

EXPLANATION OF SECURITIES TRADING:

WHAT ARE SHARES?

Shares, as the name says, are shares in a limited company. Each shareholder is a partial-owner of the company in which they have bought shares and investors can buy and sell their shares on the stock exchanges. Companies on incorporation issue shares, (also called equities) and later perhaps when they are building up a business. The original shareholders might still own them, or they may have sold them to someone else through the stock market. If the company makes profit, the shareholders normally have some of it passed to them in the form of dividends. The amount paid in dividends varies each year, depending on how profitable the company has been and how much money the directors and the company management want to keep in reserve for future expansion.

There are different ways in which you can participate in the stock market:

1. Directly: by buying and selling shares;
2. Indirectly: through a collective vehicle, in which shares are grouped together, such as a mutual fund or Exchange Traded Funds (ETFs).

THE INITIAL PUBLIC OFFERING OF STOCKS (IPO):

The initial public offering (IPO) of stocks and bonds to investors is by definition done in the primary market and subsequent trading is done in the secondary market. IPO is the initial sale by a company of shares of its stock to the public in the financial market.

BOOK BUILDING PROCESS FOR NEW COMPANIES:

Book Building is the process of price discovery and pricing a new share issue. The process by which an underwriter attempts to determine, at what price to offer an IPO based on demand from institutional investors for its efficient price discovery based on actual supply and demand by informed investors.

WHAT ARE THE MEASURES OF MARKET PERFORMANCE?

There are four indicators of market performance:

- a. Market Capitalization
- b. Value Turnover
- c. Traded Volume
- d. Composite Index

WHAT INFLUENCES MARKET MOVEMENTS?

General investors' sentiment indicates the direction of the market movement. However, the over-all market sentiment is influenced by a number of factors - economic, political, fiscal, etc.

HOW DO OTHER ECONOMIC INDICATORS AFFECT THE MARKET?

Interest rates, foreign exchange, inflation, growth rates - these are some other economic indicators, which affect the performance of the Stock Market. Favorable growth and inflation rates, as well as stabilized interest rates and foreign exchange, are good news for the stock market. They usually give a boost to the market performance as these indicate sound economic status. Soaring interest rates, on the other hand, usually push investors from the stock market to some interest-bearing investments, as they offer better returns than stock investing.

WHAT ARE STOCK MARKET INDICES? HOW DO THEY WORK?

KSE INDEX:

The KSE-100 Index is the benchmark for our market. It comprises of the top companies from each of the 34 sectors on the KSE, in terms of market capitalization. The rest of the companies are picked on market capitalization ranking, without any consideration for the sector to make a sample of 100 common stocks with base value of 1,000 in late 1991. There are two other indices; KSE-30 Index, which is based on free float capitalization of top 30 companies and KSE all shares Index which is based on full market capitalization of all listed companies at the Exchange.

An index, a composite figure, becomes a benchmark index when you choose it as the standard against which to measure your own portfolio's performance over time.

The most quoted index is the KSE-100. It comprises of the 100 largest companies on the Stock Exchange and is updated minute by minute during trading hours. The index reflecting all the companies on the Stock Exchange is the KSE-All Share Index and the KSE-30 Index comprises of top 30 companies.

Various investment companies have made their own indices to keep track of the performance of their portfolios. There are three major types of indices calculated to help private investors track the performance of their investment portfolios:

1. The Income Portfolio represents the performance of a portfolio designed to provide a regular flow of income.
2. The Growth Portfolio is for the investor seeking capital growth in his or her portfolio.
3. The Balanced Portfolio represents a balanced portfolio providing both capital and income.

HOW CAN I BUY AND SELL SHARES?

You can buy shares when a company first comes to market - that is at flotation or privatization; or you can buy them through the stock market once they are in circulation and are being traded.

Companies which are about to issue shares often advertise in a daily newspaper. If you decide to buy these shares, you can seek more information from the company's website or you can fill up the application form at the affiliated bank or ask the company for a prospectus. Fill out the application form and submit it with your pay order, at the bank.

Most share dealings take place in what is called the secondary market. This is where existing shareholders sell and new investors buy.

Today, buying shares is easy. You can buy and sell shares by making contact with a stockbroker, bank or investment adviser, either in person or over the internet or telephone.

WHEN YOU BUY?

Once you instruct your broker to buy shares, he/she buys the shares for you at the best price available at the time. By the end of day's trading, you will receive a confirmation-note. This shows the details of the transaction. Your broker will indicate when he/she needs to have your money to pay for the shares.

WHEN YOU SELL?

Immediately you give your broker an order to sell, he/she again negotiates the best possible price. By the end of day's trading, you receive a contract note confirming the deal. If you hold the share certificate, you must send this to your broker in accordance with his/her instructions. If your shares are held in Central Depository Company (CDC), you will not have a share certificate to worry about.

HOW ARE SETTLEMENT AND CLEARING DONE?

Clearing and settlement of all stock exchange transactions are provided by National Clearing Company (NCCPL), which acts as go between for KSE and Central Depository Company (CDC) which is the share depository company. Shares move between share-accounts held by the different participant-brokers of the Central Depository Company (CDC).

Stock market transactions are settled on the second day after the trade. Transfers are based on trades done at KSE. Shares are transferred on settlement date (T+2) to the buyer, and the buyer pays the seller through the clearing banks within the same settlement period. This means that transactions done on Monday must be settled by Wednesday. Settlements of accounts are done in the clearing house through National

Clearing & Settlement System (NCSS), which is a fully automated electronic settlement system. Visit NCCPL website for further details regarding clearing and settlement, www.nccpl.com.pk.

WHAT IS THE CENTRAL DEPOSITORY COMPANY (CDC)/CENTRAL DEPOSITORY SYSTEM (CDS)?

The CDC is a company that operates an electronic share register called the Central Depository System (CDS). The CDS eliminates the need for physical movement of share certificates. CDC electronically manages book entry system for custody and transfer of securities. CDS was introduced to replace the manual system of physical handling and settlement of shares at the stock exchange and is managed by the Central Depository Company (CDC), which is incorporated under the Central Depositories Act 1997. Investors can open their accounts directly with CDC called Investor Accounts or open sub accounts with a brokerage firm. It has also solved investor problems related to stock handling on the settlement date, registration of shares, and exercise of corporate action benefits. Visit CDC website for further details regarding shares safe keeping. (www.cdcpakistan.com)

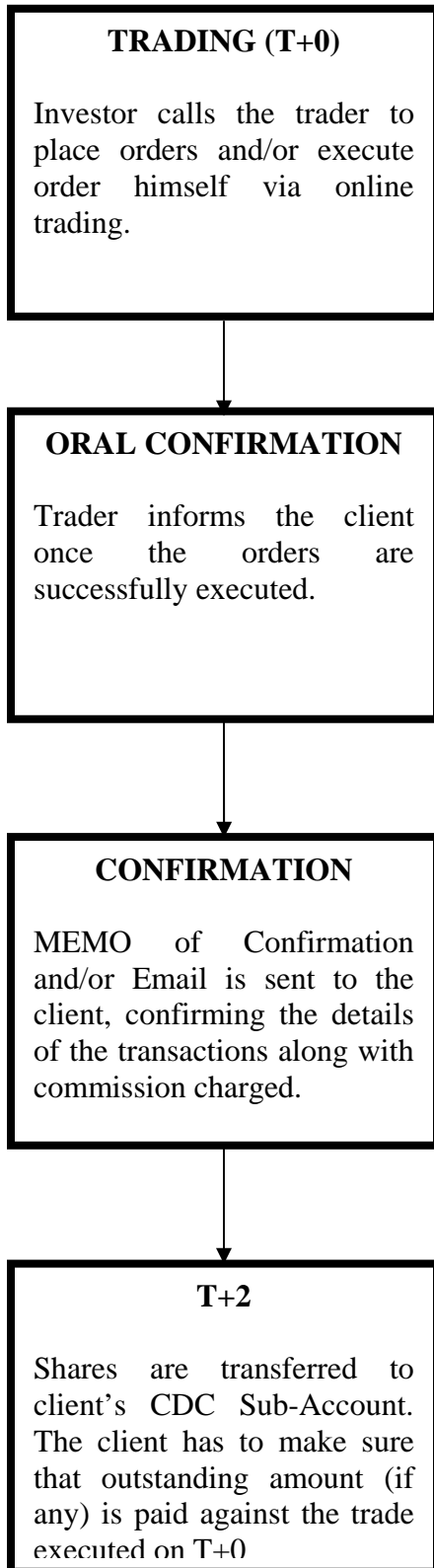
COMMON TERMS USED ON TAURUS TRADE CAST SCREEN:

S.No	Common Terms	Description
1	Market	The type of trade in which the Security falls
2	Symbol	Unique short name assigned to any particular script by KSE.
3	Change	Difference between the last traded and close of the previous day's price
4	Buy Vol	No. of Securities investor intends to buy
5	Buy	The rate at which investor intends to execute his/her buy order
6	Sell Vol	No. of Securities investor intends to sell
7	Sell	The rate at which investor intends to execute his/her Sell order
8	Last Vol	No of Securities executed/traded in previous/last trade.
9	Last Price	The price at which last trade took place
10	Total Vol	Total No. of Securities traded during a particular time/day
11	Avg	Total value of Security traded, divided by No. of Securities traded
12	High	The highest rate at which the Security traded
13	Low	The lowest rate at which the Security traded
14	Prev. Close	Previous day's closing price
15	Trade Time	The time at which the trade took place
16	Limit Order	A limit order is when the user enters the order into the system with a specific price
17	Market Order	A market order is when the user enters the order into the system without a specific price. The system will execute the order irrespective of price. The system will search for the quantity of order to be completed at any available price. In a rapidly moving market, a market order may be executed at a price higher or lower than the quote displayed on the website at the time of order entry.
18	Market Lot	Market Lot is the normal unit of trading for a security, which is usually 500 shares of stock having price less than Rs.50/- and 100 shares of stock having price above Rs.50/-.
19	Odd Lots	For stocks, any transaction less than the market lot is usually considered to be an odd lot. These odd lots cannot be traded on the regular market and hence the Karachi Stock Exchange has initiated a separate ODD Lots Market.
20	Margin Call	A margin call most often occurs when the amount of actual capital the investor has, drops below a set percent of the total investment. A margin call may also be triggered if the broker changes their minimum margin requirement which is the absolute minimum percentage of the total investment that one must have in direct equity.

21	Stop Loss Order	A stop-loss order is a request to sell a security once the market price reaches or falls below an investor-specified price. Once the target price has been reached or surpassed, the order becomes a "market" order. This is especially true in a fast-moving market where stock prices can change rapidly. A stop-loss order is typically used to sell a security, to lock in profits or limit losses if a security price falls. Setting a stop-loss order for 5% below the price at which you bought the stock will limit your loss to 5%. Stop-loss orders are only available when selling a security to close a position.
22	Short Sell	Short selling refers to the practice of selling securities in the hope of repurchasing them later at a lower price. This is done in an attempt to profit from an expected decline in price of a security. Such as a stock or a bond, is contrast to the ordinary investment practice, where an investor "goes long," purchasing a security in the hope the price will rise.

Trade Process:

Ready Market



Related Information

Ready Market
All regular market transactions follow the T+2 settlement system

SPOT/T+1 Transaction
Transactions are settled the same day or the next day, when investors trade in share 5 days before the company's share transfer book closure

Future Market
Other than depositing margins as required by TSL from time to time, the client's trade will be mark to market (MTM) on daily basis, whereby MTM losses have to be paid by the client on daily basis until expiry of the contract or until open positions are closed out.

MTS Market
Other than depositing FPR (finance participation ratio) of 15%, the client's trade will be mark to market (MTM) on daily basis, whereby MTM losses have to be paid by the client on daily basis. MTS transactions extend to 60 days.

RISK OF SECURITIES TRADING:

Market / Economy Risk: The performance of any company depends on the growth of an economy. An economy, which continues to prosper, ensures that companies operating in it benefit from its growth. However, an equity shareholder also runs the risk of any downturn in the economy affecting the performance of his company. Economy related risks are usually reflected in the factors such as GDP growth, inflation, balance of payment positions, interest rates, credit growth etc. A slowdown in the economy pinches almost all sectors, especially infrastructure, services and manufacturing companies.

Industry Risk: All industries undergo some kind of cyclical growth. Shareholders get rewarded most during the expansion stage. However, once the industry reaches a maturity stage, the rewards from investment are limited. Further, companies belonging to industries where growth has retarded incur losses or declining gains. Industry specific government regulations too impact returns from investments made therein.

Management Risk: The management is the face of an enterprise. It is the team which gives direction to the future course of action that a company will take. Quality of management is hence paramount. Management changes often have a serious impact on policy matters of companies, thereby impacting the share price. A management which is unable to meet the challenges posed by competition is likely to suffer in performance.

Business Risk: Business risk is a function of the operating conditions faced by a company and the variability that these conditions inject into operating income and hence expected dividends. Business risk can be classified into two broad categories: external and internal. Internal business risk is largely associated with the efficiency with which a company conducts its operations within the broader environment imposed upon it. External risk is the result of operating conditions imposed upon the company by circumstances beyond its control.

Financial Risk: Financial risk is associated with the way in which a company finances its activities. A company, borrowing money for business, creates fixed payment obligations in form of interest that must be sustained. Beyond a specified limit, the residual income left for shareholders gets reduced, thereby affecting the returns on shares. More importantly, it increases default risk, i.e, a heavily leveraged company, is at a greater risk of not being able to meet its liabilities and hence going bankrupt.

Exchange Rate Risk: Companies today earn sizeable revenues from outside their parent country. Hence, any appreciation in the currency, adversely affects earnings, which results in falling or stagnant share prices.

Inflation Risk: Rising prices or inflation reduces purchasing power for the common man resulting in a slowdown in the demand in the economy. This has implications for all the sectors in the economy. Hence, in an inflationary environment, share prices of most companies face a downturn as the expected fall in demand reduces their future expected income.

Interest Rate Risk: Interest rate risk refers to the uncertainty of future market values and size of future income, caused by fluctuations in the general level of interest rates. Rising interest rates increase cost of borrowing, which results in an increase in the prices of products and a corresponding slowdown in demand. Hence, an interest rate hike affects share prices of companies cutting across the board.

How to overcome risks: Most risks associated with investments in shares can be reduced by using the tool of diversification. Purchasing shares of different companies and creating a diversified portfolio has proven to be one of the most reliable tools of risk reduction.

The process of diversification: When you hold shares in a single company, you run the risk of a large magnitude. As your portfolio expands to include shares of more companies, the company specific risk reduces. The benefits of creating a well diversified portfolio can be gauged from the fact that as you add more shares to your portfolio, the weightage of each company's share gets reduced. Hence any adverse event related to any one company would not expose you to immense risk. The same logic can be extended to a sector or an industry. In fact, diversifying across sectors and industries reaps the real benefits of diversification. Sector specific risks get minimized when shares of other sectors are added to the portfolio. This is because a recession or a downtrend is not seen in all sectors together at the same time.

However all risks cannot be reduced: Though it is possible to reduce risk, the process of equity investing itself comes with certain inherent risks, which cannot be reduced by strategies such as diversification. These risks are called systematic risk as they arise from the system, such as interest rate risk and inflation risk. As these risks cannot be diversified, theoretically, investors are rewarded for taking systematic risks for equity investment.

RISKS OF ONLINE TRADING & ITS MITIGATION:

Risks of Online Trading:

We would like to inform you of the potential and inherent risks of trading online such as;

- The misuse of the Account Holder(s)' Password/PIN,
- Hacking of line,
- Outages and slowdowns in the internet connection,
- Breakdown of broker system and/or other third-party service breakdown and system errors,
- Piracy of the Account Holder(s)' information and affairs by unscrupulous persons, etc.

Mitigation of Risks Associated with Online Trading:

In order to be able to mitigate the risks associated with **Online Trading**, you are encouraged to download **Taurus Trade Cast User Manual** or contact our **Customer Support Online Department** at:

Mr. Fahed Ahmed
Customer Support Online
(021) 111 - Taurus (111 - 82 - 87 - 87) Ext. 217
(021) 35684228, 35638036, 35638354

Email: csonline@taurus.com.pk

**ALTERNATIVE MEANS TO PLACE/CANCEL PENDING ORDERS
DURING A SYSTEM FAILURE:**

In order to place orders and/or to cancel pending orders during a system failure, you are requested to please contact our **Customer Support Online Department** at:

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CLIENT BROKER RELATIONSHIP AND ARBITRATION PROCEDURE:

The receipt of complaints enables KSE to identify trading violations, which could impact investor confidence or affect fairness in the stock market. Using complaint information KSE can identify the weak areas in relevant regulations or in their compliance and make necessary arrangements for fixing the same.

1. How does the client know if they have a case against a Stock Exchange Member?

Losing money through dealing in securities is not in itself reason enough for a client to have a case against a Member. However, it is the responsibility of the Member to invest money according to the client's instructions. There are certain malpractices against which a client can lodge a complaint such as:

- Unauthorized Trading (Sale/Purchase)
- Unauthorized Transfer / Movement of Shares
- Non-supply of Statements of Account
- Non-supply of Trade Confirmations within 24 hours
- Overcharged Commission
- Failure to Execute Investor's Instructions/orders
- Suspension of Payment
- Non-Delivery of Securities.

2. What are the different streams through which a problem with a Stock Exchange Member can be settled?

There are three possible recourses for the client in regards to filing a complaint but prior to this it is strongly suggested that the complaint be taken up directly with the Member. This will not only save time but may help to preserve the trust and confidence between member and client.

- **KSE Arbitration Committee:** The client has the option of bringing their complaint to the management of the KSE. As a front line regulator KSE is empowered to take cognizance of complaints against the Members under the approved Rules and Regulations. After the careful review of all documents provided by the parties an Arbitration Award may be passed in accordance to the Rules and Regulations.
- **SECP:** The client can also lodge his/her complaint with the Vigilance Cell which has been setup at SECP to ensure that grievances/complaints of the general public are heard and redressed, in a quick and efficient manner. All the complaints received by the Vigilance Cell against Stock Exchange Members are forwarded to the Investor Complaint Wing ("ICW") of the Securities Market Division ("SMD") for further processing. However, SECP is not empowered to force the Member for compensation/damages.
- **Civil Court:** The client can also file their complaint with the Civil Courts.

3. What is Arbitration?

Arbitration is an alternative dispute resolution mechanism provided by KSE for those persons who do not wish to go to Court. Through this method disputes between the trading Members and between trading Members & their constituents (i.e. clients of trading members), may be addressed & resolved in respect of trades done on the Exchange. This process of resolving a dispute is comparatively faster than litigation.

The arbitrators are Members and management of the Exchange and Non-member directors of the Exchange.

4. Who can avail the facility of Arbitration on the Exchange?

The facility of arbitration on the Exchange can be availed by:

- a. Investors who have dealt on the Exchange through their Members dealing in Securities
- b. Investors who have dealt on the Exchange through registered agents of the Member dealing in securities
- c. Trading Members who have a claim, dispute or difference with another Trading Member or a constituent.

5. What is the period for filing an application for Arbitration in the event of a claim, difference or dispute?

An application for arbitration has to be filed within 3 months from the date of the dispute. For further details please refer to Regulation 34 of the General Rules and Regulations of KSE (Guarantee) Limited.

6. What is the Process for filing an application for Arbitration with KSE?

The procedure for arbitration is as follows:

- The client can file an application for Arbitration with the KSE.
- Copies of the following documents may be submitted along with the application to support the claim:
 - a. Copy of NIC (in case of companies NIC of the authorized representative)
 - b. Account opening form of the complainant
 - c. CDC sub-account opening form/Individual investor account
 - d. Relevant Share Deposit receipts
 - e. Relevant Trade confirmations slips/sale-purchase bills
 - f. Relevant cash receipts and payments made
 - g. Relevant CDC reports and statements
 - h. Any other document signed by the complainant or Member during the course of business
 - i. An undertaking to abide by the rules and regulations of the Exchange

- The Exchange then appoints the arbitrator(s). The claims up to 0.5 million are referred for arbitration to the Managing Director of the Exchange who will either himself enter upon the reference or appoint a nominee for this purpose and the claims/disputes above 0.5 million are referred to the Advisory & Arbitration Committee for their resolution/decision.
- The Arbitrator conveys the date of hearing to the parties and grants hearing in this respect to provide the parties an opportunity of presenting their case. After hearing both sides the Arbitrator passes an Award accordingly.
- According to KSE General Rules and Regulations any party to a dispute dissatisfied with any award of the Managing Director/his appointed nominee may file an appeal to the Advisory and Arbitration Committee against such award within seven days of receipt of such award and any party to dispute dissatisfied with the award of the Panel of Arbitrators may appeal to the Board against such award within seven days of the receipt of such award.

7. How is an Award made by the Sole Arbitrator/Panel of Arbitrators?

If both parties to the dispute are present at the appointed time and place the arbitrator may hear the reference and announce the award. If the party against whom the complaint is made is not present the arbitrators may hear and decide the dispute ex-parte. All claims referred to the panels of arbitrators are resolved by a majority.