



## The Karachi Stock Exchange (Guarantee) Limited

Stock Exchange Building, Stock Exchange Road, Karachi-74000, Pakistan  
Phones: (9221) 111-001122, 111-012-345, Fax (9221) 3241-0825, (9221) 3241-5136  
URL: <http://www.kse.com.pk>, Email: [info@kse.com.pk](mailto:info@kse.com.pk)

KSE/N- 145

January 12, 2011

### NOTICE FOR ALL MEMBERS

#### PROCEDURES FOR RECTIFICATION OF ERRONEOUS TRADES

Further to our Notice No.KSE/N-1801 dated April 01, 2010 whereby the Exchange notified the **Trades Rectification Interface** on Members' NCHS terminals for rectifying and reporting their erroneous trades which are inadvertently executed on KATS during the trading session. However, we have observed that some of our Members are either reporting their erroneous trades in writing to the Exchange on their letter pads (hard copies form) or rectifying them on their NCHS terminals in incorrect manner.

Please note that any erroneous trades manually reported to the Exchange on Members' Letter Pads (hard copies form) will not suffice **Client Level Movement of Securities on Settlement Date** and absolve the Members and/or their clients for any investigations including but not limited to the violations of regulations governing short selling under Ready and Deliverable Futures markets.

In order to discourage this undesirable manually reporting mechanism and for the purpose of explaining correct rectification mechanism through NCHS Interface, we have developed **Standard Procedures** for rectifying and reporting all possible types of erroneous trades through NCHS interface, which is placed on **KSE website home page** captioned "**The Procedures For Rectification of Erroneous Trades on NCHS Trade Rectification Interface**".

All the Members are advised in their own interest to rectify their erroneous trades (**inadvertently executed through KATS**) in the right manner as explained in the Procedures and ensure compliance with the rules and regulations strictly.

  
**SHAFQAT ALI**

General Manager

Risk Management, Market Control & Surveillance

#### CC to:

1. The Executive Director-Securities Market, Securities & Exchange Commission of Pakistan
2. The Acting Managing Director, Karachi Stock Exchange (Guarantee) Limited
3. The Managing Director, Lahore Stock Exchange (Guarantee) Limited
4. The Managing Director, Islamabad Stock Exchange (Guarantee) Limited
5. General Manager – IT Division – KSE
6. General Manager – Operations – KSE
7. Notice Board
8. KSE Website



# Pakistan Stock Exchange Limited

(Formerly: Karachi Stock Exchange Limited)

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Phones: (9221) 111-001122, 111-012-345, Fax (9221) 3241-0825, (9221) 3241-5136

URL: <http://www.psx.com.pk>, Email: [info@psx.com.pk](mailto:info@psx.com.pk)

## THE PROCEDURES FOR RECTIFICATION OF ERRONEOUS TRADES (TRADE RECTIFICATION SESSION)

- SCENARIO “No.1”:** For instance, client “A” placed a BUY order of 1,000 securities of “ABC” and by error operator entered SALE order of 1,000 securities of “ABC”, which resulted in to erroneous trade. Example for trade rectification has been illustrated in the below tabular format.

**Table No.1**

<u>Priority</u>	<u>During Market Trading Hours</u>			<u>During Trade Rectification Session</u>			<u>Remarks</u>
	BUY	SALE	CLIENT CODE	BUY	SALE	CLIENT CODE	
Original Trade	-	1,000	A	-	-	-	Mistake
Step 1	1,000	-	A	-	-	-	Actual Buyer
Step 2	1,000	-	House/ Proprietary Error Account	-	-	-	Recovery
Step 3	-	-	-	-	1,000	House/ Proprietary Error Account	Reverse Entry
	-	-	-	1,000	-	A	

- SCENARIO “No.2”:** For instance, client “A” placed a SALE order of 1,000 securities of “ABC” and by error, operator entered BUY order of 1,000 securities of “ABC”, which resulted in to erroneous trade. Example for trade rectification has been illustrated in the below tabular format.

**Table No.2**

<u>Priority</u>	<u>During Market Trading Hours</u>			<u>During Trade Rectification Session</u>			<u>Remarks</u>
	BUY	SALE	CLIENT CODE	BUY	SALE	CLIENT CODE	
Original Trade	1,000	-	A	-	-	-	Mistake
Step 1	-	1,000	A	-	-	-	Actual Seller
Step 2	-	1,000	House/ Proprietary Error Account	-	-	-	Recovery
Step 3	-	-	-	1,000	-	House/ Proprietary Error Account	Reverse Entry
	-	-	-	-	1,000	A	

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3. **SCENARIO “No.3”:** For instance, client “A” placed a BUY order of 1,000 securities of “ABC” and by error, operator entered BUY order of 10,000 securities of “ABC”, which resulted in to erroneous trade to the extent of 9,000 securities in client “A” account. Example for trade rectification has been illustrated in the below tabular format.

**Table No.3**

<u>Priority</u>	<u>During Market Trading Hours</u>			<u>During Trade Rectification Session</u>			<u>Remarks</u>
	BUY	SALE	CLIENT CODE	BUY	SALE	CLIENT CODE	
Original Trade	10,000	-	A	-	-	-	Mistake
Step 1	-	9,000	House/ Proprietary Error Account	-	-	-	Recovery
Step 2	-	-	-	9,000	-	House/ Proprietary Error Account	Reverse Entry
	-	-	-	-	9,000	A	

4. **SCENARIO “No.4”:** For instance, client “A” placed a SALE order of 1,000 securities of “ABC” and by error, operator entered SALE order of 10,000 securities of “ABC”, which resulted in to erroneous trade to the extent of 9,000 securities in client “A” account. Example for trade rectification has been illustrated in the below tabular format.

**Table No.4**

<u>Priority</u>	<u>During Market Trading Hours</u>			<u>During Trade Rectification Session</u>			<u>Remarks</u>
	BUY	SALE	CLIENT CODE	BUY	SALE	CLIENT CODE	
Original Trade	-	10,000	A	-	-	-	Mistake
Step 1	9,000	-	House/ Proprietary Error Account	-	-	-	Recovery
Step 2	-	-	-	-	9,000	House/ Proprietary Error Account	Reverse Entry
	-	-	-	9,000	-	A	

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5. **SCENARIO “No.5”:** For instance, client “A” placed a BUY order of 1,000 securities of “ABC” and by error, operator entered BUY order of 1,000 securities of “XYZ”, which resulted in to erroneous trade. Example for trade rectification has been illustrated in the below tabular format.

**Table No.5**

<u>Priority</u>	<u>During Market Trading Hours</u>				<u>During Trade Rectification Session</u>				<u>Remarks</u>
	BUY	SALE	CLIENT CODE	SYMBOL	BUY	SALE	CLIENT CODE	SYMBOL	
Original Trade	1,000	-	A	XYZ	-	-	-	-	Mistake
Step 1	-	1,000	House/ Proprietary Error Account	XYZ	-	-	-	-	Recovery
Step 2	1,000	-	A	ABC	-	-	-	-	Actual Buyer
Step 3	-	-	-	-	1,000	-	House/ Proprietary Error Account	XYZ	Reverse Entry
	-	-	-	-	-	1,000	A	XYZ	

6. **SCENARIO “No.6”:** For instance, client “A” placed a SALE order of 1,000 securities of “ABC” and by error, operator entered SALE order of 1,000 securities of “XYZ”, which resulted in to erroneous trade. Example for trade rectification has been illustrated in the below tabular format.

**Table No.6**

<u>Priority</u>	<u>During Market Trading Hours</u>				<u>During Trade Rectification Session</u>				<u>Remarks</u>
	BUY	SALE	CLIENT CODE	SYMBOL	BUY	SALE	CLIENT CODE	SYMBOL	
Original Trade	-	1,000	A	XYZ	-	-	-	-	Mistake
Step 1	1,000	-	House/ Proprietary Error Account	XYZ	-	-	-	-	Recovery
Step 2	-	1,000	A	ABC	-	-	-	-	Actual Seller
Step 3	-	-	-	-	-	1,000	House/ Proprietary Error Account	XYZ	Reverse Entry
	-	-	-	-	1,000	-	A	XYZ	

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7. **SCENARIO “No.7”:** For instance, client “A” placed a BUY order of 1,000 securities of “ABC” and by error, operator entered BUY order for client “B”, which resulted in to execution of erroneous trade. Example for trade rectification has been illustrated in the below tabular format.

**Table No.7**

<u>Priority</u>	<u>During Market Trading Hours</u>			<u>During Trade Rectification Session</u>			<u>Remarks</u>
	BUY	SALE	CLIENT CODE	BUY	SALE	CLIENT CODE	
Original Trade	1,000	-	B	-	-	-	Mistake
Step 1	-	-	-	-	1,000	B	Reverse Entry
	-	-	-	1,000	-	A	

8. **SCENARIO “No.8”:** For instance, client “A” placed a SALE order of 1,000 securities of “ABC” and by error, operator entered SALE order for client “B”, which resulted in to execution of erroneous trade. Example for trade rectification has been illustrated in the below tabular format.

**Table No.8**

<u>Priority</u>	<u>During Market Trading Hours</u>			<u>During Trade Rectification Session</u>			<u>Remarks</u>
	BUY	SALE	CLIENT CODE	BUY	SALE	CLIENT CODE	
Original Trade	-	1,000	B	-	-	-	Mistake
Step 1	-	-	-	1,000	-	B	Reverse Entry
	-	-	-	-	1,000	A	

9. **SCENARIO “No.9”:** For instance, by error operator entered BUY/ SALE order of 10,000 securities of “ABC”, out of which 5,000 securities each belonged to client “A” & “B”. Under this scenario splitting of securities in to two or more client accounts is strictly prohibited by the Exchange. Therefore, the provided Error Rectification Automated Interface will not cater such splitting of securities into two or more client codes/ accounts. However, the TRE Certificate/ Broker can recover 5,000 securities on House Error Account and split 5,000 securities out of 10,000 oversold/bought securities from client A/B to House Error Account during Trade Rectification Session.

10. **All erroneous trades and their rectified transactions will be reported to NCCPL on real time basis, the TRE Certificate Holders/ Brokers may initiate their IDS transactions on NCSS. However, the TRE Certificate Holders/ Brokers will be required to generate IDS transaction**

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based on both erroneous trade and rectified transaction in order to give true effect for their settlement on Settlement Date.

All TRE Certificate Holders/ Brokers would be required to inform their respective **HOUSE ERROR CODE of Trading** for Recovery Trade and Trade Rectification Purpose to the Exchange.

The compliance of these guidelines/ procedures shall be ensured by the Exchange on POST TRADE BASIS.