



**KSE INVESTORS'
PROTECTION FUND
REGULATIONS**

[As amended on June 24, 2013 and sent for Gazette Notification]

KSE INVESTORS PROTECTION FUND REGULATIONS

PREAMBLE

WHEREAS the Management of Karachi Stock Exchange considers that the investors' confidence in the fair dealings at the Exchange is the key to rapid development of the market;

AND WHEREAS to ensure effective risk management in secondary market trading and to protect investors' interest in the case of a default/expulsion/cancellation or forfeiture of TRE Certificate of a Member of the Exchange there is need to have necessary regulations;

NOW, THEREFORE, the Karachi Stock Exchange Limited in exercise of the powers conferred by sub-section (1) of section 34 of the Securities & Exchange Ordinance, 1969 makes, with the prior approval of the Federal Government, the following regulations, namely:

1. SHORT TITLE AND COMMENCEMENT

- i. These Regulations may be called "The KSE Investors Protection Fund Regulations."
- ii. These regulations shall take effect upon their publication in the official Gazette of Pakistan.

2. DEFINITIONS

In these regulations, unless the subject or context otherwise requires:

- (a) "Board" means the Board of Directors of the Exchange.
- (b) "Commission" means the Securities and Exchange Commission of Pakistan.
- (c) "Exchange" means the Karachi Stock Exchange Limited.
- (d) "Fund" means the KSE Investors Protection Fund.
- (e) "Investor" means a person, not being Member, his agent or representative, who has purchased or sold any of the securities listed at the Exchange.
- (f) "Member" means a Member of the Exchange prior to demutualization and includes a TRE Certificate Holder.
- (g) "TRE Certificate" means a Trading Rights Entitlement (TRE) certificate issued by the Exchange evidencing right of a TRE Certificate Holder to apply for registration as a Broker in accordance with the Brokers and Agents Registration Rules, 2001 as amended from time to time;
- (h) "TRE Certificate Holder" means a person who is issued a TRE Certificate by the Exchange under section 5 of the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012, or purchases or acquires such TRE Certificate under section 16 of the said Act or is issued a fresh TRE Certificate in accordance with the provisions of the said Act.

3. ESTABLISHMENT, SOURCE AND UTILIZATION OF THE FUND

The Fund shall be established and managed by the Board in the following manner:

- (a) There shall be an initial contribution of rupees twenty million by the Exchange out of the Clearing House Protection Fund.

- (b) Allocation of a percentage of Trading Fee (Laga) as may be determined by the Board, from time to time paid by the Members of the Exchange.
- (c) The Fund shall be made available in the situation of default as well as in case of expulsion, cancellation or forfeiture of a TRE Certificate of a Member, due to failure or refusal to abide by or carry out the award of arbitrator(s) or for non-settlement of investors' claims as directed by the Board.

4. ELIGIBILITY OF CLAIMS

All claims of investors arising out of transactions entered into as per Regulations of the Exchange or the National Clearing Company of Pakistan Limited (NCCPL) and approved by the Board/Committee constituted by the Board shall be eligible to be considered under these Regulations.

5. PROCEDURE FOR SETTLEMENT OF CLAIMS

(i) In the event of default/expulsion/cancellation or forfeiture of TRE Certificate of a Member, if the investors' claims admitted by the Exchange against such a Member are more than the amount available out of sale proceeds of assets of such Member for satisfying such claims, in accordance with the General Regulations or Regulations Governing Default Management of the Exchange for the time being in force, all the claims will be paid on prorata basis. The claims still remaining unsatisfied after pro-rata sharing shall then be paid from the Fund by utilizing up to aggregate amount of Rs. 25 million, in the following order of priority, whereby the per claimant distribution shall, in any case, not exceed the amount of claim:

(a) Initial Disbursement of up to a maximum of Rs. 100,000/- equally per claimant among all claimants by utilizing 50% of maximum allowable contribution i.e. Rs. 12.5 million. Such disbursement shall either be made to satisfy all claims or, if insufficient to settle all claims, be disbursed equally among all the claimants.

(b) Remaining amount to be disbursed by utilizing balance 50% of maximum allowable contribution i.e. Rs. 12.5 million plus any unutilized portion of Fund as stated at (a) above. In case, such amount of Fund is insufficient to satisfy all such claims in full, then pro-rata distribution will be made.

(ii) The admitted claims of investors which remained unsatisfied or partially satisfied after pro-rata sharing against a Member declared defaulter/expelled or whose TRE Certificate was cancelled/ forfeited, on or after 1st August 2008 uptill the date specified by the Exchange with prior approval of the Commission, shall continue to be paid from the Fund to the extent of maximum amount of Rs. 75 million in the manner and order of priority then prevailing i.e. initial disbursement of Rs. 500,000 equally among all claimants by utilizing upto 50% of permissible contribution i.e. Rs.37.5 million and remaining claim amount by utilizing balance 50% i.e. Rs.37.5 million plus any amount remaining unutilized out of initial disbursement, after deducting the amount already contributed by the Fund, if any, to satisfy each investor's claim. In case, such amount of Fund is insufficient to satisfy all such claims in full, then pro-rata distribution will be made.

(iii) Notwithstanding anything contained hereinabove, the Board may in the event of default/expulsion/ cancellation or forfeiture of a TRE Certificate of a Member where proceeds of assets of such Member as prescribed in the General Regulations or Regulations Governing Default Management of the

Exchange, are not immediately available, for any reason whatsoever, in the interest of the investors, allow settlement of investors' admitted claims first from the Fund to the extent of the maximum permitted amount under sub-clauses (i) or (ii) above. However, in cases of expulsion of a Member or cancellation/forfeiture of TRE Certificate of a Member, where the proceeds of such assets become available subsequently, then after satisfaction in full of all claims as provided for in sub-clause 6(a) of the General Regulations of the Exchange, any amount remaining unutilized out of the sale proceeds of such assets, shall be deposited in the Fund.

Provided that in case of default of a Member, any amount remaining unutilized out of the sale proceeds of the defaulter's assets sold subsequently shall after settlement of claims as stated in sub-clauses 8.6 and 10.1 of the Regulations Governing Default Management of the Exchange, be deposited in the Fund in accordance with sub-clause 10.2 of the said Regulations.

6. MANAGEMENT OF THE FUND

The Management of the Fund shall vest in the Trustees as provided in the KSE Investors' Protection Fund Trust Deed.