# Investor's Guide

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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## TABLE OF CONTENTS


**1. Introduction ..... 1**
1.1 Capital Market Institutions in Pakistan

**2. What are shares..... 1**
2.1 Why do companies issue shares
2.2 How shares are made public for the first time
2.2.1 What is Book Building Process
2.3 Risks and rewards of Investment in shares
2.3.1 What is Dividend
2.3.2 What is Capital Growth/Gain

**3. What are the products in Stock Market..... 5**
3.1 Equity Shares
3.2 Derivatives
3.2.1 Futures Contract
3.3 Bonds
3.3.1 Government Bonds
3.3.2 Corporate Bonds
3.3.2.1 Types of Corporate Bonds

**4. How to trade in the Stock Market..... 9**
4.1 Trading Mechanism
4.2 With whom to trade
4.3 How to open account with the brokerage house
4.4 How to open Account with Central Depository Company of Pakistan Limited
4.5 Buying/ Selling of shares
4.6 What are the roles and Responsibilities of brokerage house
4.7 What are the costs of brokerage services

**5. What are the role and responsibilities of Investors....13**
5.1 Verifying authenticity of brokerage house
5.2 Keeping Documentary Evidence
5.3 Important Considerations

5.4 Lodging a complaint
5.5 What are the tips for wise investment
5.5.1 Portfolio Diversification
5.5.2 Understanding the shares in which to invest
5.5.3 Macro Economic Factors
5.5.4 Sector Performance
5.5.5 Beware of Scams

**6. What is National Commodity Exchange of Pakistan...19**
6.1 Trading Mechanism at NCEL

**7. Important Contacts ……..……..……..22**

**8. Glossary……..……..23**

## 1. Introduction

Everyone today appreciates the need to save whether for a house, for children's education, a wedding, or for use after retirement. All these goals can be realized through excellent financial planning. An intelligent plan entails investing your money in an appropriate combination of assets with potential to generate the income needed to achieve your goals. If you invest wisely, you can maximize the earning on your investments.

There are many investment avenues available, but a wise investor does not invest on impulse, a hot tip or follow the herd. An investor should discriminate between information, casting away irrelevant and illogical pieces of information, and checking for opportunities and facts before making an intelligent choice of investments.

### 1.1. Capital Market Institutions in Pakistan

There are presently three Stock Exchanges and one Commodity Exchange in Pakistan

i) Karachi Stock Exchange (Guarantee) Limited;
ii) Lahore Stock Exchange (Guarantee) Limited;
iii) Islamabad Stock Exchange (Guarantee) Limited; and
iv) National Commodity Exchange Limited

## 2. What are Shares?

Each share represents a proportionate 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.

Historically shares were in paper form, however, with the introduction of Central Depository System (CDS) these are available in an electronic book-entry form at the Central Depository Company Limited (CDC). Please note that only shares in electronic book-entry form can be traded on a stock exchange.

Once you buy shares these are transferred in your name through an entry in the company's share register, which will entitle you to receive all the benefits of share ownership including the rights to receive dividends, to vote at the company's general meetings to receive the company's reports.

If you decide to sell your shares you will need to deliver shares to the broker in time for the transaction to be completed.

## 2.1. Why do companies issue shares?

Companies issue shares to raise money from investors. This money is used for the development and growth of businesses of companies. 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 a share in its profits, in the form of dividends, and a voting right at general meetings of shareholders.

## 2.2. How shares are made public for the first times?

An initial public offering (IPO) is the process through which a company issues/offer its securities to the public for the first time. The companies go for IPOs for various reasons which include raising money for a specific project; or to list their securities on the stock exchange; or to meet their working

capital requirements or to pay expensive debts etc.

The shares are offered to the public through an offering document called “prospectus or “offer for sale document” (in case shares are offered by existing shareholder of a company and not by the company itself) which covers all information relevant to the issue and which helps an investor to make his/her decision whether to invest in a particular scrip or not. The information contained in the prospectus includes procedure for application of shares; financial and general information about the issuer; purpose of utilization of the proceeds of the issue; risk factors and advice for investors.

Before issue of shares, the prospectus or the offer for sale document, as the case may be, of a company must be cleared by the respective stock exchange under their listing regulations and must be approved by the Commission under section 57 or section 62 (in case of offer for sale document) of the Companies Ordinance, 1984.

The shares offered to the public may be at par or premium, however, where the shares are offered to the public at a premium then the issuer must meet certain additional requirements as provided in the law.

The Company may issue its shares to the general public either at a fixed price or at a price determined through book building mechanism. Where the shares are offered at a price determined through book building mechanism then the Company is required to fulfill the requirements which pertain to book building offering mechanism as mentioned in the Listing Regulations.

### 2.2.1. What is Book Building Process?

Book Building is a capital issuance process used in Initial Public Offers (IPOs) which aids price and demand discovery. It is a process used for marketing a public offer of equity shares of a company. It is a mechanism where, during the period for which the book is open, bids are collected from institutional investors. The offer price is determined after the bid closing date based on the market demand of shares.

In the Book Building Process since the price of share is determined on the basis of market demand, as such the chances of over/under pricing are minimized. Further, the issuer company has the option to withdraw from the market if the demand for the share does not exist. Book Building is an established practice in most developed countries and becoming common in developing countries as well.

However, investors must ensure that only one application in IPO is submitted for subscription. As submission of multiple applications against an IPO is against law and is liable for confiscation of application money.

## 2.3. What are the risks and rewards of Investment in shares?

Studies have shown that in the long run investment in shares has provided greater returns than most other forms of savings. Buying shares can offer advantages over saving in deposit accounts: the investment may increase in value besides getting dividends. An investor shares the rewards when the company does well and the price of the shares goes up. But if the company performs badly, the share price may go down and the value of the investment will be reduced. Other factors, such as the performance of the stock market as a whole and the general economic climate, may also affect the price of the shares.

Investment in shares is therefore investment in 'risk capital'. The shareholders can be rewarded for taking this risk and the potential return on their money can be higher than that on other investments. An investor can reduce risks with careful planning.

An investor can earn two types of returns on investment in shares; one is termed as capital gain that is a result of price appreciation; the other is holding period gain (i.e. regular stream of income through dividends, bonus, and right issues).

### 2.3.1. What is Dividend?

Dividends are returns paid to shareholders out of the profits of the company. Returns can be in the form of cash or additional shares of the company called bonus shares. Dividends are usually paid once or twice a year depending upon the company's profit distribution policy.

### 2.3.2. What is Capital Gain/Growth?

Capital Gain is the amount with which the value of investment in shares exceeds the price at which it was purchased. In other words it is the profit realized from the sale of shares when the market value is increasing.

## 3. What are the Products in Stock Market?

Following are the main financial products/instruments dealt in the stock market:

### 3.1. Equity Shares

After the shares are made public through Initial Public Offering the same can be traded in secondary market (i.e.

Stock Exchanges). The holders of such shares are members of the company and have voting rights. There are various rights of shareholders as per law. For detail, please visit SECP guide in reference to shareholders' rights at www.secp.gov.pk.

- **Rights Issue / Rights Shares:** Right shares are issued when companies need to raise additional capital to finance their new expansion projects or to meet working capital needs, etc. In case of rights issues, the existing investors have the right to subscribe to these new shares in proportion to their respective shareholdings.

- **Bonus Shares:** Shares issued by the companies to their shareholders free of cost by capitalization of accumulated reserves from the profits earned in the earlier years.

### 3.2. Derivatives

The term "Derivative" indicates that its value is entirely "derived" from the value of the underlying asset. The underlying asset can be securities, commodities, bullion, currency, live stock or anything else. In other words, Derivative means a forward, future, option or any other hybrid contract of pre determined fixed duration, linked for the purpose of contract fulfillment to the value of a specified real or financial asset or to an index of securities.

### 3.2.1. Futures Contract

Futures Contract means a legally binding agreement to buy or sell the underlying security on a future date. Future contracts are the organized/standardized contracts in terms of quantity, quality (in case of commodities), delivery time and place for settlement on any date in future. The contract expires on a pre-specified date which is called the expiry date

of the contract. On expiry, futures can be settled by delivery of the underlying asset or cash. Cash settlement enables the settlement of obligations arising out of the future/option contract in cash.

Trading in derivatives is governed by the regulations of each exchange regarding cash settled futures contract, deliverable futures contract, commodities future contracts and stock index futures contract. These regulations are available on the webpage of the exchanges (i.e. www.kse.com.pk, www.ise.com.pk, www.lahorestock.com, www.ncel.com.pk)

### 3.3. Bonds

Bond is a negotiable certificate that promises fixed income on the value of the bond. It is generally issued by a company or government agency. A bond investor lends money to the issuer and in exchange, the issuer promises to repay the amount equal to bond value on a specified maturity date. The issuer usually pays the bond holder periodic interest payments over the life of the bond.

The two types of bonds available in the financial market of Pakistan are Government Bonds and Corporate Bonds.

#### 3.3.1. Government Bonds

The different types of bonds issued by the Government of Pakistan are Pakistan Investment Bonds, US Special Dollar Bonds, Wapda Bonds, National Saving Bonds and Sukuk. These bonds provide fixed return or floating rate of return to the holder of the bond.

### 3.3.2. Corporate Bonds

Corporate bond is a debts instrument issued by companies to raise money to meet its financial requirements. Corporate Bonds are normally issued for a specific period of time with promise to repay the principal amount of the bond money plus interest to the bondholder. When you buy a bond, you are lending money to the company that issued it. The company promises to return your money, or principal, on a specified maturity date. Until that time, it also pays you a stated rate of return, usually semiannually. The interest payments you receive from corporate bonds are taxable. Unlike shares, bonds do not give an ownership interest in the issuing company.

The Corporate Bonds commonly known as Term Finance Certificates (TFCs) in Pakistan can be offered under section 120 of the Companies Ordinance 1984 read with the Guidelines for the Issue of TFCs to the general public. Since 1995 there were 110 issues of TFCs which were listed on the stock exchanges.

#### 3.3.2.1. Types of Corporate Bonds

Corporate Bonds/TFCs can be of various types depending on the requirements of the issuer. It could either be based on fixed or floating rate of interest or it could be Secured or un-secured or with or without Call and Put Option or it could be convertible or non-convertible.

Most corporate bonds trade in the over-the-counter (OTC) market which does not exist in a central location and is made up of bond dealers and brokers from around the country who trade in debt securities. Market participants are increasingly utilizing electronic transaction systems to assist in the trade execution process. Some bonds trade in the centralized environments of the Karachi Stock Exchange (KSE) on the Bonds Automated Trading System (BATS). The OTC market

is much larger than the exchange markets, and the vast majority of bond transactions take place in this market.

Investors buy corporate bonds for a variety of reasons, which includes attractive yields, dependable income, safety, diversity and marketability etc.

## 4. How to trade in Stock Market?

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

### 4.1. With whom to trade?

An investor has to trade through registered brokers/brokerage houses of the stock exchanges. Each stock exchange has a number of brokers/brokerage houses which are registered with the Commission. Registered Brokers/brokerage houses are allowed to engage in execution of trade on others' behalf as per the laws, rules and regulations.

To ensure protection against fraud and misrepresentation an investor should trade only through registered brokers/brokerage houses and agents. To verify authenticity of brokerage house/brokers/agents registration, SECP has uploaded a list of registered brokers and agents of the Stock Exchanges and the Commodity Exchange on its website (www.secp.gov.pk). The list of registered brokerage houses/brokers and agents can also be found on respective websites of the Exchanges. It is important to note that the registration of all the brokerage houses/brokers and agents is valid for a period of one year which is subject to annual renewal.

## 4.2. How to open account with the brokerage house?

To trade in the stock market through registered brokerage house/broker, an investor has to open a trading account with the broker/brokerage house. Account Opening Forms generally can be obtained from the office of the brokerage house/broker or their branch office. The account opening form of the brokerage houses must include the basic clauses as mentioned in the Standardized Account Opening Form which is a part of the General Regulations of the Exchanges (these regulations are available on website of the exchanges).

While filing up the Account Opening Form, an investor is advised to read carefully all the instructions printed therein, and if there is any uncertainty regarding any clause it is important to always consult the brokerage house/broker. If the query is not addressed satisfactorily; the investor can contact the Exchange's management and/or the SECP.

While filling the Account Opening Form investors are advised to be vigilant. Investor should never sign any blanket authority allowing the brokerage house/broker and/or agent to transact on their behalf, unless and until he/she can clearly identify the benefits/specific purpose of such authority. A copy of certified and duly signed copy of Account Opening Form should be kept for record.

The broker/brokerage house immediately upon submission of duly filled form will open a Sub Account for the investor under his participant account with CDC (the Sub Account Opening Form is generally attached with the Account Opening Form of the brokerage house/broker). Investor should obtain the Sub Account number allotted to him/her at the time of account opening. It is important to mention here that the Sub Account Opening Form does not include a

general purpose authorization to the brokers/brokerage house to manage their client's securities at the CDC; however, specific authorization for managing any securities may be given by the client on a case to case basis.

### 4.3. How to open account with Central Depository Company of Pakistan Limited?

"Sub Accounts" at CDC are maintained by the brokers on behalf of its clients (investors), therefore the clients (investors) can not operate this account directly, however, information about securities lying in its sub account can be attained through broker/brokerage house or directly from CDC. Also note that securities available in the sub account are the property of the account holder/investor.

Another type of account is CDC is the "Investor Account" which allows investors to directly open and maintain accounts with CDC for safe custody and settlement of securities. These investor accounts can be opened simply by submitting a duly filled and signed "Investor Account" Opening Form in person at any of the CDC offices. The account holder is the only person who can withdraw securities from the CDC Investor Account implying security and safe custody of the assets held in the account.

Investors can keep track of their CDC account position by subscribing the Interactive Voice Response System with call center support through toll free number (0800-23275) or www.cdcaccess.com.pk. More information relating to operating of accounts at CDC and acquiring details, CDC office can be contacted at address and numbers mentioned at the end of the guide.

## 4.4. Buying/selling of shares

Upon completion of account opening requirement, the investor can trade in the stock market by placing trade orders through his/her designated broker/brokerage house. The investor can ask to buy/sell a fixed number of shares or shares of a certain value.
Two common types of orders that can be placed with the brokerage house/broker:

- Limit Order: In a limit order, the investor specifies the price at which the order is to be executed.
- Market Order: Also known as at best order, the order is executed at the prevailing market rate.

## 4.5. What are the roles and responsibilities of brokerage house?

- Brokerage houses/brokers are responsible to comply with the agreement signed between the investor and them 'in terms of the Account Opening Form'.

- Brokerage houses/brokers are responsible to comply with applicable rules and regulations. (Rules and Regulations are available at the website of the SECP www.secp.gov.pk and that of the respective stock exchanges).

- ·Brokerage houses/brokers are responsible to provide the investors with set of rules/regulations.

- Brokerage houses/brokers are responsible to comply with the code of conduct enshrined in laws.

- Brokerage houses/brokers are responsible to provide trade confirmations to the investors within 24 hours of trade execution.

- Brokerage houses/brokers are not allowed to take deposits on fixed return.

### 4.6. What are the costs of brokerage services?

Stock brokerage costs vary according to the extent of services you avail. You should select the service that meets your needs and requirements. Before you start dealing in shares, determine how much you to pay stockbrokers for their services. Charges will differ depending on whether you wish to invest directly or indirectly. Ask if there are any ongoing costs of stockbrokers, other than the dealing commission each time you buy or sell.

## 5. What are the roles and responsibilities of Investors?

All the investors are responsible for the following acts:

### 5.1. Verifying authenticity of broker/brokerage house and agent

All the investor should verify that the broker/brokerage house with which they have opened the account is registered with the SECP. The investors should also verify that the agent, if any assigned to them, is registered with the SECP. This can be verified through the list of registered brokerage houses/brokers and agents available on the website of the Exchanges and the SECP.

### 5.2. Keeping documentary evidence

All the investors are responsible to keep the following documentary evidence for their record.

- Certified duly signed copy of Account Opening Form
- Copy of document evidencing payment made to and received from the brokerage houses/brokers

- Daily Trade Confirmations (in writing) received from the brokerage houses/brokers
- Periodical statement of their account
- Periodical sub-account statement (which can be obtained from CDC in case of maintenance of sub-account)
- Any communication between the investor and the brokerage houses/brokers

### 5.3. Other important considerations

Check for the following on trade confirmation slip

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 brokerage house/broker;

The investors should ensure that any error in trade confirmations received is reported to their brokerage house/broker within 24 hrs of its receipt.

- Never sign any blank document/cheque

- Always make payment through cross cheque in the name of the brokerage house/broker.

- While filing the CDC sub-account opening form opt for CDC access – SMS facility. This is free of any cost. This facility enables the account holder to received information about his/her account on their mobile phones.

- Monitor trade activity through the UIN Information System provided by NCCPL. This service is provided through an independent platform for monitoring of trading activities executed through investor's UINs. The facility enables eligible UIN holders to view their UIN level information relating to trade, settlement and UIN code registration details as per their needs. The above information is accessible in any one of the following ways:

  a) By requesting through broker clearing member;
  b) By directly requesting in writing to NCCPL;
  c) Provision of information through custodian banks.

- Please note that this facility is provided on post trade and settlement basis and would deter unauthorized trading through investor's UINs. Investor would be able to log into the database maintained exclusively for such facility through user ID and password. This facility is available through the NCCPL website on 24/7 basis. More information relating got this facility can be obtained from the NCCPL office.

- Pay all the margins/debit balances arising out of the transactions executed immediately, failing which the brokerage house/broker has the right to sell off holdings to settle the margin/debit balance. In case of any discrepancy immediately report the same to the broker/brokerage house and obtain receipt of your complaint/disagreement from it.

- The brokerage houses/brokers are allowed to deal only in investments in securities and are not allowed to accept deposits or offer fixed return on deposits, in any capacity, so investors should not invest any amount with the brokerage houses on fixed return.

- An agent is being paid commission on the number of trades executed; therefore, avoid authorizing an agent to trade on your behalf. If, however, under some circumstances authority is granted to the agent always ask for the details of trades executed and obtain trade ledger balance from the broker and compare it with CDC statement of your account.

- To gain a better understanding of the legal framework under which trades are conducted, an investor should familiarize himself/herself with the rules, regulation and circulars of the exchange and the SECP.

### 5.4. Lodging a complaint

In case of any issue with the brokerage house/broker and/or agent, investors are advised to immediately lodge a complaint with their respective brokerage house and in case of non resolution report the same to the Exchange within 15 days of lodging the claim with the brokerage house/broker. Complaint Registration Forms are available on the respective websites of the Exchanges.

Please ensure that all claims are lodged in writing and receipt of the same has been attained from the brokerage house/broker.

### 5.4.1. Lodging Complaint with the Commission

In case of complaint against the Exchange and/or the broker/brokerage house the Investor Complaints Wing at the Securities and Exchange Commission of Pakistan can be approached at the address mentioned at the end of this document.

Complaint Registration Form is available on the website of the Commission (,i.e., www.secp.gov.pk). Investors having complaint are required to fill the form with complete

information and forward duly signed complaint registration form along with all necessary documents to the Commission's address listed at the end of document.

The Complaint upon receipt shall be immediately acknowledged. If you do not receive acknowledgement even after 5 working days of your sending the complaint, ask for the status of complaint from Investor Complaints Wing at the Commission. You shall be informed about the status of complaint in a timely manner.

### 5.5. Tips for wise investment

The investors must consider the following strategies, in general, while investing in the equity markets.

#### 5.5.1. Portfolio Diversification

Do not put all your eggs in one basket"

Portfolio diversification refers to mixing up investments to offset some risk. The investor while making investment in the stock market should devise an investing policy ensuring that the portfolio should contain mix of scrips. Portfolio diversification can considerably reduce the total risk of investing. It helps an investor to minimize the potential of losing all investments at once if a specific stock, sector, or industry performs poorly. On the other hand it increases the potential of utilizing the potential of well performing stocks, sectors or market. Therefore, in short, a properly diversified portfolio should include investments in a variety of industries.

#### 5.5.2. Understanding the shares in which to invest

A concrete analysis regarding the financial and non- financial health of the company can reveal the best judgment regarding investing in a company's shares. A strong fundamental analysis can become the most important key to

making a good decision. Financial statements of a company portray a thorough picture regarding the performance of the company. Following are the key indicators of financial health of a company which should be kept in mind while developing an investing plan:

- Management track record
- Good track record of earnings and profits
- Profit after Tax
- Earning per shares
- Dividend and Bonus Declaration History.
- Total Capital
- Trend in stock price
- Debt standing and cash flow
- Debt/Equity ratio, Pay out ratio
- Financial Cost of borrowed money etc

Please bear in mind that even in the best of securities/shares, there can be short-term aberrations. It is important to have the power to hold your investments for longer periods. Studies have shown that investments properly timed and based on strong fundamentals have been very profitable for investors in the longer term.

### 5.5.3. Macroeconomic Indicators

A stock market is a quick respondent to the economic condition of the country and there is a relationship between the market and overall economic conditions. A stronger economy means that majority of the company which are listed on the exchange are performing well. The economic factors which have direct link with the companies listed on the stock exchange should be closely monitored.

### 5.5.4. Sector Performance

The investor should specifically monitor the overall sector performance in which the company falls. For this purpose, the investor should be aware of the any new government policies, taxation policies, investment opportunities, future growth prospects etc in the specific sector. These updates can be obtained through commentaries of various brokerage houses, daily analysis and newspapers' articles, which the investors are encouraged to read for understanding their subject investments.

### 5.5.5. Beware of Scams and Ponzi Schemes

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.

## 6. What is National Commodity Exchange of Pakistan?

Pakistan's first futures commodity marke The National Commodity Exchange Limited (NCEL) was established in April 20, 2002 and is registered as Commodity Exchange with the SECP under Securities and Exchange Ordinance, 1969. The NCEL has a mandate to provide a technology driven, demutualized, online commodity futures exchange and employs modern risk management techniques based on value-at-risk methodologies in Pakistan.

At present, a number of commodities are listed on the NCEL, i.e,. Gold, Silver, Crude Oil, IRRI-6 Rice, Palm Oil and Interest Rate Futures. NCEL also plans to list several other agricultural, metals, and financial futures contracts in the near future.

## 6.1. Trading Mechanism at NCEL

Investors/clients who are willing to trade in commodities must pursue the following steps;

- In order to start trading in the commodity market, investors have to contact broker/brokerage house which is duly registered with SECP under Commodity Exchange and Futures Contracts Rules, 2005, as only such brokers can provide the trading platform to their investor/client to deal in commodities trading. Upon obtaining the client credentials, the brokerage house/broker forwards the same information to the NCEL for registration of UIN client through the NCCPL platform.

- In the next phase, brokerage house/broker opens the trading account of his investor/client. Accordingly, every investor/client is advised to properly read and sign the Risk Disclosure documents with respect to trading in commodities.

- After completion of account opening procedure, an investor/client will have two methods for trading on NCEL which inter alia include direct access to the market by placing order directly on the Electronic Trading System of NCEL through a secure account; or routing orders through the brokers/brokerage houses. In the case of direct access to the market, an investor/client is recommended to get adequate training to operate the systems smoothly.

- Payment of initial margin is deposited by an investor/client before taking any position in the underlying contract. However, the brokerage house/broker is responsible for maintenance of all investor/clients margins in a timely manner. It is also

advised to the investor/client that they should verify whether the collected margins have been paid to NCEL accordingly.

- The brokerage house/broker is responsible for ensuring compliance at the client level with respect to the prescribed rules and regulations of NCEL. Further, collection of exposure, margins and position limit of each investor/client is also monitored on regular basis by the broker. In both cases, broker is the ultimate obligator to the Exchange.

Finally, it is suggested to the investor/client to get the Account Balance Statement from the brokerage house/broker on daily, weekly or quarterly basis to know the current position of the holding maintained in his/her account, the said statement may also be obtained directly from NCEL, in order to counter check with the broker's statement.

## 7. Important Contacts

**Securities and Exchange Commission of Pakistan**
NIC Building, Jinnah Avenue, Blue Area, Islamabad

Tel: +92 (51) 111-117-327
Website:www.secp.gov.pk
email:complaints@secp.gov.pk

The Karachi Stock Exchange (Guarantee) Limited
Stock Exchange Building, Stock Exchange Road
Karachi-74000
Tel: +92 (21) 111-001-122
Website: www.kse.com.pk email: info@kse.com.pk

National Commodity Exchange Limited,
9th Floor, PRC Towers, 32-A Lalazar Drive,
M.T.Khan Road, Karachi.
Tel: +92 (21) 111-623-623
Website: www.ncel.com.pk Email: info@ncel.com.pk

Lahore Stock Exchange (Guarantee) Limited
19, Khayaban-e-Aiwan-e-Iqbal, P.O Box:1315, Lahore
Tel: +92 (42) 636-8000
Website:www.lahorestock.com
email: info@lahorestock.com

Islamabad Stock Exchange (Guarantee) Limited
ISE Towes, 55-B Jinnah Avenue, Blue Area, Islamabad
Tel: +92 (51) 111-473-473
Website: www.ise.com.pk email: info@ise.com.pk

Central Depository Company of Pakistan (CDCPL)
Toll Free Number 0800 – CDCPL (23275)
email: info@cdcpak.com

## 8. GLOSSARY OF STOCK MARKET TERMS

Bear - an investor who anticipates a falling market and, therefore, sells the security in the hope of buying it back at a lower price.

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.

Bull - An investor who anticipates a rising market and, therefore, buys the security in the hope of selling it later at a higher price.

Capital Gains 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”; these are an established form of transactions used in the stock market for temporary financing of trades by speculators and jobbers.

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.

Earnings per share (EPS) - A profitability indicator calculated by dividing the earnings available to common stockholders during a period by the average number of shares actually outstanding at the end of that period.

Equity - The owners' interest in a company's capital, usually referred to by ordinary shares.

Floatation - 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.

Initial Public Offering (IPO) - The offering of equity shares of a company to the general public for the first time.

Insider trading - The purchase or sale of shares by someone who possesses 'inside' information on a company's performance which information has not been made available to the market and which might affect the share price. In Pakistan, such deals are a criminal offence.

Investment companies - A company, which issues shares and uses its capital to buy securities and shares in other companies.

Listed company - A company whose securities are admitted for listing on a stock exchange.

Long position - When an individual purchases securities of a company he is said to have a long position in the company's shares. For example an owner of shares in PTCL is said to be "long PTCL" or "has a long position in PTCL." If you are long, you would like the share price to go up.

Market capitalization - The total value of a company's equity capital at the current market price.

Nominee - A person or company holding securities on behalf of others, but who is not the owner of such securities.

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 has 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 company - A company that is not a public company and which is not allowed to offer its shares to the general public.

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.

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 form of paper investment in capital market instruments.

Settlement - Once a deal has been made, the settlement process transfers stock from seller to buyer and arranges the corresponding exchange of money between buyer and seller.

Short Selling- The act of borrowing stock to sell with the expectation of price reduction with the intention of buying it back at a cheaper price.

Stockbroker - A member of the stock exchange who deals in shares for clients and advises on investment decisions.

Stock Market - The market place where shares of publicly 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 - The aggregate return earned on an investment taking into account the dividend/interest income and its present capital value.

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