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## Margin Rules, 1999

Dated the 28<sup>th</sup> April 1999

No. SEC/Section-5/98-542/141- In exercise of the powers conferred by Section 33 of the Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969), the Securities and Exchange Commission makes the following rules, namely:-

1. **Short title.**-These rules, may be called Margin Rules, 1999.
2. **Definitions.**-(1) In these rules, unless the context otherwise requires, -
  - (a) “average net capital” means the average of net capital of the three months preceding the previous month.
  - (b) “exchange” means the recognized stock exchange.
  - (c) “member” means a member of the exchange who is registered as the stock-dealer/stock-broker by the Securities and Exchange Commission under the Securities and Exchange Commission (Stock-dealer, Stock-broker and Authorized Representative) Regulations, 1994.

- (2) Words and expressions used herein and not defined, but defined in the Securities and Exchange Ordinance, 1969 (XVII of 1969), the Securities and Exchange Commission Act, 1993 (XV of 1993), the Rules and Regulations made under the said Ordinance and Act, and the Companies Act, 1994 (XVIII of 1994) shall have the same meanings respectively assigned to them in the said Ordinance, Acts, Rules and Regulations.

### 3. Margin Account.

- (1) A member may extend credit facilities to his approved client for securities transactions subject to the margin account requirements of these rules.
- (2) Margin account arrangements must be evidenced in the form of a written agreement executed between the member and the client.
- (3) A client who operates a margin account with a member shall authorize the member to mortgage, pledge or hypothecate the client's securities or property for a sum not exceeding the debit balance in the margin account and without obligation to retain in his possession or control securities of like character.
- (4) The margin deposited by client with the member shall be in the form of cash, securities issued by the Government or its agencies, marginable securities and such other instruments as the Commission may from time to time prescribe. The initial margin must be deposited with the member not later than seven days from the first date of securities transaction and shall be such amount that would result in the equity being not less than 150% of the debit balance in the margin account.

- (5) Whenever the equity in a client's margin account falls below 150% of the debit balance, the member shall request the client to provide additional margin to bring the equity to not less than 150%. Such additional margin must be satisfied by deposit of cash or marginable securities within three days from date of notice. The member shall not permit any new transactions in the margin account unless the resulting equity in the account would be not less than 150% of the debit balance.
- (6) A member shall not permit the equity in a client's margin account to fall in any way below 125% of the debit balance. Once the equity falls below this level, the member shall have absolute discretion and without notice to the client to liquidate the margin account including the marginable securities deposited to bring the equity to not less than 150% of the debit balance.
- (7) The member shall cause daily review to be made of all margin accounts to ensure that credit is not over-extended beyond the approved facility and that the margin requirements prescribed above are met at all times. For the purpose of computing margin requirements in a margin account, the last traded price of the security on the preceding market day shall be used. All transactions traded on the same day shall be combined on a transaction date basis and the total cost of purchase or the net proceeds of sale including any commission charged and other expenses shall be taken into account for computing margin requirements.
- (8) The member shall require substantial additional margin as the exchange with the prior approval of the Commission may from time to time prescribe in an account where the securities carried are subject to unusually rapid or violent changes in value, or do not have an active market or have been suspended from trading on the exchange for more than seven days or where the quantity carried is such that it cannot be liquidated promptly.
- (9) A client may withdraw cash or securities from his account provided that the equity in his account does not fall below 150% of the debit balance.
- (10) The exchange shall have with the prior approval of the Commission the discretion to vary the margin requirements stipulated in sub-rules (4), (5) and (6) above.
- (11) All securities transactions in a margin account shall be on a ready basis. The margin account shall not be used to subscribe for new issues of securities.
- (12) For the purpose of these sub-rules :-
  - (a) "debit balance" means the cash amount owed by a client in his margin account before deducting cash deposited by him as margin;
  - (b) "equity" means the sum of margin and current market value of securities bought or carried in a client's margin account;
  - (c) "margin" means the aggregate amount of cash and market value of securities deposited by a client into his margin account, but shall not include securities which are bought and carried in the margin account;
  - (d) "marginable securities" means securities permitted by the exchange to be bought and carried in margin accounts.

#### **4. Discretionary Account.**

- (1) Discretionary account means an account in which the client gives a member discretion which may be complete or within specific limits as to the purchase and sale of securities including selection, timing and price to be paid or received.
- (2) No member shall exercise any discretionary authority with respect to a discretionary account unless :-
  - (a) the client has given prior written authorization to the member to exercise discretion on the account;
  - (b) the member has accepted the discretionary account.

Acceptance of a discretionary account must be evidenced by a document in writing which shall be available for examination and signed on behalf of a member by authorized person of the member.

The authorization given to the member shall specify the investment objectives of the client with respect to the particular discretionary account. Each authorization or acceptance may be terminated by notice in writing by member or the client, as the case may be.

#### **5. Exposure to a single client.**

- (1) No member shall permit deficit arising from transactions by a single client to exceed 25% of its average net capital.
- (2) In sub-rule (1) above, "deficit" means -
  - (a) the excess of amount owed by the single client in his cash account over the market value of all his securities held by the member as collateral;

- (b) the amount of margin deficiency in the single client's margin account as determined by minimum margin requirement permitted under rule 3 (6); and
- (c) the amount of unsecured interest charged on amounts owed by the single client.

#### **6. Exposure to a single security.**

- (1) No member shall permit his exposure to a single security to exceed -
  - (a) 100% of his average net capital if the security is quoted on the exchange;
  - (b) 100% of his average net capital if the security is unquoted, but such security shall not include the member's interest in subsidiary and associated companies and any company which the exchange may approve from time to time.
- (2) In sub-rule (1) above, "exposure to a single security" means-
  - (a) the book value of the single security carried in the member's own account;
  - (b) the contract value of the single security underlying clients' cash accounts to the extent that they have not been paid for; and
  - (c) the amount of credit extended to clients for the purchase of the single security on margin.

**7. Contravention.**—Contravention of any of the provisions of these rules shall be punishable under the provisions of the Securities and Exchange Ordinance, 1969 (XVII of 1969), the Securities and Exchange Commission Act, 1993 (XV of

1993), the Rules and Regulations made thereunder, and the bye-laws of the stock exchange as well.

**M. A. SYED**  
Chairman,  
Securities and Exchange Commission