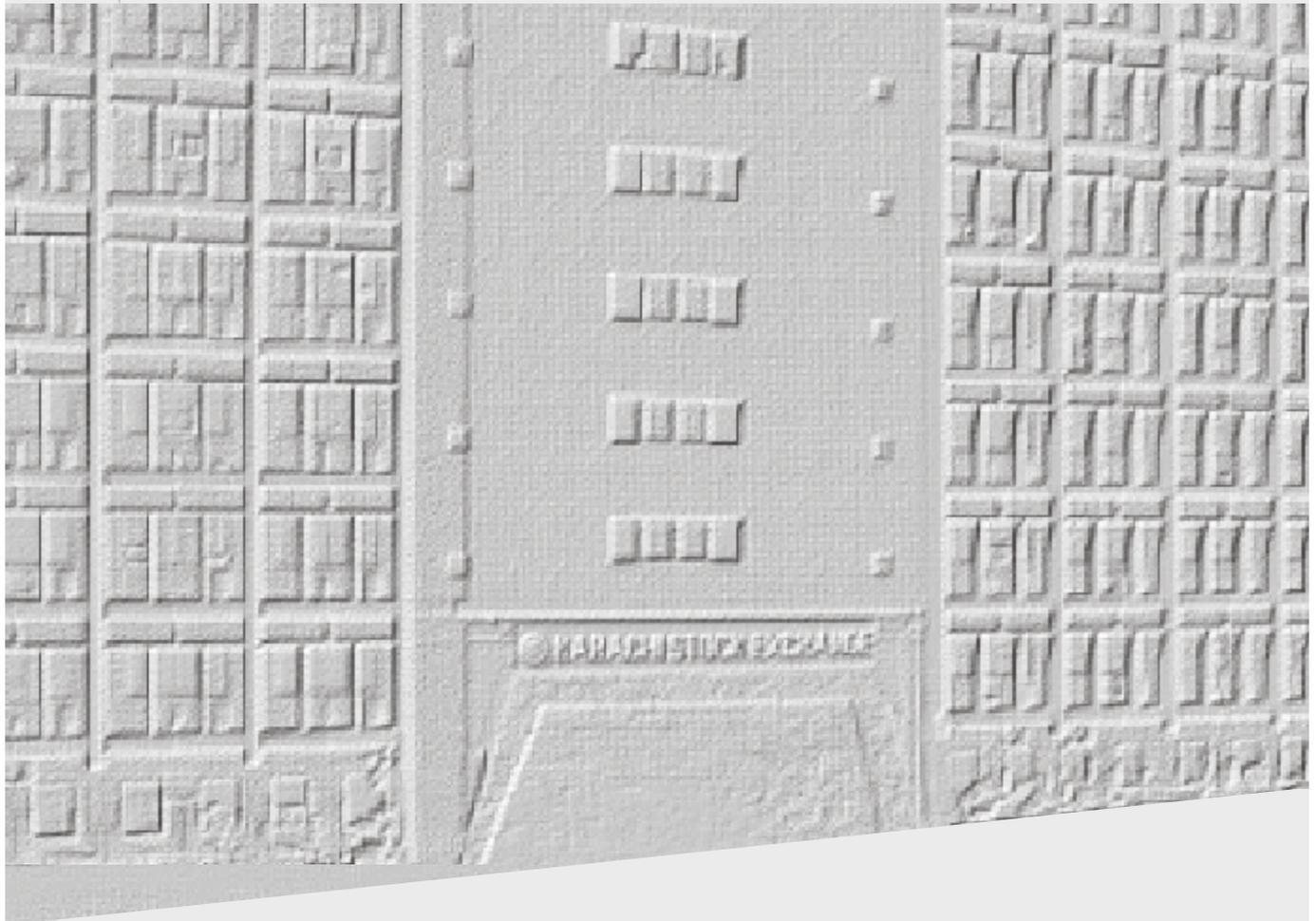


# Equity Investments - A Guide to Investors



**THE KARACHI STOCK EXCHANGE**



**THE KARACHI STOCK EXCHANGE**



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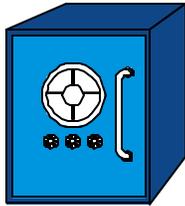
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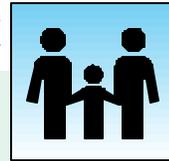


## 1. PLANNING INVESTMENT STRATEGY



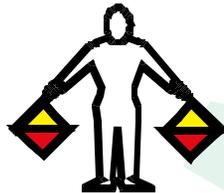
Pakistan's economy has turned the corner. It is now a stable economy with controlled inflation, a predictable exchange rate, sufficient foreign exchange reserves and growing exports. The cost of doing business is still high and the quality of infrastructure still poor, but these issues are on the government's agenda which is a good sign. Business is also well supported by banking sector which is stronger than it was few years ago and flush with liquidity. Interest rates are still low and industrial growth has picked up.

Everyone today appreciates the need to save whether for a house, for children's education, a wedding, to generate a steady income stream for use after retirement, or for unforeseen eventualities. All these goals can be realized through adequate financial planning.



### 1.1 Your Money Merits your Attention.

We all want our money to be safe and we would like to see it grow as well. But money is a very fluid asset. Inflation erodes its value. It demands constant attention. Well-planned investment alone can ensure that it both retains its value and can be used to meet our particular financial requirements. The dynamics of economic growth provide various opportunities for us to profit by.



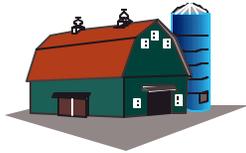
## 2. FORMS OF INVESTMENT

An average investor is faced with a completely new situation with regard to investment options. The market is inundated with various schemes but we lack their details nor do we have adequate knowledge to decide on a judicious mix to fulfill our various specific needs. You cannot simply put money into a foreign currency deposit account, as apart from the very low interest rate you earn, the foreign currency might be losing value compared to the Rupee; National Saving Schemes are offering low returns especially when you take them net of tax; the stock market may have been the best performing but not easy for an average person to understand and could be very risky if invested in without proper knowledge. It may result losing our





life's hard-earned money if entered in that market recklessly. Investments can be in various forms, some of these are:



- Real estate
- Business enterprises
- Precious metals and stones
- Valuable works of art
- Financial investments, etc.



Out of these, our discussion hereunder is focused on financial investments.

### 2.1 Financial Investments

As opposed to physical assets, financial investments are generally a right or an entitlement to receive money (or streams of money). The Financial investments themselves may be divided in two broad categories:-

- a. Direct Investments that we hand over to an obligator (the party that uses our money) and get back the same in the form of profit, interest, principal, etc; examples are bank deposits and investments in the National Saving Schemes. By depositing in banks, the default risk is quite low, the investment is safe and it is quite liquid too, but the associated returns are not much and a chance of making your investment to go an extra mile is low. Government securities are said to be least risky as the government is the safest borrower, but these do not bear a very good rate of return.



- b. Market-Based Investments, which are tradable at a market and change hands through buying and selling. Examples are shares of companies, bonds issued by companies (called TFCs in our market) or the government, etc. For investing in TFCs, it is good to beware of the credit rating of different bond issuing entities and then go for investing as it is usually a long term investment.

Financial investments are normally represented by certificates, generally referred to as "securities". However, there is a trend to convert securities into a paperless



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(electronic) form, which is kept track of by a custodian such as the Central Depository Company (CDC). We shall talk in detail about CDC subsequently. The essential attribute of a market-based tradable investment is that one can sell the investment and get cash for it quickly.

### 3. CAPITAL MARKETS

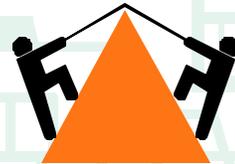
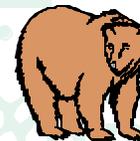
Capital Market constitutes all financial institutions under banking system and the securities market. This is the market place where financial investments (normally of a long-term nature) can be acquired or disposed off. The term is used in the plural to signify separate market segments for various types of financial investments. For example, shares and bonds issued by business entities (companies) which are traded at a Stock Exchange or Money Market, where acquiring or disposing of short-term financial investments including inter-bank placement of very short-term deposits and dealings in currencies is made.

### 4. WHAT IS A STOCK EXCHANGE?

The stock exchange provides a market place where securities are bought and sold.

#### 4.1 The Role of a Stock Exchange:

- A Stock Exchange facilitates initially offered new securities to investors from new companies for the purpose of capital formation. This is called the Primary Market.
- It also provides a Secondary Market for trading in already issued securities, that is, in securities already owned by investors. Here, the buyers and sellers of securities of listed companies are brought together, who trade at fair and market determined prices and investment change hands amongst them..
- The exchange's role is to monitor the market to ensure that it works efficiently, fairly, orderly and transparently.





## 4.2 Stock Exchanges in Pakistan:



There are three stock exchanges in Pakistan:

- i) Karachi Stock Exchange (Guarantee) Ltd.
- ii) Lahore Stock Exchange (Guarantee) Ltd.
- iii) Islamabad Stock Exchange (Guarantee) Ltd.

Of these, Karachi Stock Exchange, being the oldest and biggest exchange, is the premier securities market of the country.

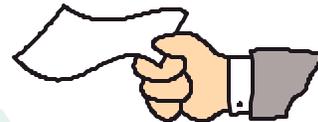
## 5. MAJOR INSTRUMENTS TO INVEST IN THROUGH STOCK EXCHANGE

When we invest money with a business entity, it can either be in the capacity of becoming a partner in the business or we can lend money to the business entity for a defined time period. When we invest money in the business then we become the equity owners or the shareholders, while if we lend money then we are the creditors of that business. The most common types of securities are stocks and bonds.



### 5.1 Stocks / Shares

When we participate in the ownership of the business and have an equitable right in the business to the extent of our share in it, we become an "equity" or "share" holder. An equity investor is entitled to distribution of profits and in the event the business is liquidated at some stage, he is entitled to his share of the net assets left over. Stock or share, as an equity instrument represents ownership interest of the holders in their corporate ventures.



### 5.2 Bonds

Bond as a debt instrument represents the promise of an issuer to pay a fixed sum of money at a specified maturity date and fixed return at regular intervals until then.



At Stock Exchange, most of the trades are made in equity instruments, i.e. stocks or shares issued by various companies.



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## 6. WHAT IS A COMPANY?

A company means an association of persons who contribute money or money's worth for a common stock and use it for a common purpose. It is created by law and effected by law. A company is legal entity quite separate from its members. A company can hold, purchase and sale properties, can enter into contracts, and can open bank account in its name. It can be sued without suing its members.



### 6.1 Kinds of Companies

There are three kinds of companies which can be registered under the Companies Ordinance.

#### 6.1.1 Unlimited Companies

These are the companies in which the liability of the members is unlimited. It may or may not have share capital.

#### 6.1.2 Companies Limited by Guarantee

These are the companies whose members undertake to contribute a certain sum towards the assets of the company in the event of its being wound up to meet the claims of the creditors. Generally such companies do not have any share capital.

#### 6.1.3 Companies Limited by Shares

These are the companies in which the shareholders have a limited liability. The liability of shareholders is limited to the nominal value of share. This is the most popular class of company. This type of companies may be further classified into private and public. Any one or more persons may form a private company. Public company means a company which is not a private company. Any three or more persons may form a public company. A public company may be listed or un-listed. A listed company is one whose securities/shares are listed on stock exchange for the purpose of trading in it.

## 7. WHAT ARE SHARES?

Total capital of a company is divided in units of small denomination. One of the units into which the capital of the company is divided is called a SHARE. For example, in one company the total capital of Rs. 500,000/- is divided into 50,000 units of Rs. 10/- each, then each unit of Rs. 10/- is called a share of Rs. 10/- each.





The shares are moveable property and transferable in the manner provided by the Articles of Association of a company. Each share represents a small stake in the equity of a company. You can buy large or small lots to match the amount of money you want to invest. A company's share price can rise or fall as a result of its own performance or market conditions.

Once the shares so bought are transferred in your name, either physically or electronically in Central Depository System, your name will be entered in the company's share register, which will entitle you to receive all the benefits of share ownership including the right to receive dividends and other entitlements, to vote at the company's general meetings, to receive the company's reports, etc.

If you decide to sell your shares you will need either to deliver physical share certificates attached with Transfer Deeds duly signed and verified or the instructions to get the shares transferred from your CDC account to your broker in time for the transaction to be completed.

With the introduction of the Central Depository System (CDS), an investor having shares in paper form, can now own shares in an electronic form at the Central Depository Company (CDC). The shares of the listed companies, which are eligible for CDS, the post-trading settlement thereof can only be made through CDC.

#### **7.1 Why do companies issue shares?**

Companies issue shares to raise money from public who intend to invest their money in such shares. This money is used by these companies for the development and growth of their businesses.

A Company can issue different types of shares such as ordinary shares, preference shares, shares without voting rights or any other shares as are permissible under the law. These give shareholders a stake in the company's equity as well as share in its profits, which is distributed in the form of dividends, entitlement of voting right at general meetings of shareholders, etc.

#### **7.2 Why to invest in shares?**

Studies have shown that over a long period, investment in shares has generally provided greater returns than most other forms of investment. Shares can



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provide you with a regular stream of income through dividends as well as the potential for your investments to grow in value. If the prices of shares go up, you can sell them for more than you paid. This is called capital gain.

### **7.3 Various ways of becoming a shareholder:**

Shares of a company are offered at the stock market at the following stages.

#### **Initial public offering (IPO):**

When companies offer shares to the general public for the first time, it is known as a flotation or an Initial Public Offering (IPO).



These shares can be bought directly from the company at an offer price, which may be at par or with premium without paying stockbroker's commission. You might see an advertisement or prospectus in newspapers from a company issuing shares and inviting public to subscribe or your stockbroker might tell you about a company making an IPO. Simply fill in the share application form and deposit the form along with copy of NIC duly attested and cheque for application money in a branch of the designated bank(s). On declaration of successful applicant, the shares will be allotted in your name by the company.

#### **Right Issues:**

Right shares are issued when companies need to raise additional capital to finance their expansion projects or to meet working capital needs, etc. In case of right issues, the existing shareholders of the company have the right to subscribe to these new shares in proportion to their respective shareholdings or they can renounce their rights and sell in the market. The buyer of Letters of Rights then subscribe the same in his favour and get the shares directly allotted to him.

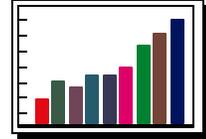
#### **Trading in the Secondary Market:**

The most common way of buying/selling in the stock market is through trading in the secondary market. Through a stockbroker you can buy shares from other investors who wish to sell them and vice versa through bid/offer process.



## 7.4 What is dividend?

Dividend is the return paid to shareholders out of the profits of the company. Dividends can be in the form of cash or additional shares of the company called stock dividend or bonus shares. Dividends are usually paid once or more than once in a year depending upon the company's pay-out policy. The dividend paid at the end of the financial year is called Final Dividend, whereas dividend(s) paid during the year on the basis of periodical results of the company are called Interim Dividends.



## 7.5 What is capital growth?

This is one of the ways in which investment in shares differ from placing money in deposit accounts. The principal amount of money placed in a bank or any fixed income savings scheme always stays the same except profit earned at a fixed rate is paid to the investor. Changes in the value of shares of a company occur according to the performance of the company. With good management and corporate governance, the value of your investment in shares of a company can grow multiple times over the period. This is capital growth.



## 7.6 Risks and rewards:



Investing in shares generally gives better returns as compared with other investment avenues. Your investment may increase in value besides paying you dividends. You share the rewards when the company does well and the price of the shares goes up. However, it is important to remember that share prices are sensitive to market sentiment and are very volatile. Thus shares are not a suitable investment unless you invest funds for a long term that will be disinvested only when market conditions are favourable. The funds that might be needed in an emergency may force a distress sale when the market might happen to be down.

## 8. THE KARACHI STOCK EXCHANGE AND ITS TRADING SYSTEM

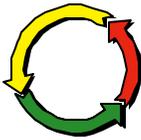
The Karachi Stock Exchange has introduced computerized trading system to provide a fair, transparent, efficient and cost effective market mechanism to facilitate the market participants, including the investors. The system being operated at Karachi Stock Exchange is called Karachi Automated Trading System (KATS).





The trading system comprises of various distinct segments, which are:

**8.1 T+3 Settlement System:**



In the T+3 settlement system, purchase and sale of securities is netted and the balance is settled on the third day following the day of trade.

Benefits of T+3 Settlement System:

- It reduces the time between execution and settlement of trades, which in turn reduces the market risk.
- It reduces settlement risk, as the settlement cycle is shorter.

**8.2 Provisionally Listed Counter:**

The shares of companies, which are not already listed and which make a minimum public offering of a specified amount, which is presently Rs.150 million, are traded on this counter from the date of publication of prospectus/offering document. When the company completes the process of dispatch/credit of allotted shares to subscribers through CDC, it is officially listed and placed on the T+3 counter. Trading on the provisionally listed counter then comes to an end and all the outstanding transactions are transferred to the T+3 counter with effect from the date of official listing.

**8.3 Spot/T+1 Transactions:**

Spot transactions imply delivery upon payment. Normally in spot transactions the trade is settled within 24 hours.

**8.4 Futures Contract:**

A Futures contract involves purchase and sale of securities at some future date (normally within one calendar month), at a price fixed today. The number and names of companies to be traded on the Futures counter are determined every six months based on the eligibility criteria approved by the SECP in this regard and which are notified to the market participants in advance.



**8.5 Odd Lots Market:**

This market has been created to provide an automated platform through KATS enabling the investors to trade securities in lots which are less than the normal trading units (lots) of the securities approved for Ready Market. The minimum volume of a buy/sell order may be one share.

**8.6 COT Market:**

Equity repurchase transactions, better known, as “Badla” are called Carry-over trades. These are an established form of transactions used in the stock market for temporary financing of trades by speculators and jobbers. Through this mechanism, the purchase transaction, after its execution, is funded through borrowing till the next day of settlement. At KSE, COT session is run in the afternoon, to provide an efficient forum to investors and financiers. All carry over transactions are done for a period of 10 trading days, during which financee may release COT on any day before completion of 10 days period, whereas financier will be able to release COT only after completion of that period.

**Difference in COT & Margin Financing**

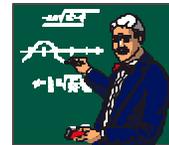
In COT, the financing is arranged by the traders after execution of trade, whereas in Margin Financing, there needs to be a certain credit limit duly approved before executing the trade.

**8.7 OTC Market (In Process):**

In order to encourage enterprising promoters to set up new industries or expand their existing enterprises by raising finance in a cost-effective way through listing mechanism with comparatively lesser requirements, an Over-The-Counter (OTC) market is proposed to be operative soon.

**9. IMPORTANT CONSIDERATIONS FOR MAKING INVESTMENT IN SECURITIES MARKET**

Before you invest in shares, you must consider a number of factors.





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**9.1 Know what investment products are available:**  
The following types of securities are available on the stock market for investment:

- Ordinary/preference shares, Modaraba Certificates of listed companies
- Unit trust schemes
- Mutual funds (Open-end and Closed-end) certificates
- Corporate bonds/Debt Instruments i.e., Term Finance Certificates (TFCs)
- Government securities i.e., Federal Investment Bonds (FIBs), Pakistan Investment Bonds (PIBs) and Special US Dollar Bonds.

Out of the above, most common product is the ordinary shares traded on the Stock Exchange.

**9.2 Understand your risk profile:**

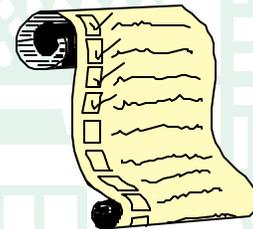
If you can afford to take some risk and have the ability to endure the market's ups and downs, equity investments may grant you good returns. A wise and prudent investor chooses an investment product not only according to his



goals and the amount of capital available but also according to his tolerance for risk. All investments carry a certain degree of risk. You have to determine whether you are a "risk-prone" or a "risk-averse" person. Depending upon the extent of risk you intend to take, you should pursue an investment strategy (aggressive, moderate or conservative) that fits your risk profile.

**9.3 Do your homework before you invest:**

Don't put in your money until you have gathered and understood all relevant information regarding the investment. Prepare yourself for the vigorous homework of analyzing companies' annual reports, accounts and other statements while keeping abreast of what's happening in the industry, country and elsewhere that may affect your investment. Consult your investment adviser/broker to get latest market information about shares you intend to buy or sell. Be skeptical of any thing picked up from rumors,





particularly if you cannot explain the choice rationally. Please take your time over your investment decisions. Do not be pressured by anyone telling you that you are about to miss an exceptional opportunity to make money – **It is better to lose an opportunity than to lose your money.**

#### 9.4 Think long-term:

Investment in shares does not result in instant yields. Do not invest any money which you may need immediately, since the price of shares can go up and down, It is advisable to keep some money in a deposit account to meet your financial obligations in the near future. In this way, you will not be forced to sell shares at a low price in case of an urgent cash requirement. Bear in mind that even in the best of securities/shares, there can be short-term aberrations. It is important to have the capacity to hold your investments for longer periods. Studies have shown that investments properly timed and based on strong fundamentals have been proved very profitable for investors in the longer term.



#### 9.5 Avoid putting all your eggs in one basket:

The best way to minimize risk is to diversify your investments across various investment products. If equities are your sole investments, it makes sense to diversify between different sectors and companies. In this way, loss incurred on some investments can be absorbed or compensated by gains made in others, keeping the overall return on investment positive.



You can also diversify your investment by investing in open-end mutual funds managed under various unit trust schemes. While investing in mutual funds check the credit rating of the fund and instrument. Similarly, while investing in any security, check the credit rating of the concerned company, if available.

#### 9.6 Taxes & Commission:



You must know the rates of taxes and commissions charged by the Central Board of Revenue (CBR)/broker as these affect your costs, and hence your returns. There is no scale of commission rates prescribed. As such the investors may negotiate the rate of commission based on the services desired and the volume and nature of their trades.



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The Finance Act, 2004 has imposed following two taxes on securities transactions, which Brokers may charge to and collect from their clients for onward depositing in government treasury:

- 1 - Capital Value Tax (CVT) @ 0.01% on purchase value of shares.
- 2 - Withholding tax @ 0.005% on sale value of shares.

### 9.7 **Judgment of timings:**

The aim of investing in stocks and shares is to buy at low and sell at high. Knowing when, however, is the challenge. Many investors attempt to time the market. They try to figure out when the market is going up and buy before it does and then anticipate when it is going to crash and sell before that. Usually you try to buy when the upswing has begun and sell as the downswing starts. However, such accuracy is extremely difficult to determine.



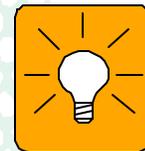
### 9.8 **Avoid greed and fear:**

The stock market is driven by two emotions: greed and fear. People are usually caught up in the boom fever and pay beyond the worth of shares. This is the greed that drives bull markets. Never allow greed to become your need. In bear markets, people get carried away with the ruling pessimism and are eager to sell their investments believing in the worst rumors. This is the fear that dominates bear markets.



### 9.9 **Handling of trades:**

Give clear instructions to avoid ambiguity, check trade confirmations received and keep a proper record of all your transactions.



### 9.10 **Beware of scams:**

Beware of promises of quick profits or sky-high returns. Remember: higher the gain on investments, higher is the risk involved. This is the fundamental risk-reward trade-off.





## 9.11 Keeping eye on Stocks' performance:

In general terms, when you witness if the stock price and volume of a stock suddenly jumps, there may be typically three reasons for this:



- i. Company's fundamentals have changed, say a financial or structural reform has been undertaken which has turned around the company's financial standing.
- ii. The sector to which the company belongs, could be experiencing a seasonal or circumstantial boom.
- iii. Unfair trading practices by market participants which may be in the form of cornering, insider trading, front running, blank selling, etc. These practices may cause sudden change in price chart, even of an inactive and illiquid stock. These practices are discouraged and curbed by the regulators through effective market surveillance and investigations.



Moreover, there are several types of investors: some are long term investors who simply tuck away their investments for years while others trade frequently and keep a close eye on how their shares are performing. You can check your shares' performance in various ways. A daily indicator of share price movements is available in newspapers and also on website of the relevant stock exchange. You may access this information directly or through your stock broker/advisor.



Informative articles about many companies are regularly published in newspapers and investment magazines. Your stockbroker may also provide valuable information. Some publish newsletters for their clients, reflecting their views on the performance of selected companies. Annual reports of companies also contain useful information. Some companies have shareholder relations departments, which can help with factual information.

## 10. HOW TO TRADE?

### 10.1 Decision to trade – independently or on certain advice:

Investors can choose to make their own share dealing decisions or take advice



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from a professional. Buying and selling shares and tracking their performance can be time consuming but it is rewarding for those who have the time to manage their own investments. Many stocks fly on high and many leap on very transient rumors. Evaluating merits and flows is always the soundest approach. The quarterly and annual financial statements published by the listed companies give you a snapshot of a company's financial standing. Since as a retail investor you are most likely looking for companies to invest in with a long term view, the stability factor is an important consideration. Some investors deal with stockbrokers directly while others prefer to use the services of professional managers who have discretionary powers to manage the investment portfolio.



### **10.2 Selection of stock broker:**

Selecting a broker will be one of the most critical decision you take in your investment experience. Stockbrokers are your link to the stock market. Their job is to help you get the best price available when you want to buy or



sell your shares. Be careful in selecting your broker. To start with, ensure that the broker you choose is registered with the SECP to trade and that the stock brokerage firm has a good track record. Visit them and meet them in person before you decide. If anyone of his existing clients are known to you, call up a few of them and ask about his quality of service. After all, you are going to entrust him with money you don't want to lose. All the registered brokers are listed at the KSE and SECP websites.

### **10.3 Opening of Trading Account with Broker:**

Once you have decided the broker with whom you intend to deal, you should ensure that an account is opened in your name by filling the account opening form on the standardized format approved by SECP as per Annexure "A". Make sure that you are assigned a unique account identity and that all your transactions bear this identity. It is imperative that the terms and conditions prescribed in the account opening form are read very carefully and well understood. It will be in your interest if you give clear instructions as to who can operate the account. It is preferred if the investor gives specific instructions that business can only be transacted in the account on his instructions.

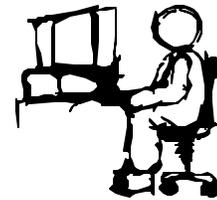




#### 10.4 The mechanics of share dealing:

There are various ways of participating in the stock market:

- You can invest directly by purchasing shares through a broker. You may buy shares in one company or you may spread your risk by investing in a number of different companies to give you a 'portfolio' or collection of shares.
- You can invest indirectly and through collective investment schemes such as open-ended unit trusts and closed-ended mutual funds. This would further reduce your risk.



When you have decided to buy/sell shares of a particular company, contact your stockbroker. You can ask to buy/sell a certain number of shares at or upto a certain value. Get the contract note confirming your order immediately and check for the following information.



- a) Name and number of securities;
- b) Date on which the order is executed;
- c) Nature of transaction (spot, ready or forward and also whether bought or sold);
- d) Price at which the transaction is executed; and
- e) Commission charged by the broker;

There are two types of orders:

- (i) **Limit Order:** In a limit order, the client specifies the acceptable price at which the order is to be executed.
- (ii) **Market Order:** Also known as at best order. It is executed at the prevailing market rate.



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## 10.5 Important Concepts to understand while Trading in Stocks.

### a) **KSE-100 Index:**

The stock price index provides a sensitive barometer of general confidence in the economy. The KSE-100 Index is a benchmark used for ascertaining market direction. The KSE-100 Index comprises the top company from each of the listed sectors on the KSE, in terms of market capitalization. The rest of the companies are then picked on the basis of their respective market capitalization ranking, without any consideration for the sector. The KSE-100 index contains a sample of 100 representative common stocks with the base value of 1,000 points.

### b) **Circuit Breaker:**

A circuit breaker refers to a measure used by stock exchanges to avert panic selling or over-exuberant buying. After the stock's price has risen or fallen by a certain percentage, the exchange might activate restrictions or trading halts. The KSE management has imposed a circuit breaker of 7.5% or Rs. 1.50 whichever is higher for the purpose of upward price fluctuations in the stock price from the closing price of the previous day and a circuit breaker of 5% or Re. 1/-, whichever is higher in case of downward price fluctuation in the stock price from the closing price of the previous day.

### c) **Earning Per Share (EPS):**

This is a ratio calculated by dividing a company's net profit after tax by its number of shares outstanding. This denotes the company's earning capability for each share issued.

### d) **Book Value or Break-up value:**

This is a ratio which indicates the asset coverage that each equity share represents in the company. It thus represents the net worth of assets that each share commands. Book Value per share is arrived at by dividing total equity by the number of shares outstanding. Shareholders' equity includes paid up capital, reserves and retained earnings, less losses, if any.



**e) Price Earning (P/E) Ratio:**

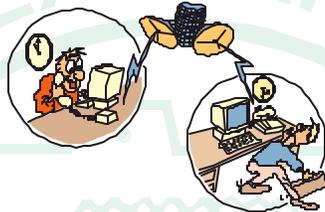
This ratio is calculated by dividing current market price of the share by its Earning per share (EPS). This ratio is used as a tool for valuation and indicates whether price of a share is realistic in line with its earning. If the share is over-priced then the ratio will be high, if it is under-priced the ratio will be low.

## 11. DELIVERY AND SETTLEMENT

Once the transaction of purchase or sale of security is executed, the same gets completion on delivery and settlement thereof. If a company has not yet been entered in the Central Depository System (CDS), the delivery of its shares is performed manually in physical form, otherwise the same is done electronically through CDS as operated by a separate company namely Central Depository Company of Pakistan Limited (CDC).



### 11.1 Central Depository System (CDS)



The system of electronic book-entry of securities i.e. CDS has been set up to eliminate physical maintenance and transfer of securities. This system is in line with the international practice and has replaced the manual system of physical handling and settlement of shares at stock exchanges. Within the CDS, transfer of shares from one account to another account takes place electronically.

The CDS is managed by the Central Depository Company of Pakistan Limited (CDC), which has been sponsored by the stock exchanges and leading local and foreign financial institutions. Established under the Central Depositories Act, 1997, CDC has emerged from an elementary settlement agency to a full fledged depository. It has revolutionized the financial market by making trading and settlement of securities transparent, reliable, efficient and secure in eliminating risks.

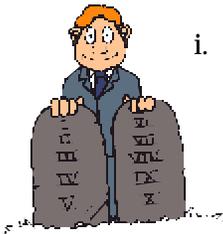
Following are the core advantages of the CDS:

- Electronic book entry system
- Records and transfers securities electronically.
- No physical change of hands of securities.



- Strict confidentiality
- No risk of damaged, lost, forged and duplicate securities.
- Simple procedure involved in pledging of securities.
- No delays in delivery, settlement and transfer of securities due to speed.
- Instantaneous credit of entitlements (Bonus, Paid Rights, etc.) to investors.
- Significantly reduced the cost of investors.

An investor can use any of the three types of CDC accounts, which are described as below with their features:-



i. Sub-Account:

A broker may open, maintain and operate any number of sub-accounts he requires on behalf of his clients. A specific sub-account is used for keeping securities belonging individually to that particular client of the broker.

ii. Group Client Account:

This account is used for keeping securities which are beneficially owned by the broker's clients who are not willing to utilize the facility of opening separate sub-account. The broker groups all such clients in their group account. The detailed break-up of the securities held by each client of a group account is maintained by the broker in his back office.



iii. Investor Account:

By opening an investor account with CDC, the client comes with direct contact of CDC. Such account can only be operated by the relevant account holder. The service provides efficient, effective and secure services to its clients.

Out of the above, the most secured and convenient type is the investor account which is highly recommended to the investors.

**11.2 National Clearing and Settlement System (NCSS)**

Clearing and Settlement is one of the most important aspects in the operation of the securities business. It is the process of reporting, matching, correcting securities transactions and the ultimate delivery or receipt of net balances.



NCSS is an electronic system developed to replace the individual Clearing Houses of Pakistan's three stock exchanges by a single entity. This system is operated by National Clearing Company of Pakistan Limited (NCCPL), which has been registered as a separate legal entity. The operations of NCSS are rapidly gaining momentum and so far a majority of the securities have been inducted into the system for settlement purpose.

NCSS provides stability to the market by capping the systematic risk to a good extent. It has also improved efficiency of the settlement process by introducing a consolidated and geographical neutral clearing and settlement system. NCSS, with its technologically advanced features such as automated Pay and Collect functionality, introduced extraordinary transparency and efficiency in the clearing process.

## 12. INVESTORS' PROTECTION:

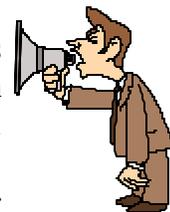
Investors' confidence in the fairness of capital markets is fundamental to the success of markets in capital foundation. To attract investment, investors need to be assured that they would not be cheated off their money by the company in which they invest or by intermediaries such as brokers, fund managers or other participants such as investment advisors and analysts. Stock Exchanges, as frontline regulator and SECP, as apex regulator of the capital markets use a variety of means to get the investors protected from market abuse. Investors are offered protection by including good corporate governance



- practices in corporate law, having an effective system of handling investors' complaints, creating awareness among investors of prudent way of dealing in securities and
- demonstrating the capacity to detect and punish market abuse through market surveillance.

### 12.1 Resolution of investors' complaints.

You should always ensure that the stockbroker you choose is licensed to trade by the Securities & Exchange Commission of Pakistan. Prefer stock brokerage firms with a good track record. As a shrewd investor, you should know your rights and obligations and should be aware of the rules that govern your





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things go wrong. You can report abuse to the KSE or SECP, who are the regulators to ensure the development of a fair, efficient, and transparent securities market. Alongwith monitoring and regulating the capital market, both the KSE and the SECP have the ultimate responsibility to protect the investors through market supervision and ensuring that their laws and regulations are complied with.

### **12.2 The Investors' Education & Complaints Cell at KSE**



Stock exchanges, being the frontline regulators, play a proactive role. Securing the interest of small investors and minority shareholders is of prime importance to the Karachi Stock Exchange. In order to keep a vigilant eye on investors' issues and to provide a platform to the general public for voicing their concerns, an Investors' Education & Complaints Cell within Legal Division of KSE has been set up. This Cell is responsible for ensuring that grievances/complaints of the general public concerning investment and trading of securities are heard and redressed, in a quick and efficient manner.

The Investors' Education & Complaints Cell also conducts programs for investors' education and provides assistance for answering general questions regarding the securities laws, rules and regulations and any counseling that may be required in this regard.

### **12.3 Your complaint**

Your complaint is important to the KSE as it may provide useful information and insight into malpractices in the market. It can also serve as an early warning signal to preempt potential defaults. You are, therefore, encouraged to lodge your complaint with the KSE as a frontline regulator. Frivolous complaints, however, are not entertained.



The KSE receives complaints of a varied nature. Of these the most common are those that are lodged against the brokers of the stock exchange. These relate to:



- unauthorized trading,
- unauthorized transfer of shares,
- non-supply of statements of account, and
- order execution problems.

Grievances can be lodged with the KSE in the form of a formal complaint against a member or an agent of a broker of the stock exchange. The KSE will endeavour to redress your complaint in a timely and judicious manner.

#### **12.4 Lodging your complaint**



Although you have recourse to approach the KSE for lodging your complaint, it is strongly advised that your concern/problem should first be taken up directly with the member concerned. It is prudent to act promptly. If the Member fails to redress your grievance then you may lodge a proper complaint supported by documentary evidences to the Karachi Stock Exchange addressing to the Managing Director. The time limit required to resolve a dispute varies with the nature and complexity of each case and the availability of documentary evidences.

#### **12.5 How your complaint is dealt with**

On receiving your complaint against a member of KSE, it is forwarded to the Investors' Education & Complaints Cell at Legal Division of KSE for review and evaluation. The matter is then taken up with the concerned member who is/are requested to send his/their comments/observations to the KSE, a copy of which will also be sent to you. The matter is likely to be resolved at this stage. In case reservations remain despite the exchange of correspondence, KSE may initiate an investigation in order to ascertain the true facts of the matter. This could involve inviting both parties to a face-to-face meeting for resolving the matter. Occasionally, a dispute concludes without any decision. This occurs mostly in the event of lack of evidence. The KSE in such cases may decline to attend the dispute or may dismiss a case and refer the parties to avail their remedies through court of law.





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## **12.6 Disputes to be referred for arbitration:**

As per General Rules & Regulations of the Exchange, all claims, complaints, differences and disputes arising of dealings and transactions in respect of securities made subject to Rules & Regulations of the Exchange and not amicably settled with the concerned member may be referred for arbitration process.



### **12.6.1 Appointment of Arbitrator(s):**

As per above-referred Regulations, all claims/disputes upto Rs. 0.5 million are referred for arbitration to the Managing Director of the Exchange, who either himself enters upon the reference or appoints a nominee for this purpose. The claims/disputes valuing more than Rs. 0.5 million are referred to the Arbitration Committee of the Exchange. In such cases, a panel of 3 arbitrators is constituted to conduct arbitration proceedings, out of which 2 are appointed by drawing lots from the Arbitration Committee, with one being a member of the Exchange and other a non-member director. The third arbitrator will be the Managing Director of the Exchange or his appointed nominee. However, in the case of non-availability of any member of the Committee to act as arbitrator, it may instead appoint any person having expertise in legal or securities market matters, preferably a former non-member director of the Exchange to be an arbitrator of the said panel.



### **12.6.2 Application for Arbitration:**

In every case where a claim, difference or dispute arises, the concerned investor may submit to the Exchange an application for arbitration along with following documents:

- (i) Investors' Claim Form as per Annexure "B" duly filled and signed along with all supporting documents and annexures as mentioned in the form.



(ii) An undertaking as per Annexure “C” to abide by all the Rules & Regulations of the Exchange in force for the arbitration.

(iii) Fee as specified in the Regulations.

**12.6.3 Arbitration Hearings:**

The arbitrator(s) fix a date, time and place for each hearing, notice of which is given to the parties in 7 days advance.



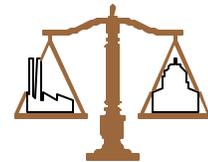
**12.6.4 Appearance:**



The parties to the reference may attend the hearing in person or through any person duly authorized by them in writing who must be acquainted with the matter in dispute.

**12.6.5 Award:**

An award made by an arbitrator, or in case of panel of three arbitrators by majority of them, shall be final and binding upon the parties.



**12.6.6 Appeal against the Award:**

(a) A party to a dispute who is dis-satisfied with any award of the Managing Director/his appointed nominee may appeal to the Arbitration Committee against such award within 7 days of the receipt of such award. The award of the Arbitration Committee in an appeal shall be final and deemed binding on the parties to the dispute.



(b) A party dis-satisfied with the award of the panel of arbitrators may appeal against such award to the Board within 7 days of the receipt of such award. However, for the purpose of hearing the appeal, the Board may constitute a Committee of the directors every year comprising three of its members, two being non-member directors and one member director.



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Any investor appealing to the Arbitration Committee / Board shall provide the following:

- (i) The grounds of objections to the award of the arbitrator(s)
- (ii) Payment of required fee.

12.7 Contact References:  
All your complaints in writing with full details and documentary evidences may be sent to the following addresses of KSE and SECP:



### **KSE**

#### **The Managing Director**

Karachi Stock Exchange (Guarantee) Limited  
Stock Exchange Building, Stock Exchange Road,  
Karachi-74000, Pakistan  
Phones: UAN: 111-00-11-22, 2425502-3  
Fax: (92-21) 2410825  
E-mail: info@kse.com.pk  
Website: www.kse.net.pk

### **SECP**

#### **Deputy Director**

Vigilance Cell  
Securities and Exchange Commission  
of Pakistan, NIC Building  
63-Jinnah Avenue, Blue Area  
Islamabad, Pakistan  
Fax: (92 51) 9204915  
Website: www.secp.gov.pk

### **13. TIPS TO AVOID COMPLAINTS AGAINST STOCK BROKERS**

Though KSE and SECP have provided the appropriate forums to aggrieved investors to have their grievances against the brokers of the Exchange resolved as stated above, it has been observed that the investors do not exercise due care and diligence while making investment decisions or for that matter in their dealings with the stock brokers. These lax practices generally lead to disputes and investors find themselves at a great disadvantage.

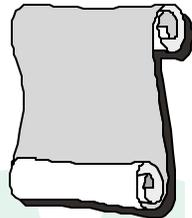


To help you safeguard your interest and avoid complaints against the stockbroker, here are some easy tips.



## 13.1 Be wise in selecting a broker

- Before selecting a broker, visit the offices of a few to observe their business practices. Try to gauge the reputation of the brokers by talking about it with the people you meet.



- While opening your account with branch offices of the brokers, first confirm that the branch office and the managing agent of the office are registered with the stock exchange and the Securities and Exchange Commission of Pakistan (SECP). All offices outside the stock exchange, if not duly authorized, cannot execute the trades according to the provision of the law and as such the trades are not enforceable under the law and the investor can suffer a loss.

- Get clear information on commission rates and services provided and compare them with that of other brokers. Commission rates vary with the quality of service and smaller clients may be subject to higher commission than larger clients, so don't over negotiate.



- Before starting your dealings with any person, make sure that he is a permanent employee or a registered agent of the broker.
- It will be beneficial for you to personally meet the broker or the senior management.



## 13.2 Always open accounts in your own name

- There are two types of accounts you would need to open for investing in stocks. A trading account with broker for buying and selling securities and a depository account for keeping securities. You can open the depository account either with the broker which is called a sub-account or directly with the Central Depository Company which





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is called an investor account. Think of CDC as bank of securities that it keeps in digital form.

- Do not trade until you have opened a trading account with your broker through a standardized account opening form. Thoroughly read and understand the terms and conditions of the form. Strike out any in-applicable clause, sign the form and the deleted clauses and get it signed by the broker as well. Keep a copy.



- It is better if you open an investor account rather than a sub-account. In an investor account, you stay in control of your securities because they can only move once you give a transaction order. In a sub-account, the broker is in control. While a subaccount reduces some hassle, it is possible for the broker to move your securities without authorisation. An investor account costs about Rs. 1500/- per annum while a sub-account is free but don't compromise on control for Rs. 1500/-.



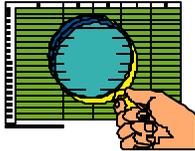
### 13.3 Stay well documented at all times

- Obtain your client identification number that the broker would assign you for his records.
- Instruct him in writing to enter always this number in the trading system of the exchange while executing your trades. This would help in setting an audit trail of trades made on your account.



- Always obtain signed trade confirmations from your broker at the end of the trading day. Insist on additional written confirmations if you are given verbal trade confirmations on recorded lines.
- Make sure that all receipts/confirmations/ deliveries are issued/made in the name of the stock broker on proper stationery bearing the name of the stock broker.





- Obtain periodic statements from your broker to keep a check on your trade positions and account balances. Also get a periodic sub-account statement from the Central Depository Company to verify your securities and their movement.

- Make all payments preferably through cross cheques in the name of the broker only and obtain receipts of all payments duly signed by the authorized persons. Keep a record of the cheques given to and received from your broker.



- All payments are received in the shape of cheque/pay order/demand draft issued by the stock broker only and not by his agent or any other person.

### 13.4 Be thorough in trading practices

*Time is Running Out*



- Make your payments and deliveries promptly, just as you would expect your broker to.

- Maintain your safety deposits or margins with your brokers at all times. The stock broker is within his legal rights to square an open position if the investor circumvents his obligation.



- If you don't, your broker would have the right to sell your securities at your peril and cost.

- Try to place your trade orders with one particular person. It would reduce chances of misunderstanding.



- Ensure that every time you buy shares, they are transferred in your account on the settlement day. Delay in transfers might mean that your broker is using these securities for some other purpose.

- In case of any discrepancy in your statements, contact the broker immediately. Don't make simplistic



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assumptions or leave things to chance. For correspondence that you think you might need in case of a complaint, use registered mail or obtain a receipt from your broker.

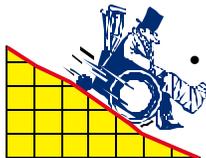


### 13.5 Take responsibility for investment decisions



- Know your financial capacity and needs. Make investments accordingly and be prepared to take responsibility for them. Stock prices have a habit of rising or falling very sharply. The rule the world over is the same "Buyers beware." Your broker is not responsible if you lose money on the stocks that you buy.

- You can consider taking financial advice but in our markets there is a dearth of qualified and experienced professionals who can advise individual investors. Those you might contact would only tell you what stock they think is looking good regardless of its suitability for you.



- Stay away from discretionary trading account. You are most likely to have some serious problems with your broker if you leave up to him to take decisions that you should be taking yourself.

- Do not deposit any money at a fixed return with your broker to be invested in providing carry over or Badla financing to others. Such deposits do not have a legal cover and you may be exposed to risk of losing your money.



- Do not provide anyone a blanket authority to operate your account in any manner.
- Never give consent to the stock broker to pledge shares with the bank for borrowing purpose. No stock broker is authorized to pledge shares belonging to his client for borrowings from a bank. In case the investor does not take delivery of his shares, he can expose himself to such a risk.



[NAME OF THE BROKER]

ANNEXURE-I

Member, \_\_\_\_\_ Stock Exchange  
(Address of Head Office and concerned Branch Office)

Broker Registration No. \_\_\_\_\_

**ACCOUNT OPENING FORM**

NOTE 1: EACH AND EVERY COLUMN MUST BE FILLED IN  
NOTE 2: EACH PAGE OF THIS FORM WILL BE DULY SIGNED BY THE ACCOUNT HOLDER(S)  
AND THE BROKER

NATURE OF ACCOUNT:

SINGLE:  JOINT:  CLIENT ID / ACCOUNT NO. \_\_\_\_\_

COMPANY:  FIRM:  CDC ACCOUNT NO. \_\_\_\_\_

**ACCOUNT HOLDER**

**JOINT ACCOUNT HOLDER**

ACCOUNT TITLE/NAME: \_\_\_\_\_

ACCOUNT TITLE/NAME: \_\_\_\_\_

ADDRESS: \_\_\_\_\_

ADDRESS: \_\_\_\_\_

TEL: \_\_\_\_\_

TEL: \_\_\_\_\_

E-MAIL: \_\_\_\_\_

E-MAIL: \_\_\_\_\_

FAX NO: \_\_\_\_\_

FAX NO: \_\_\_\_\_

PERMANENT/REGISTERED ADDRESS: \_\_\_\_\_

PERMANENT ADDRESS: \_\_\_\_\_

**For individuals only:**

DATE OF BIRTH: \_\_\_\_\_

DATE OF BIRTH: \_\_\_\_\_

NATIONALITY: \_\_\_\_\_

NATIONALITY: \_\_\_\_\_

STATUS: \_\_\_\_\_ RESIDENT \_\_\_\_\_ NON-RESIDENT

STATUS: \_\_\_\_\_ RESIDENT \_\_\_\_\_ NON-RESIDENT

GENDER: \_\_\_\_\_ MALE \_\_\_\_\_ FEMALE

GENDER: \_\_\_\_\_ MALE \_\_\_\_\_ FEMALE

FATHER'S/HUSBAND'S NAME: \_\_\_\_\_

FATHER'S/HUSBAND'S NAME: \_\_\_\_\_

NATIONAL IDENTITY CARD NO. (IN CASE OF NON

NATIONAL IDENTITY CARD NO. (IN CASE OF NON

RESIDENT PASSPORT NO.) \_\_\_\_\_

RESIDENT PASSPORT NO.) \_\_\_\_\_

OCCUPATION: \_\_\_\_\_

OCCUPATION: \_\_\_\_\_



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**For Companies or Firms only:**

Company Registration No. \_\_\_\_\_

STATUS: \_\_\_\_\_ RESIDENT \_\_\_\_\_ NON RESIDENT

BOARD RESOLUTION DATED \_\_\_\_\_ ATTACHED AS ANNEXURE 'A'.

**Declaration of Solvency**

The Account Holder hereby declares that:

- a) It has not applied to be adjudicated as an insolvent and that it has not suspended payment and that we have not compounded with our creditors;
- b) It is not un-discharged insolvent; and
- c) It has not been declared defaulter in repayment of loan of a bank/financial institutions.

**Name of Authorized Persons to operate the account**

The account shall be operated by the following

	<u>Names</u>	<u>Specimen Signature</u>	<u>Singly/Jointly</u>
(a)	_____	_____	_____
(b)	_____	_____	_____
(c)	_____	_____	_____

The authority of the person(s) authorized to operate the account will be clearly spelled out in the letter of authorization from the Account Holder.

**MARGIN DEPOSIT**

The Account Holder(s) hereby undertakes to deposit and maintain \_\_\_\_\_ % margin against his/her/their outstanding trades/exposure for the purpose of trading in his/her/their account. The broker shall notify the Account Holder(s) about any change in the above margin requirements for the already executed trades at least 3 days prior to the implementation of the revised margin requirements.



**CLIENT BANK DETAILS (OPTIONAL):**

**ACCOUNT(S) WITH OTHER BROKER(S) (OPTIONAL)**

	NAME OF THE BROKER(S)	MEMBER EXCHANGE	CLIENT ID/ ACCOUNT
NAME OF THE BANK: _____			
SAVINGS/CURRENT A/C NO.: _____			
BRANCH ADDRESS: _____			

**NOMINATION:**

(In the event of death of the Account Holder, the nominee shall be entitled to receive securities / cash available in the account of the account holder after set-off against losses/liabilities in the account.)

Name of Nominee: \_\_\_\_\_ Surname: \_\_\_\_\_  
 NIC Number: \_\_\_\_\_  
 Date of Birth: \_\_\_\_\_ (DD/MM/YYYY)  
 Postal Address: \_\_\_\_\_  
 Tel: \_\_\_\_\_ E-mail: \_\_\_\_\_

**SPECIAL TERMS AND CONDITIONS**

The terms and conditions set herein below shall be equally binding on the Broker and the Account Holder(s).

1. All transactions between the parties shall be subject to the Articles, Rules and Regulations of the Exchange, revised policies, Board Directions and new regulations to be framed in pursuance of Section 34 of the Securities & Exchange Ordinance, 1969. Moreover, all applicable provisions of the Securities & Exchange Ordinance, 1969 read with the Securities & Exchange Commission of Pakistan Act, 1997, Brokers and Agents Registration Rules, 2001, Securities and Exchange Rules 1971 and all directions/directives passed from time to time to regulate the trades between the parties and to regulate Brokers conduct and the Central Depository Companies of Pakistan Act, 1997, Rules framed there under and the National Clearing and Settlement System Regulations and any other law for the time being in force. The Broker shall ensure provisions of copies of all the above Laws, Rules and Regulations at his office for access to the Account Holder (s) during working hours.
2. The amount deposited as security margin by the Account Holder(s) with the Broker shall only be used for the purposes of dealing in securities, such as trading and/or settlement of deliveries of securities on behalf of the Account Holder(s). The Broker shall not use such amounts for his own use.
3. The Broker shall be authorized to act on the verbal instructions of the Account Holder(s). The Broker shall provide a written confirmation of the executed transactions as required under rule 4(4) of the Securities & Exchange Rules, 1971, and all such transactions recorded by the Broker in his books shall be conclusive and binding upon the Account Holder(s), which shall not be questioned by him/her/them, subject to clause 5 below.



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Or

The Account Holder(s) shall give written instructions for the sale/purchase of securities to the Broker. The Account Holder(s) shall not give any verbal/oral instructions. The Broker shall provide a written confirmation of the executed transactions as required under rule 4(4) of the Securities & Exchange Rules, 1971, and all such transactions recorded by the Broker in his books shall be conclusive and binding upon the Account Holder(s), which shall not be questioned by him/her/them, subject to clause 5 below.

4. The Broker shall provide the confirmation of the executed transactions to the \_\_\_\_\_ (Name of Account Holder) at the above stated address by means of acceptable mode of communication or by hand subject to acknowledgment receipt as noted in clause 16.
5. In case there are any error(s) in the daily confirmation statement, the Account Holder(s) shall report the same to the Broker within one-business day of the receipt of confirmation. In case the Account Holder(s) do not respond within one business day of the receipt of the said daily confirmation statement, the confirmation statement shall be deemed conclusively accepted by the Account Holder(s).
6. In the event that the Account Holder(s) fail(s) to deposit additional cash or securities as margin within one business day of the margin call (in writing), the Broker shall have absolute discretion to and, without further notice to Account Holder(s), liquidate the Account Holder(s) outstanding positions, including the securities purchased and carried in such account, so that the margin is maintained at the required level.
7. The Broker shall be responsible to ensure delivery of CDC eligible securities in the CDC account of the Account Holder(s) subject to full payment by the Account Holder(s). In case of companies which are not on the CDS, the Broker shall ensure delivery of physical shares along with verified transfer deeds against payments, to the Account Holder(s). Further, the Broker shall be responsible for the payment of any credit cash balance available in the account of the Account Holder preferably in form of A/c Payee cross cheque only within 1 business day of the request of the Account Holder(s) (subject to the maintenance of the margin requirements).
8. The Broker shall encourage the Account Holder(s) to make payments to the Broker by "A/c Payee Only" cross cheque (in case of amounts in excess of Rs. 50,000/-) and "A/c Payee only" cheque or cash (for amounts below Rs. 50,000). The Broker shall be responsible to provide the receipt to the Account Holder(s) in the name of the Account Holder(s) duly signed by authorized agents/employee of the Broker and the Account Holder(s) shall be responsible to obtain the receipt thereof. In case of cash dealings, proper receipt will be taken and given to the Account Holder(s), specifically mentioning if payment is for margin or the purchase of securities.
9. The Account Holder(s) shall have a right to obtain a copy of his/her or their ledger statement under official seal and signature of the Broker or his authorized representative on a periodic basis. In case of any discrepancy in the ledger statement, the Account Holder(s) shall inform the Broker within 1 day of receipt of the ledger statement to remove such discrepancy.
10. The Account Holder(s) shall operate the account and execute transactions himself/herself/themselves unless the Account Holder(s) authorize Mr./Ms./ \_\_\_\_\_ I. D. No. \_\_\_\_\_ to transact in the account. All transactions executed by the authorized person shall be binding upon the Account Holder(s).
11. **For Joint Account Holder(s) only:**  
We, the Account Holders shall operate the account jointly or severally and the instructions issued either jointly or severally shall be binding on us as well as upon the broker in respect of the joint titled account.



Or

Our titled account shall be operated only by \_\_\_\_\_ who shall be deemed as the authorized person for operating the joint account or issuing any instructions relating thereto.

12. The Broker shall be responsible to append a list of his authorized agents/traders and designated employees, who can deal with the Account Holder(s), with this account opening form and a copy of both the opening form and the list will be provided to the Account Holder(s). Any change therein shall be intimated in writing to the Account Holder(s) with immediate effect.
13. The Broker shall debit the account of the Account Holder(s) for the commission charges or any other charges in connection with the brokerage services rendered, which shall be clearly detailed in the ledger statement/daily confirmations.
14. The Broker shall not disclose the information of the transactions of the Account Holders to any third party and shall maintain the confidentiality of this information. However, in case the Exchange or the Commission, as the case may be, requires any such information, the Broker shall be obliged to disclose the same for which the Account Holder(s) shall not raise any objection whatsoever.
15. In case a Broker converts his individual membership rights to corporate membership and vice versa the agreement and conditions laid down herein above shall remain effective unless otherwise agreed by the parties.
16. Acceptable mode of communication between the Account Holder(s) and the Broker shall be through letter (courier/registered post/fax/E-mail) or by hand subject to receipt/acknowledgment. The onus of proving that the e-mail has been received by the recipient shall be on the sender sending the e-mail.
17. In case of change of address or contact numbers of either party, the concerned party shall immediately notify the other party of the changes in writing.
18. I/We, the Account Holder(s) acknowledge receipt of this account opening form (signed here by me/us in duplicate) along with the copies of all the annexures and I/we, the Account Holder(s) also undertake that I/we have understood all the above terms and conditions of this agreement which are acceptable to me/us.
19. I/We, the Account Holder(s) understand that the shares trading business carries risk and subject to the due diligence on part of the broker I/we may incur losses for which I/we, the Account Holder(s) shall not hold the Broker responsible.
20. I/We, the Account Holder(s) further confirm that all information given in this application is true and complete and hereby authorize the Broker to verify any information mentioned above.

\_\_\_\_\_  
Signature of Broker

\_\_\_\_\_  
Signature of Account Holder

\_\_\_\_\_  
Signature of Joint Account Holder



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**WITNESSES:** 1. \_\_\_\_\_ (I. D. Card No. \_\_\_\_\_ )

2. \_\_\_\_\_ (I. D. Card No. \_\_\_\_\_ )

Opened by: \_\_\_\_\_ Checked by: \_\_\_\_\_

Date: \_\_\_\_\_

**Enclosures (for individuals):**

1. Attested copies of National Identity Card of the applicant.
2. Attested copies of National Identity Card of the Joint Holders and or Nominee(s) (if applicable)
3. Attested copies of passports of the applicant, Joint Holders and or Nominee(s) (in case of non-residents)
4. Copy of the letter of authorization from the Account Holder(s) of the person authorized to trade in my/our accounts (if other than the account holder).
5. A list of Transaction fee, Commission to be charged by the Broker and other CDC charges to be levied.



**Annexure - 'A'**

**Board Resolution**

"**RESOLVED** that an application be made on behalf of \_\_\_\_\_ (name of entity) to \_\_\_\_\_ ("broker") for opening an Account and for the afore-said purpose the Account Opening Form including Terms and Conditions as set out herein be executed on behalf of \_\_\_\_\_ (name of entity).

**FURTHER RESOLVED** that Mr./Ms. \_\_\_\_\_ and Mr./Ms. \_\_\_\_\_ be and are hereby authorized and empowered, either singly/jointly for and on behalf of \_\_\_\_\_ (name of entity) to sign and execute and deliver this Account Opening Form and Terms & Conditions and other documents in connection therewith, and to do any other act, deed or thing for and on behalf of \_\_\_\_\_ (name of entity) in respect of company's application for opening an Account.

**FURTHER RESOLVED** that Mr./Ms. \_\_\_\_\_ and Mr./Ms. \_\_\_\_\_ be and are hereby authorized and empowered, either singly/jointly to represent to the broker on all matters pertaining to the maintenance and operation of the Account, to deal, liaise and correspond with broker and give instructions to fulfill all the responsibilities and obligations to broker under the Law, Rules and Regulations and the Terms and Conditions in relation to the Account from time to time, and to deal with other incidental and ancillary acts, things and deeds".

**Signatures of the Directors**

1. \_\_\_\_\_ 2. \_\_\_\_\_  
3. \_\_\_\_\_ 4. \_\_\_\_\_  
5. \_\_\_\_\_ Date of Resolution: \_\_\_\_\_



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**ANNEXURE-II**



**THE KARACHI STOCK EXCHANGE (GUARANTEE) LIMITED**

**SPECIMEN OF AN UNDERTAKING TO BE FURNISHED BY THE INVESTOR**

**UNDERTAKING**

I, \_\_\_\_\_ s/o, d/o, w/o \_\_\_\_\_, adult, resident of \_\_\_\_\_, hereby undertake as under:-

1. That I shall abide by all the Rules and Regulations of the Karachi Stock Exchange in force for the arbitration as well as direction of the arbitrator(s) / Arbitration Committee / Board Committee appointed / constituted for the purpose in the matter of dispute with Mr. / M/s. \_\_\_\_\_, Member, KSE.
2. That I shall abide by the decision / award of the said arbitrator(s) / Arbitration Committee / Board Committee appointed / constituted under the General Rules & Regulations of the Karachi Stock Exchange (Guarantee) Limited.

**WITNESSES:**

Signature : \_\_\_\_\_  
 Name : \_\_\_\_\_  
 N.I.C. No. : \_\_\_\_\_  
 Address : \_\_\_\_\_  
 \_\_\_\_\_

1. Signature : \_\_\_\_\_  
 Name : \_\_\_\_\_  
 N.I.C. No. : \_\_\_\_\_  
 Address : \_\_\_\_\_  
 \_\_\_\_\_

2. Signature : \_\_\_\_\_  
 Name : \_\_\_\_\_  
 N. I. C. No. : \_\_\_\_\_  
 Address : \_\_\_\_\_  
 \_\_\_\_\_



**SPECIMEN OF INVESTORS' CLAIM FORM**

**THE KARACHI STOCK EXCHANGE (GUARANTEE) LIMITED**  
Stock Exchange Building, Stock Exchange Road, Karachi-74000  
Phones: 2425502-3-4, Fax: 2410825-2415763

**INFORMATION ON INVESTORS' CLAIM**

1. Particulars of Investor / Claimant:  
a. Name of Investor / Claimant: \_\_\_\_\_  
b. Complete Address: \_\_\_\_\_  
c. Telephone/Fax/Mobile Number: \_\_\_\_\_  
d. National ID Card No.: \_\_\_\_\_

2. Name of Member of KSE against whom claim filed: \_\_\_\_\_

3. Name of Agent of above Member-KSE, if any, through whom transactions undertaken: \_\_\_\_\_

4. Nature of Claim: \_\_\_\_\_ Shares \_\_\_\_\_ Cash \_\_\_\_\_ Both \_\_\_\_\_  
(Please tick whichever is applicable)

5. Particulars of claim:  
(a) **SHARES** (Please attach separate sheet in the following format with complete details duly signed)

<u>Sr. No.</u>	<u>Name of Company</u>	<u>No. of Shares</u>	<u>Present Value (Rs.)</u>
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Sub-Total: \_\_\_\_\_

(b) **CASH** Rs. \_\_\_\_\_

(c) **GRAND TOTAL** (a+b) Rs. \_\_\_\_\_

6. Date when the claim against above Member-KSE first arose: \_\_\_\_\_

7. Any other documents in support of claim(s)

(a) \_\_\_\_\_

(b) \_\_\_\_\_

(c) \_\_\_\_\_

I confirm that whatever stated above is true and correct to the best of my knowledge and belief and nothing has been concealed or mis-stated.

Date: \_\_\_\_\_

\_\_\_\_\_  
Signature of Investor / Claimant

**Please attach the following:**

1. A brief note of the facts of the case duly signed. (preferably typewritten)
2. Photocopies of all the bills, contract notes, receipts, payment evidence, correspondence etc. in support of your claim (original to be retained for production at a later stage)
3. Photocopy of NIC.



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### **GLOSSARY OF SECURITIES MARKET TERMS**

- Annual Report** : Formal financial statements, the Auditors' Report, together with the Directors' Report issued by a company. These financial statements are usually prepared at the close of the company's financial year.
- Arbitrage** : The simultaneous purchase and sale of the same security on different stock exchanges at prices which yield a profit.
- Assets** : What the company owns and various debts owing to it.
- Balance Sheet** : The Balance Sheet is a statement of the Company's financial position at a specific date.
- Bear** : An investor who anticipates for a decline in stock prices.
- Bear Market** : A market in which stock prices are declining in general. A serious decline is called a depression. A short decline in a generally rising market is looked upon as a technical correction.
- Bid and Asked** : The bid is the highest price any one has offered to pay for a security at a given time; the asked is the lowest price any one has offered to accept for a security at a given time.
- Blue Chip** : A large well-established company with a history of profitable operation.
- Bonds** : Fixed-income securities, which entitle the holder to a pre-determined return during their life and repayment of principal at maturity.
- Book Closing** : The closure of books by a company to determine the shareholders' rights to receive bonus, dividend, rights, etc. No transfers are recorded during this period.
- Boom** : Denotes greater activity on the stock exchange.
- Bull** : An investor who anticipates for a rise in stock prices.
- Bull Market** : A market in which stock prices are rising in general. If the market is recovering from a deep decline, the early stage of the up trend is called an up reversal, turnaround, rally or recovery.



**Capital gain or**

**Capital loss** : Profit or loss from the sale of a capital asset, including securities.

**Capital Gain Tax** : Tax payable on profit arising from appreciation in value of investment, realized at the time of selling or maturity of investment.

**Carry-over Trades** : Equity repurchase transactions, better known, as “Badla”; are an established form of transactions used in the stock market for temporary financing of trades by speculators and jobbers.

**Clearing** : Settlement or clearance of accounts in stock exchanges.

**Collateral** : Securities or other properties pledged by a borrower to secure the repayment of a loan.

**Commission** : The fees payable by a client to the sharebroker for buying or selling securities on his behalf.

**Contract** : A statement sent to a client by the stockbroker, giving details of securities purchased or sold.

**Convertible** : A bond, debenture, or preferred share that may be exchanged by the owner for common stock or other security, usually of the same company, in accordance with the terms of the issue.

**Corner** : To have control of supply of a security by buying on such large scale that the entire market is affected. It strongly influences the market prices in a way that the person with the corner may make undue profit or forces other with a short position to cover at a loss.

**Cum-dividend** : The term implies that the buyer is entitled to the dividend currently declared.

**Cum-right** : Shares having the right to receive the upcoming rights issues offered by the company.



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- Dividend** : That part of a company's profits which is distributed among shareholders, usually expressed in rupee per share or percentage to paid up capital. It could be in the form of cash or stock (Bonus Share).
- Earnings per share (EPS)** : A profitability indicator calculated by dividing the net after tax earnings available to common stockholders during a period by the average number of shares outstanding at the end of that period.
- Equity** : The owners' interest in a company's capital, usually referred to as ordinary shares.
- Ex-dividend** : A synonym for without dividend. The buyer of a stock selling ex-dividend does not receive the recently declared dividend.
- Face value** : The value of a security that appears on the face of the certificate unless the value is otherwise specified by the issuing company. It is also termed as par value.
- Floitation** : The occasion when a company's shares are offered on the stock market for the first time.
- Fund managers** : A company, which invests and manages investors' money, with the aim of maximizing capital growth.
- Gamble** : To bet on uncertain outcome.
- Initial Public Offering (IPO)** : The offering of equity shares of a company to the general public for the first time.
- Insider Trading** : Insider trading normally occurs when an insider, that is, a director, an officer, a banker or a favored customer, due to his access to special information about the company's affairs, which has not been made available to the market influence the value of shares to his advantage.
- Investment** : To commit (money) in order to earn a financial return.



- Investment company** : A company, which issues shares and uses its capital to buy securities and shares in other companies.
- Investor** : An individual whose principal objective in the purchase of a security is regular dividend income, safety of the original investment and, if possible, capital appreciation.
- Letter of Renunciation** : Usually sent with the letter of right. A shareholder may renounce the shares offered in favour of some other individuals. The shareholder transfers the right to take up the shares offered to him.
- Letter of Right** : A letter sent by a company to shareholders offering them the right to subscribe in a specified number of shares.
- Liabilities** : What the company owes to its shareholders and creditors.
- Listed company** : A company whose securities are admitted for listing on a stock exchange.
- Market capitalization** : The total value of a company's equity capital at the current market price.
- Market maker** : A person who commits himself to always being ready to deal in a range of securities for his own account taking temporary position.
- Market price** : In case of a security, market price is usually considered the last reported price at which the security is sold.
- Net change** : The change in the price of a security between the closing price on one day and the closing price on the following day on which the stock is traded. In case of a stock that is entitled to dividend one day but is traded ex-dividend the next, the dividend is considered in computing the change.
- Nominee** : A person or company holding securities on behalf of others, but who is not the owner of such securities.



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- Odd-lot** : An amount of stock less than the established unit of trading.
- Option** : The right (but not the obligation) to buy or sell securities at a fixed price within a specified period.
- Ordinary shares** : The most common form of shares, which entitle the owners to jointly own the company. Holders may receive dividends depending on profitability of the company and recommendation of directors.
- Portfolio** : A collection of investments
- Price/earning ratio (P/E ratio)** : The P/E ratio is a measure of the level of confidence (rightly or wrongly) investors have in a company. It is calculated by dividing the current share price by the last published earnings per share.
- Primary Market** : Where a company issues new shares, either for the first time, or at the time of issuing additional securities.
- Privatization** : Conversion of a state-owned company to a public limited company (plc) status.
- Private Limited Company** : A company that is not a public company and which is not allowed to offer its shares to the general public.
- Profit & Loss Account** : A financial statement which shows the amount of money a company has earned during the period.
- Proxy** : A person who represents the shareholder, on the basis of written authorization, in the annual meeting of a company. A proxy does not have the right to speak, though he may vote on behalf of the shareholder. Proxy is also used to refer to the instrument by which the shareholder authorizes another individual, who may not be a shareholder, to so represent him.
- Public Limited Company (plc)** : A company whose shares are offered to the general public and traded freely on the open market and whose share capital is not less than a statutory minimum.



- Retained Earnings** : Profits earned and retained in the business to meet operating expenses or for acquiring additional assets or for any other purpose.
- Rights Issue** : The issue of additional shares to existing shareholders when companies want to raise more capital.
- Securities** : A broad term for shares, corporate bonds or any other instrument of investment in the capital market.
- Settlement** : Once a trade has been executed, the settlement process transfers stock from seller to buyer and arranges the corresponding exchange of money between buyer and seller.
- Short covering** : Buying stock to return stock previously borrowed to make delivery on a short sale.
- Short sale** : It occurs when a person sells shares that he does not own. A short sale is usually made in the hope that a subsequent market decline will enable the seller to 'cover his position' at a profit, that is, to buy at a later date and at a lower price the shares he needs to deliver against his original short sale.
- Speculate** : To assume a business risk in hope of gain, especially to buy or sell in expectation of profit from market fluctuations.
- Split** : The division of shares of a large denomination into shares of smaller denominations.
- Spread** : The difference between the bid and offer price of a market maker.
- Stock** : Securities that represent an ownership interest in a company. If the company has also issued preferred stock, both common and preferred having ownership rights, but the preferred stock normally has prior claim on dividends and in the event of liquidation on assets.



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- Stockbroker** : A member of the stock exchange who deals in shares for clients and advises on investment decisions.
- Stock dividend** : A dividend paid in securities rather than cash.
- Stock Market** : The market place where shares of public listed companies are bought and sold.
- Unit trust** : An open-ended mutual fund that invests funds in securities and issues units for sale to the public. It can repurchase these units at any time.
- Yield** : Also known as return. The dividend or interest paid by a company expressed as a percentage of the current price or, if you own the security, of the price you originally paid. The return on stock is calculated by dividing the total of dividend paid in the preceding 12 months by the current market price.



## **The Karachi Stock Exchange**

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