

**Securities and Exchange Commission of Pakistan
(Securities Market Division)**

No.SMD/SE/2(58)2002

14th July 2005

The Board of Directors,
The Karachi Stock Exchange (Guarantee) Ltd.,
Through its Managing Director,
Stock Exchange Building,
Stock Exchange Road,
Karachi.

Subject: **Suspension of COT Phase out and Capping of the COT financing**

Dear Sirs,

We are in receipt of the notice dated 14th July 2005 issued by the Board of the Karachi Stock Exchange to all its members in respect of its emergent meeting held earlier today.

2. We note with concern that, in the course of this meeting, which even otherwise was not warranted in the circumstances, the Board unilaterally, improperly with mala fide intention and without lawful authority took decisions in respect of COT financing which are arbitrary, unjustified and in gross violation of the directives issued by the Commission from time to time, specifically:

- (a) the directive No. 13 /SEC/SMD/2003 dated 24th October 2003 in terms of which the KSE was specifically directed not to amend the list of shares eligible for COT financing without the prior approval of the Commission;
- (b) the directive No. SMD /SE/2(72)/2003 dated 3rd September 2004 which prescribed a time bound action plan for the phase out of COT financing, in pursuance of which the number of scrips eligible for COT financing was reduced to 7; and
- (c) the directive No. SMD/MSW/1(7)2004 dated 9th July 2005 which specifically directed the Karachi Stock Exchange to cap the COT financing at Rs. 12 billion and to allow it only in the 7 scrips named therein.

3. The blatant violations of the aforesaid directives on the part of the Board as well as other decisions in meetings held in the recent past are contrary to the policy and commitments made by the Board in its own earlier meetings. These violations negate, derail and reverse the agreed upon process of reform of the capital markets and severely compromise and damage the risk management measures instituted for the protection of the interests and confidence of the investors.

4. The Commission, therefore, in exercise of its powers under the Securities and Exchange Commission of Pakistan Act, 1997 and the Securities and Exchange Ordinance, 1969, hereby declares the above referred decisions of the Board as null and void, without any validity in law whatsoever, and incapable of implementation.

5. Further, the Commission hereby puts the members of the Board on notice, that in the event of any act or omission on their part, which constitutes a violation of any provision of the law, rules, regulations and directives applicable to them or to the Exchange, the Commission shall forthwith initiate action against them, either jointly or severally in accordance with law.

6. All the members of the Exchange may be informed accordingly, forthwith without delay.

Yours truly,

(Shahid Ghaffar)
Commissioner (Securities Market)

cc:

1. Managing Director, Lahore Stock Exchange, Lahore.
2. Managing Director, Islamabad Stock Exchange, Islamabad.
3. Chief Executive, Central Depository Company of Pakistan Ltd. Karachi.
4. Chief Executive, National Clearing Company Ltd., Karachi