

CLEARING HOUSE PROCEDURE MANUAL

CHAPTER NO. I

1. INTRODUCTION

1.1 In view of the difficulties experienced by the members in settling their READY transactions, the Board of Directors of the Exchange decided to establish a Clearing House at the Exchange. The basic concept was and is to settle the transactions through the Exchange instead of member to member. When the transactions were settled between member to member, it occasionally gave rise to disputes and created a lot of work in the office of the members of the Exchanges. Further, the members had to spend a lot of time in keeping track of the transactions.

CRITERIA FOR THE MEMBERSHIP

1.2 Any member of the Exchange may become the member of the Clearing House by paying an initial deposit of Rs.50,000/- to the Clearing House. The deposit is refundable deposit and may be withdrawn by giving a proper notice in writing indicating the intention to resign from the Clearing House. The deposit will be refunded immediately after having deducted charges, etc. due to the Clearing House.

1.3 A member of the Clearing House has to abide by the procedure indicated in this manual and instructions issued by the office of the Exchange for the smooth running of the Clearing House. These procedures are in addition to the General Rules & Regulations of the Exchange.

1.4 All the transactions done in an "Accounting Period" except "SPOT" are cleared through the Clearing House. The settlement days are specified in advance and are notified by the Clearing House. At the end of the Accounting Period, the Clearing House works out the net position of every member in every scrip in which the member has dealt. It will then calculate how most economically the deliveries and receipts of shares shall be settled. The net balances are adjusted either by giving a cheque to the Clearing house or receiving a cheque from the Clearing House. The instruction with regard to the cash and shares are given in advance by the Clearing House.

The transactions are reported to the Clearing House on a "Members Daily Statement". A member furnishes on the "Members Daily Statement" complete details of transactions indicating the name of the scrip, quantity, rate, amount and the code of the member with whom the business had been done.

OBJECTIVES

1.5 The Clearing House system will check the "Members Daily Statement" and in detail each transaction of the member. The quantity, rate and amount of each scrip is compared and it is ascertained that all the transactions have been reported. In case where a member has reported his part of the transaction and the broker with whom he has dealt has failed to report, the Clearing House system checks such errors and all efforts are made to settle such a transaction by bringing both the members together. In case of a dispute the transaction is not included in the "Members Daily Statement".

1.6 The concept of the Clearing House is to ensure mum security to the members and in turn to the investors. The Accounting Period is established in advance and the settlements are done on specified days.

1.7 The service of the Clearing House is available to all the members of the Exchange.

1.8 Cash settlements in respect of all the deliveries to and receipts from the Clearing House will be settled through the Clearing House. Also all the scrips will be settled in the Clearing House on the settlement days.

1.9 The Clearing House will not handle the following:

- (a) Government and other local body securities.
- (b) Transactions in odd lots.
- (c) Spot transactions settled within 24 hours of making the contract.
- (d) Special Bargains involving a block certificate.

1.10 The "Accounting Period" and the "Settlement Day" for the transactions through the Clearing House are fixed in advance and may be changed by the office of the Exchange for the smooth running of the Clearing House.

There are two Accounting Periods and two Settlement Days in a week and these are as follows:

(a) Saturday, Sunday and
Monday

Cleared on following
Thursday

(b) Tuesday, Wednesday and
Thursday.

Cleared on following
Monday.

CHAPTER NO. II

DEFINITIONS

2.1 **Member Code**

The members code is the same as the card number of the member. A list is available in the office of the Exchange.

2.2 **Contract Ticket**

It is a ticket which is filled in by the member or his agent at the time of closing the deal and prepared in triplicate (the distribution is discussed in Chapter No.III).

2.3 **Contract Price**

The price at which a bargain is struck on the Trading Floor of the Exchange.

2.4 **Spot Transaction**

A bargain which is due for settlement within 24 hours. The time of making the bargain must be written on the contract ticket otherwise closing time of the Trading Hall (next working day of the transaction) will be the time for settlement.

2.5 **Odd Lot**

Any quantity of shares or stock which is not in accordance with the specified lot of the Exchange.

2.6.1 **Accounting Period**

The stipulated period in which transactions will be conducted on the floor of the Exchange to be settled on the settlement day.

2.7 **Settlement Day**

The day specified by the Clearing House to settle the transactions in cash and shares at the Clearing House.

2.8 **Delivery Order**

The instructions sheet of the Clearing House to deliver the shares and stocks through the Clearing House on the Settlement Day.

2.9 **Receiving Order**

The instructions to receive the shares and stock through the Clearing House on the Settlement Day.

2.10 **Payment Order**

The instructions to the members which mention the amount payable or receivable through the Clearing House on the settlement day.

CHAPTER NO. III

CLEARING HOUSE PROCEDURES

CONTRACT TICKETS (FORM "B")

3.1 All the bargains completed on the floor of the Exchange will be noted on the Contract Tickets. There are two types of Contract Tickets and are prepared in triplicate:

- (a) Sale - Contract Ticket
- (b) Purchase - Contract Ticket

The copies of these are distributed as follows:

1st Copy: - Exchanged between the Seller and Buyer confirming the Contract

2nd Copy: - Sent to the Clearing House

3rd Copy: - Retained in the Contract Ticket Books of the members

It is important to note that the Contract Tickets are exchanged on the floor of the Exchange in order to avoid any dispute with regard to the scrip, quantity and rate. Also the copies of the Contract Tickets must be handed over to the clerk of the Exchange immediately on confirming the deal.

It is the duty of both Buyer and Seller to check the following items on the contract tickets:

- (a) Date of the Contract
- (b) Name of the Scrip
- (c) Quantity
- (d) Rate
- (e) Name of the member with whom Contract is executed
- (f) Signature of the member or the agent.

MEMBER'S DAILY STATEMENT (FORM "A")

3.2 The office of the member will prepare a Member's Daily Statement (Form "A") from the copy of the Contract Ticket which shall contain all the information as laid down in 3.10 and also the code of the member with whom the business has been done. All these statements must be submitted to the Clearing House before 9:30 a.m. the following day. Where the statements are not received before 9:30 a.m. the member makes himself liable to a penalty which may be defined by the Board of Directors from time to time. Member's Daily Statement must be signed by an authorized representative of the member showing the member's name, code number and the date of transaction.

3.3 All these statements received by the Clearing House are to be checked by the Clearing House and all transactions are to be matched. Wherever there are discrepancies, these are to be ascertained and corrected. In case it is not possible then the transaction will be cancelled by the Clearing House and is settled independent of the Clearing House.

The staff at the Clearing House on having checked the "Members Daily Statement" prepares the "Sorting Sheet" (Form "C") and the quantities of the scrips are "netted". Also a separate reconciliation is prepared to balance the cash for each scrip. On having performed these operations, the Payment/Receipt Orders (Form "D") and the Delivery Orders (Form "E") are prepared and final instructions to the members issued.

3.4 The Clearing House generally notices the following types of errors in the statements. Members are requested to keep a constant watch on the "Members Daily Statement" and keep on improving the standard of reporting:

- (a) The extension of prices for the scrips, i.e. quantity x rate = Cost of Scrip is wrongly extended. The staff of the member should check it twice before submitting it to the Clearing House.

(b) The quantity and the rates do not agree with the other member's statement. In order to correct this, the statement should be checked with copy of the Contract Tickets of the other members.

DELIVERY RECEIVING INSTRUCTIONS

3.5 The Clearing House prepared the Delivery Order in five copies and these are distributed as follows:

1st copy) Sent to the member) On filling the distinctive numbers

2nd copy) effecting the) of shares, 1st copy handed over to

3rd copy) deliveries) the Receiving Member, second copy is retained by Delivering Member and third copy handed over to the Clearing House.

4th copy) Sent to the member who is supposed to receive the Deliveries as an advance intimation.

5th copy) Retained at the Clearing House.

CASH SETTLEMENT PROCEDURE

3.6 The Payment/Receipt Orders are prepared in duplicate and the copies are distributed as follows:

1st copy - sent to the member concerned

2nd copy - retained by the Clearing House for reference and record.

The member can evaluate his commitment or receiving of cash from the Payment/Receipt Orders. All the pay orders should be crossed and sent to the Clearing House before 11:30 a.m. The Clearing House hands over the cheque on clearing the deliveries at the Clearing House.

CLEARING INSTRUCTIONS

3.7 All the deliveries are made in the Clearing House and similarly the cash is settled through the Clearing House. The days of clearing are specified in advance and are strictly followed.

The deliveries have to be delivered or received by an authorized representative of the member of the Exchange bearing the photo of the authorized representative. An entry pass is issued to the authorized agents. The timings of the deliveries etc. are specified in advance by the Clearing House. When a member has to pay cash, he must hand over the pay order to the supervision of the Clearing House. The payment to the member is made by cheque soon after all the deliveries have been received or tendered where a member has failed to deliver full or part of the deliveries, the instructions are passed on to the Quotation Department to Buy or Sell in the open market depending on the nature of the transaction.

BUYING-IN AND SELLING-OUT IN OPEN MARKET

3.8 Buying-in and selling-out must be effected by the Clearing House in the open market during the official business hours. Only members may make a bid or offer.

Securities may be bought-in or sold-out on failure to comply with any Rule of the Exchange applicable to delivery or payment or on any failure to carry out any special conditions subject to which bargain for ready delivery was made.

A verbal notice from the supervisor of the Clearing House will be sufficient notice to the defaulting member. The Buying-in or Selling-out will be done immediately on being notified by the member or his agent to the Clearing House (or the following day).

STAMP AND TRANSFER FEES

3.9 Stamp duties payable to the Government and fees charged by company registering transfers of shares, known as "transfer fees", shall be paid by the buyer.

DOCUMENTS AND REGISTRATION

3.10 Regularity and Genuineness of Documents and Registration

A member who has received payment against delivery of necessary documents either on his own account or on behalf of his constituent shall be personally responsible to the member to whom the same are delivered for their title, regularity and genuineness. Where a company returns or retains for police or court inquiry, the shares with or without objections, the Seller will replace the shares within 24 hours of receipt of notice from the office of Exchange.

SALE NOT CONDITIONAL ON TRANSFER

3.11 A sale of shares is not conditional on the company transferring the shares to the name of the buyer. The only obligation on the seller on the sale of shares is to tender delivery of the necessary certificates with a properly executed transfer. Such seller shall not be deemed to guarantee that the Company will transfer the shares to the name of the buyer and shall incur no liability by reason of the refusal of the Company in exercise of the power vested in it under the Articles of Association to transfer such shares.

A transfer signed on behalf of the vendor by a person purporting to be his constituted attorney shall not be considered, a properly executed transfer if the power of attorney in question is conditional and not absolute.

FRESH TRANSFER ON REFUSAL OF COMPANY

3.12 When a company objects to a transferor and refuses to register a transfer on the ground of such objection, the transferor shall on request and on the original transfer being presented to him for cancellation of his signature, sign a fresh transfer.

PAYMENT OF CALLS BY SELLING MEMBER

3.13 A selling member may previous to delivery pay any call made on securities although not due, and any claim the sum paid from the buying member.

LIABILITY OF BROKERS ON CALL

3.14 No member shall, subject to the provisions of rule 3.13 in respect of any bargain made by such member on behalf of a principal and as broker only, be deemed personally liable or responsible in any way to any party for the payment of calls made by a company subsequent to delivery and payment.

REFUSAL BY COMPANY TO TRANSFER ON ACCOUNT OF LIEN

3.15 The provisions of rules 3.11 shall not apply where the company refuses to transfer shares on the ground that the shares are subject to lien on account of any debt or liability of the transferor and if the transfer is refused on that ground the selling member shall, within seven days of his being called upon to do so by the buying member, either release the shares from such lien or give other shares free of lien and if the selling member fails to effect such release or to give such shares the buying member shall be entitled to rescind the sale and recover the price paid and damages for any loss sustained. In the case of every such share, the buying member shall be entitled to the benefit of this Rule provided he has applied to the Company to have the share transferred within twenty one days of the date of the delivery of such shares.

COMPANY IN LIQUIDATION

3.16 If a company be wound up at the date of the contract or between the date of the contract and the due date of payment, the seller is entitled to recover from the purchaser the purchase money and any contribution or call required to be paid even though the Liquidator refuses to consent to the transfer. If the buyer cannot get the shares transferred to his name, the seller shall, if required to do so by the buyer and at the buyer's cost assign his title to and his rights in the shares sold to the buyer and shall execute a power of attorney in favour of buyer to enable him to recover any dividends becoming payable after the date of the contract in respect of the shares bought.

DISPUTE AFTER REGISTRATION

3.17 When the official certificate of registration of securities bought has been issued by the Company concerned, neither the selling member nor the buying member shall be personally responsible to the buyer for any subsequent dispute to the title unless bad faith or fraud is alleged against such member or unless such member has dealt on his own account. Nothing in this Rule shall affect the liability of the transferor or actual seller who may have received payment against delivery of securities, in any action at law or in any other proceedings. The provisions of this rule shall apply only to the rights and obligations of members inter se.

BANK DELIVERY

3.18 (a) Bank delivery shall mean either taking or giving delivery through a recognized scheduled bank.

(b) Either the seller or the buyer or both can give or take delivery through their bank after making the necessary arrangements with the bank concerned.

(c) The member, who is not taking or giving delivery through his bank shall take or give delivery to the bank of the member who is taking or giving delivery through his bank.

(d) If both members are taking and giving the delivery through their bankers, then the sellers' bank shall deliver the shares and / or securities to the buyers' bank.

CHAPTER NO. IV

GENERAL INFORMATION

ODD LOTS

4.1 An odd lot is any quantity which is not divisible by stipulated "market lot" of each listed security. Odd lots bargains are not to be settled through the Clearing House. Bargains done in Odd Lots are to be settled on mutually agreed prices on settlement days. The Islamabad Stock Exchange (Guarantee) Limited will not entertain any dispute arising in these transactions.

SPOT TRANSACTION

4.2 These are normally settled on the same day or within 24 hours. If the following day of the deal is a working day, the closing hour of the trading hall be the latest time by which the settlement has to be effected. In case of non-delivery or non-receipt, the office of the Exchange be informed immediately. The transaction will be covered or sold out immediately by giving 24 hours notice to the defaulting member.

CLEARING HOUSE CHARGES

4.3 These are payable by both purchasing and selling broking firm in accordance with the scale laid down. The charges are calculated on the contract value of the deal, and are payable on all normal dealings. Clearing House Charges will be calculated in respect of the dealings done by each broking firm during any month and will be payable in accordance with the Clearing House instructions, within one week of the receipt of notice by the member.

PENALTIES

4.4 These may be levied by the Secretary in respect of:

- i) Late submission of "Members Daily Statement".
- ii) Late deliveries of scrips to the member in the Clearing House.
- iii) Failure to complete deliveries/make payment in accordance with settlement instruction.
- iv) Any other infringement laid down in the Rules.

LIABILITY OF BROKING FIRMS

4.5 A broking firm's liability in respect of a particular settlement period will be limited to its net position at the close of trading in the previous account.

PROTECTION OF RECEIVING BROKER

4.6 i) Any broking firm that is a receiver in any settlement shall have the right to demand of the deliverer that he completes delivery in that settlement period.

ii) In case the deliverer fails to deliver by the close of settlement hours at the Clearing House the receiver may request the supervisor of Clearing House to buy-in against the deliverer. The deliverer will be responsible for any loss that may occur.

FAULTY SCRIP

4.7 Any recourse by the receiver for faulty scrip will be against the deliverer, not the Clearing House. Faulty scrip must be returned (or a letter from the company retaining the scrips with objection) and replaced under the advice of the Clearing House. A notice of 24 hours will be given Clearing House to replace the scrips failing which the scrips will be covered in the open market.

CHECKING OF STATEMENTS ETC.

4.8 Broking firms are responsible for checking the accuracy of the data on all documents prepared by the Clearing House and presented to them.

CODING SYSTEM

4.9 Each broking firm has a numeric code which will coincide with their membership registration. This numeric code will be used on all documents issued by the Clearing House for use in the offices of broking firms.

DEFAULT OF DEATH OF MEMBER

4.10 In case of default/death of a member, t of assets etc. will be according to the procedure laid down in General Rules & Regulation of the Exchange or according to the directions of the Board of Directors of the Exchange.

LIST OF PENALTIES

4.11 The list of penalties as approved by the Board of Directors is as follows:

(a) The Pay Order must be handed over latest by 11.00 a.m. on the days of deliveries without exception.

(b) A grace period of 30 minutes will be permitted to members so that the payment is received (free of any incidence) latest by 11.30 a.m.

(c) A late fee of Rs.10/- will be payable by the member making payment later than 11.30 a.m. but before 22.45 a.m.

(d) A late fee of Rs.25/- will be payable by the members making payment later than 11.45. a.m. but before 12 noon.

(e) Payments will not be received from the members after 12 noon and consequently the shares receivable by such members will be received by the Clearing House and the shares shall be sold out in the open market at the risk and cost of the member concerned.

(f) In case of non-receipt of necessary payment to the Clearing House by 12 noon the names of such members will be placed on the notice board in the trading house.

NOTICE OF DIVIDEND/BONUS/RIGHT

4.12 The Clearing House follows a standard procedure about the above and all the transactions are quoted "SPOT" by the Quotation Department - ten days or six clear days before the announced closure of book by the company.