



**BOND AUTOMATED TRADING
SYSTEM (BATS) REGULATIONS**

OF

KARACHI STOCK EXCHANGE LIMITED

(As amended on January 27, 2014 and sent for Gazette Notification)

BOND AUTOMATED TRADING SYSTEM (BATS) REGULATIONS

PREAMBLE:

WHEREAS the Karachi Stock Exchange (Guarantee) Limited has decided to introduce trading in the debt instruments through its Bond Automated Trading System (BATS). The new debt market platform (BATS) shall allow electronic order entry and matching facility, which will provide a more efficient and transparent way to trade debt market securities.

AND WHEREAS, it is necessary and expedient to frame regulations for operation and control of trading activities in the debt market securities at the Exchange.

NOW, THEREFORE, the Board of Directors of The Karachi Stock Exchange (Guarantee) Limited, with the prior approval of the Securities and Exchange Commission of Pakistan hereby make these regulations under sub-section (1) of section 34 of Securities & Exchange Ordinance, 1969, which shall come into force with effect from the date of publication in the Official Gazette.

1. SHORT TITLE AND EXTENT

- (1) These regulations may be called "Bond Automated Trading System (BATS) Regulations of the Karachi Stock Exchange (Guarantee) Limited.
- (2) These Regulations shall apply to the Members in the debt market.

2. DEFINITIONS

- (1) In these Regulations, the following expressions shall, unless the context requires otherwise, have the meanings herein specified below:
 - (a) "BATS" means the Bond Automated Trading System introduced by the Karachi Stock Exchange (Guarantee) Limited.
 - (b) "Broker" means any person engaged in the business of effecting transactions in securities for the account of others and himself and is registered with the Commission under Brokers and Agents Registration Rules 2001.
 - (c) "Board" means the Board of Directors of the Karachi Stock Exchange (Guarantee) Limited as defined in the Articles of Association of the Exchange.
 - (d) "Commission" means the Securities and Exchange Commission of Pakistan;
 - (e) "Exchange" means The Karachi Stock Exchange (Guarantee) Limited.
 - (f) "Hours of Operation" means the time periods on each day that the Exchange is open for trading during which BATS is available to the Members for automated trading in the Exchange.
 - (g) "Member" means a member of the Karachi Stock Exchange (Guarantee) Limited as defined in the Articles of Association of the Exchange.
 - (h) "Negotiated Deal" means a deal which has been negotiated between two parties outside the regular market.
 - (i) "Order" means a valid sale or purchase order placed by a Member through its BATS trading terminal.

(j) "Tick Size" means the minimum price increment/decline at which trades can be made on the BATS.

(k) "UIN" means Unique Identification Number, as defined under the "National Clearing Company of Pakistan Limited Regulations, 2003".

(2) All other words and expressions used and not defined in the Regulations shall have the same meanings as are assigned to them in the Securities and Exchange Ordinance, 1969 and any other applicable laws.

3. ADMINISTRATION & EXERCISE OF POWERS

The Exchange may exercise the following powers in operating and administering BATS:

- (a) To amend these Regulations and make new Regulations with prior approval of the Commission;
- (b) To release information in its possession concerning any Member and all activities of the Member on BATS to persons authorized by law to request for such information;
- (c) To impose fees in relation to the use of the facilities available on BATS.

4. HOURS OF OPERATION

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

5. DEBT MARKET SECURITIES ("SECURITIES")

Debt Market Securities which are allowed to be traded at the Exchange would include Corporate Debt Securities such as Term Finance Certificates (TFCs), SUKUK Certificates (Sharia Compliant Bonds), Registered Bonds, Commercial Papers, Participation Term Certificates (PTCs) and all kinds of debt instruments issued by any Pakistani or foreign company or corporation registered in Pakistan.

6. ELIGIBILITY OF SECURITIES

The Exchange shall notify the securities that shall be eligible for trading on the BATS, with prior approval of the Commission.

7. AVAILABILITY

- (a) Any Member of the Exchange can enter into Debt market under these Regulations if he notifies to the Exchange in writing of such desire.
- (b) The Exchange will make available BATS to the Members for trading in eligible debt securities by providing trading workstation connections. The number of trading workstations for each Member shall be decided by the Board.
- (c) The Exchange may shutdown automated trading in the event that the BATS is inoperative or inaccessible to more than such number of trading workstations as may be prescribed by the Board.

8. ORDER / TRADE PRICES, AND DATABASE FOR ACCRUED INTEREST CALCULATIONS

Trading prices of Debt Market Securities shall be based on principal amount only whereas accrued interest calculations shall be made on the basis of settlement date of the open transaction. Following shall apply:

- (a) Automatic order matching method: quote up to a four-digit price (e.g. 100.1234)

(b) Tick size = Rs. 0.0001

9. CIRCUIT BREAKERS

Circuit Breakers shall not be applicable in Debt Market.

10. ORDER TYPES AND ATTRIBUTES FOR DEBT TRADES

(a) Orders will be matched on a strict price/time priority basis.

(b) Debt Market Securities will trade in decimal increments to 4 decimal places (e.g. 101.3213).

(c) All or None, Limit Orders, market orders, Change former order (CFO), contingent orders (Stop loss market if touch (SLMIT)), Cancel Order (CXL), Cancel Order Globally (COG) and Global order state change are allowed.

(d) Modification of price in CFO would be subject to fill allocation priorities; however reduction of bid/offer quantity shall not be subject to the fill allocation priorities.

11. QUOTE TYPES, ATTRIBUTES FOR DEBT MARKET TRADES AND CONFIDENTIALITY

(a) Functionality for Requests for Quotations (RFQ) shall be available in the BATS.

Explanation: RFQ comprises of transmitting a request for bid or offer through BATS to other market participants and subsequent receipt of quotes from market participants in respect of a BATS eligible security.

(b) A Member may initiate RFQ from maximum ten other identified market participants or the whole market. The RFQ initiator shall have the right to accept or reject any or all bids or offers. The acceptance of bid or offer by an RFQ initiator shall result in a binding trade.

(c) BATS shall treat all data and commercial information placed in the System by market participants as strictly confidential. To achieve this objective, the System shall adopt the most suitable organization, procedure and technological processes.

12. 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 and the Commission.

(b) In case an order is executed partially, the remaining part of such Order shall not lose its priority.

(c) The Queue Priority shall be determined by BATS through an interactive process and the order of priority displayed by BATS shall be conclusive except in the case of manifest error which shall be determined by the Board.

13. INSERTION OF CLIENT'S CODE IN EVERY BID AND OFFER THROUGH BATS

- (a) Every Member, while inserting a bid and/ or an offer through BATS 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 Securities 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.
- (c) The above requirements shall also apply in case of inter exchange trades.

14. DISCLOSED AND UNDISCLOSED VOLUME

- (a) An Order may specify the total debt market security volume and a lesser amount that is disclosed to the market. The disclosed volume shall not exceed the total volume.
- (b) 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.
- (c) The Maximum order size for Corporate Debt Trade shall be Rs. 100 Million and 40% of which can be specified as disclosed volume.

15. CROSS TRADES

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 of price and time priority as prescribed for all BATS orders.

16. CANCEL ORDER

A Cancel Order option can only cancel the unfilled order(s) or its portion and it will not act as a Cancel Trade Request if that Order has already been executed.

17. CHANGE FORMER ORDER (CFO)

The terms of an Order posted to the BATS cannot be changed except by the Change Former Order (CFO) option. CFO option can only be exercised in respect of unfilled order(s) or its portion.

18. 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. Good till Day (GTD)
 - ii. Good till week (GTW)
 - iii. Good till Month (GTM)
 - iv. Good till cancel (GTC)

19. MARKET OPENING

Debt market shall only have two states i.e. open and close. (no pre-open, pre-close and open-close states)

20. MARKET HALTS

- (a) The trading in a security/ securities can be halted at the discretion of the KSE at any time during trading hours, through a Notice and, or announcement. During a market halt the market status will be displayed as HALT and no further trading in the security/ securities will take place unless the halt is removed. The KSE can subsequently lift these halts and the market will return to its state prior to imposing the halt.
- (b) All orders may be cancelled globally by the Exchange at discretion of the Exchange.
- (c) Cancellation messages shall be forwarded to all brokers trading on BATS.
- (d) The Exchange may, in the interest of the market, put a halt on trading by any broker under the BATS.

Provided that in case the Board of Directors of the Exchange decides to halt the market for more than 24 hours, the same shall be implemented with the prior written approval of the Commission

21. 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) All Negotiated Deals executed shall be mandatorily reported to the Exchange on the same day in the manner as prescribed by the Exchange.
- (d) Only the securities in physical form (not available in book-entry) shall be traded through Negotiated Deal and settlement of the same shall take place between the respective parties

22. FEES

Trading fees will be levied at the rate of 0.005% of the securities' trading value, or as may be prescribed by the Board from time to time.

23. RISK MANAGEMENT, CLEARING AND SETTLEMENT

The Risk Management, Clearing and Settlement of all transactions entered & executed on BATS shall be governed by the rules, regulations and Procedures of the National Clearing Company of Pakistan (NCCPL).

24. 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 practices.
- (d) Any determination made by BATS 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.

25. POWERS OF THE EXCHANGE AND PENALTIES

The Exchange, upon violation or non-compliance of any provision of these Regulations by a Member, may take any of the following actions against the non compliant Member:

- (a) Direct the Member to take necessary action to remedy the breach;
- (b) Member may be cautioned or reprimanded;
- (c) Impose restrictions on, or suspend, or terminate the access to the facilities in BATS,
- (d) Impose financial penalties at its sole discretion, up to the maximum penalty of Rs. 100,000 per violation

26. NOTIFICATION ON NON-COMPLIANCE

The Exchange shall, prior to taking any action under these Regulations, notify the concerned Member in writing of the violation alleged and provide the Member with the opportunity to explain his position within the timeframe stated in the notice.