in queue priority.
10. **TIME IN FORCE RESTRICTION:**
(a) All orders shall be valid only for the relevant trading day unless a time restriction is specified otherwise in which case such order shall be automatically removed on the close of the day or after expiry of the specified time, as the case may be, if it remains unfilled till then.
- (b) Terms allowed for Time in Force Restriction include;
- (i) Day
 - (ii) Good Till Cancelled (GTC) (i.e. Open)
 - (iii) Good to Date (Month-Day-Year) (GTD)
 - (iv) Good for Week (GTW)
 - (v) Good for Month (GTM)
 - (vi) Fill or Kill (FOK)

11. **CROSS TRADE:**
Cross Trades are trades entered between two clients of the same member. Such trades shall be allowed only if the orders are placed and executed according to regular order matching principles prescribed for all KATS orders.
12. **CANCEL ORDER:**
A Cancel Order can only cancel an outstanding order and cannot cancel a trade completed with the specified Order. It will not act as a Cancel Trade Request if that Order has already traded.
13. **CHANGE FORMER ORDER (CFO):**
(a) The terms of an Order posted to the KATS cannot be changed except by the Change Former Order (CFO) option.

(b) The options available for CFO shall be notified by the Exchange from time to time.
14. **SETTLEMENT:**
The Settlement of the trading through KATS shall take place as per the existing rules and regulations of the Exchange as amended or substituted from time to time.
15. **NEGOTIATED DEAL:**
(a) Negotiated Deal shall not participate in the open market but trade throughout the hours of operation of the Exchange and thereafter until a time set by the Exchange.

(b) Price protection procedures shall not apply to Negotiated Deals.

(c) Negotiated Deal shall have no minimum volume requirements.

(d) A Negotiated Deal will trade in its entirety as if it were an All or None (AON) transactional partial fills and Undisclosed Volumes shall not be allowed.

(e) Negotiated Deals will be between two separate houses otherwise the same shall be treated as Cross Trade.

(f) Negotiated Deal can be an Odd Lot.

(g) All unconfirmed Negotiated Deals will be cancelled when the KATS engine is dumped.
16. **SPECIAL TERMS ORDERS:**
(a) A Special Terms Order shall not be shown as part of the normal round lot order book but will be maintained in a Special Terms Order book that can be viewed separately from the round lot book.

(b) The options available for Special Terms Order shall be notified by the Exchange from time to time with the prior approval of the Board.
17. **OPENING:**
(a) Order entered during the pre-opening period are queued and not executed at the time of entry. As each Order is queued (whether or not the company is expected to open) the price at which it is expected to open will be calculated through KATS.

(b) Where a market imbalance exists, an opening price will be chosen by KATS through an interactive process.

(c) Once the opening price is chosen, all trading shall take place at that single, opening price and no price level transition will be allowed.

(d) ***Opening Price Calculation:*** The opening price shall be chosen as the price that will cause the greatest number of shares to trade at the open. If the same number of shares might be able to trade at differed price levels, the price level chosen will be the one which leaves the least number of shares remaining on one side or the other at the opening price level after the opening trading. If more than one price could have the same remaining balance, the price level is chosen that results in the least net change

from the last trading day's closing price. If all this fails to pick a unique price level, the highest trade level of the remaining alternatives will be chosen as the opening price.

- (e) **Orders not completely filled:** All orders entered during the pre-opening will have a time priority based on the actual time of entry. For orders not completely filled at the open, this time priority will be maintained thereafter during the trading day and for subsequent trading days. Orders carried over from previous trading days have priority over orders entered during the pre-opening for the purpose of opening. Limit orders entered during the pre-opening period are subject to the same procedures that govern their entry during the trading day.
- (f) **Frozen Trades:** The Exchange can define parameters that can cause any trade that violates them to be "frozen" so that it can be examined before they decide to allow it or prevent it. This is based on such things as a drastic change in the trade price or an extremely high volume. The monitoring that takes place during the trading day is also in effect during the open. Any trade that violates freeze parameter at the open will result in a freeze. All the trading done for the open of the current company is placed on hold until the Exchange decides how to proceed. Only the specific company is frozen.

18. **HALTS:**

- (a) Trading in each company can be halted on demand by the Exchange.
- (b) A halt can be instituted for a company at any time during the trading day. Once halted, no further trading in the company will take place unless the halt is removed.
- (c) All orders may be cancelled globally by the Exchange at discretion of the Exchange.
- (d) Cancellation messages shall be forwarded to the traders.
- (e) The Exchange may, in the interest of the market, put a halt on trading by any member under the KATS.
- (f) Order entry or reinstatement may take place during the halt period.

19. **GENERAL:**

- (a) A member shall be responsible for all orders entered from his trading workstation(s).
- (b) The Board may issue any guidelines and clarifications from time to time for removal of any difficulties in the execution or operation of these regulations.
- (c) The terms and phrases used herein without a specific definition shall have the meaning in accordance with current trade practice.
- (d) Any determination made by KATS through an interactive process shall be conclusive.
- (e) Any dispute arising out of or in connection with the trade executed under these regulations shall, within two trading days of arising of such dispute, in the first place be referred to a committee constituted by the Board. Any party dissatisfied with the decision of the aforesaid committee may, within ten days of such decision, appeal to the Board.
- (f) Notwithstanding anything contained in these regulations the Exchange may in its sole discretion cancel any order (before or after settlement) with the prior approval of the Board.

20. **PENALTY**

The Exchange, upon violation or non-compliance of any provision of these Regulations by a Member of the Exchange, shall impose penalties at its sole discretion, which may be financial i.e. maximum penalty of Rs. 500,000 and/or which may include suspension of trading upto a period of 3 months and on second or third violation suspension of trading may be extended to 1-2 years".