



PAKISTAN  
MERCANTILE  
EXCHANGE

# Investor Guide

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# 1. Introduction

Pakistan Mercantile Exchange Limited (PMEX) is the country's first and only demutualized commodity futures exchange, licensed and regulated by the Securities and Exchange Commission of Pakistan (SECP). Based on sophisticated multi-dimensional infrastructure and state-of-the-art technology, PMEX offers a complete suite of services i.e. trading, clearing & settlement, custody as well as back office, all under one roof.

PMEX was formed in 2002 and started its operations in May 2007 offering a diverse range of domestic and international products across multiple asset classes. PMEX is a demutualized exchange and the shareholding is completely institution based.

## 1.1 Vision

To be amongst the leading mercantile exchanges of the region extending from Istanbul to Jakarta in terms of knowledge, efficiency, innovation, value traded, credibility and standing.

## 1.2 Mission

To build and develop PMEX capacity to satisfy the diverse needs of our customers, contribute towards shareholders equity and constantly endeavor to integrate national supply chains with domestic and international Product, Commodity and Financial markets through innovative financial products and instruments . Creating state of the art trading and settlement platforms and infrastructure that engenders confidence, brings the domestic economic players to the Exchange platform thereby creating maximum economic value for our stakeholders and the country.

## 1.3 Core Values

- **Merit:** We value a culture of merit, inclusion and equality where everyone is offered a level playing field to flourish regardless of their gender, family background, ethnicity, religion or any other prejudice.
- **Candor:** Speaking up for the betterment of the organization is encouraged at all levels as it leads to transparency and fosters participation and a sense of ownership among all the team members. At PMEX, we firmly believe that a collective decision is a better decision.
- **Respect:** Respect for all signifies PMEX; it's an all-encompassing attitude covering colleagues, regulators, shareholders, clients and all other elements of the environment we operate in. It is true that position in the hierarchy or an employee's status may vary, but respect is constant for everyone.
- **Integrity:** Trust is the foundation of any relationship. Integrity to us is strengthening the trust of our stakeholders by ensuring that all stakeholders are treated equally and fairly. We therefore abide by the highest standards of ethics and veracity. We strictly believe in adhering to rules and procedures, religiously fulfilling our commitments and protecting the confidentiality of our clients' information.

- **Transparency:** We believe that we are accountable to our stakeholders and therefore must remain transparent at all times. Our commitment to transparency and openness is vital for our success. Therefore, when it comes to doing business, we go the extra mile to be eminent. We welcome feedback, not only from our team members, but also from our business partners.
- **Innovation:** We drive innovation in everything we do. With forward thinking approach, we challenge assumptions, embrace change and continuously search for creative solutions which bring value to our clients. In line with this perspective, we value creativity and ingenuity by encouraging out-of-the-box thinking and unconventional solutions making the impossible possible.

## 1.4 Pattern of Shareholding

Shareholder	Shares Held	% Holding
National Bank of Pakistan Limited	10,653,860	33.98%
Pakistan Stock Exchange Limited	8,909,052	28.41%
ISE Towers REIT Management Limited	5,568,181	17.76%
LSE Financial Service Limited	2,272,727	7.25%
Pak Brunei Investment Company Limited	2,133,115	6.80%
Zarai Taraqiati Bank Limited	909,091	2.90%
Pak Kuwait Investment Company Limited	909,090	2.90%
Individuals	46	0.0001%
<b>Total</b>	<b>31,355,162</b>	<b>100.00%</b>

## 2. History

### 2.1 PMEX Brand Journey from 2003-2019

In 2002, first demutualized, technology-driven commodity exchange made its debut as *National Commodity Exchange Limited (NCEL)* in Pakistan. The Exchange came with a vision to provide world-class commodity futures trading platform for market participants to trade in a wide spectrum of commodity derivatives, driven by best global practices, professionalism and transparency. In



2007, Exchange started its operations as fully electronic Exchange with nationwide reach. The new visual corporate identity was born where symbol, typeface and color were kept simple.

Generally most people thought of the commodity exchange as a platform that facilitates trading in physical goods. But in reality the Exchange had a much broader mandate which included futures and physical products ranging from precious metals and agriculture to financial products such as interest rate futures, indices and currencies. Against this backdrop, in 2011, the Exchange changed its name from NCEL to Pakistan Mercantile Exchange Limited (PMEX). The new name gave the Exchange a broad dimension and expressed its mandate clearly as opposed to the perceived mandate associated with National Commodity Exchange.

With the new name came the new visual identity which included graphical symbol, bold color and contemporary typeface. The symbol represented commodities, converging on a single point while red was chosen as the new color of the Exchange due to its strong association with life, vitality and dynamism, qualities also synonymous to the Exchange.



Although the Exchange was operating since 2007 but even today many people in the country are still oblivious to the concept of futures exchange in Pakistan. Resultantly, capturing the mindshare of the market participants has been an uphill task for PMEX. This challenge which was embraced by the incumbent Managing Director, Ejaz Ali Shah. In 2013, he came with the vision to increase market participation at the Exchange by making PMEX a household name in the country. In the same year, PMEX repositioned itself as a sophisticated platform which connects buyers and sellers to a diverse product based platform. To emphasize this stance, logo mark underwent a slight change, where the word PMEX was introduced, the acronym commonly used to define the Exchange. PMEX positioned itself



“*Your Futures Exchange, The Exchange of the Futures*”.

Today, inspired with the new positioning, PMEX is marching ahead with increasing trading volumes and client base. The Exchange is embarked on a new journey with unwavering determination to transform itself into next generation futures Exchange which will provide innovative products, services and leading edge technology driven trading platforms to its brokers and clients

## 2.2 Milestones at a Glance

Year	Milestone
2007	<ul style="list-style-type: none"> <li>Started operations as National Clearing Exchange Limited (NCEL)</li> </ul>
2009	<ul style="list-style-type: none"> <li>Launched futures contracts of Silver 500 Ounce, Crude Oil 100 Barrel, Tola Gold (10, 50, 100), Rice IRRI-6</li> </ul>
2011	<ul style="list-style-type: none"> <li>Changed name from NCEL to Pakistan Mercantile Exchange Limited (PMEX)</li> <li>Launched Futures Contract of Sugar, Crude Oil 10 Barrel &amp; Silver 100 ounce</li> </ul>
2013	<ul style="list-style-type: none"> <li>Introduced International Cotton Futures Contract</li> </ul>
2014	<ul style="list-style-type: none"> <li>Became Member of Association of Futures Markets (AFM)</li> <li>Launched Milli Tola Gold</li> <li>Relocated office to new location</li> </ul>
2015	<ul style="list-style-type: none"> <li>Launched Red Chilli Futures Contracts</li> <li>Launched FX Pairs (EUR/USD, GBP/USD, USD/JPY)</li> <li>Integrated Meta Trader 5 trading platform.</li> <li>Signed MOU with Turkish Exchanges and Dubai Gold &amp; Commodities Exchange (DGCX)</li> </ul>
2016	<ul style="list-style-type: none"> <li>Signed MOU with Iran Mercantile Exchange</li> <li>Opened Branch Offices in Lahore &amp; Islamabad</li> <li>Launched Copper, Brent, Rice, Wheat &amp; FX Pairs(USD/CAD, USD/CHF, AUD/USD)</li> </ul>
2017	<ul style="list-style-type: none"> <li>Arranged commodity based financing for the first time in the country against the warehouse receipt</li> <li>Launched International Equity Index Futures Contracts</li> <li>Launched Platinum and Natural Gas Futures contract</li> <li>Launched new COTS order types</li> <li>Launched higher denomination contracts of Silver, Copper, Crude Oil, Brent Crude Oil and International Cotton</li> <li>Developed Enterprise Risk Management Framework</li> <li>Initiated revamping of Regulations</li> <li>Developed Electronic Commodity Murabaha at PMEX Shariah Compliant Trading Platform</li> <li>Migrated Technology Infrastructure to Cloud Computing</li> </ul>
2018	<ul style="list-style-type: none"> <li>Signed MoU with Dalian Commodity Exchange &amp; Belarusian Universal Commodity Exchange</li> <li>Offered MetaTrader5 for all brokers</li> <li>Completed Pilot Phase of Electronic Commodity Murabaha Transactions</li> <li>Launched Intraday Trading Functionality</li> <li>Launched Futures Contracts of International Wheat, International Corn, International Soybean, Palladium and Japan Equity Index</li> <li>Posted Highest Ever Monthly Trading Volume</li> </ul>
2019	<ul style="list-style-type: none"> <li>Signed MoU with HashMove</li> <li>Posted Highest Ever Profit for FY19</li> <li>Direct Funds Model</li> </ul>

### 3. International Affiliations

With the convergence of IT and telecommunication, geographical boundaries are losing relevance when it comes to foreign trade and investment. As the world is becoming a global village, business landscape has radically changed from competition to complementing each other and exploiting the comparative advantage. This requires greater interaction with business players both regionally and globally through trade associations.

Fully cognizant of this fact, PMEX has acquired membership of leading global associations. By actively participating at these forums, PMEX is not only keeping itself abreast of the new developments and policy issues affecting the business but also learning from the experiences of other members countries. At present, the Exchange is a member of the following international associations.

#### Association of Futures Markets (AFM)

The AFM promotes and encourages the establishment of new derivative and related markets and organizes international conferences in order to promote communication among members.

PMEX joined the AFM as an Associate Member in March 2012. In February 2014, PMEX was granted a 'Full Member' status. Attaining this eminence allows the Exchange to play a proactive role in the formation of policies of the Association and represent Pakistan on its various bodies.



#### Futures Industry Association (FIA)

Futures Industry Association (FIA) is a leading trade organization for the futures, options and cleared swaps markets worldwide. The mission of this Association is to support open, transparent and competitive markets, protect and enhance the integrity of the financial system, and promote high standards of professional conduct. Its members includes exchanges, clearing houses and trading firms from more than 25 countries as well as technology vendors, lawyers and other professionals serving the industry. PMEX joined FIA in 2014. The membership enables PMEX to participate at a global platform, network with industry peers, discuss common issues, exchange ideas and learn from the experiences of other member exchanges.



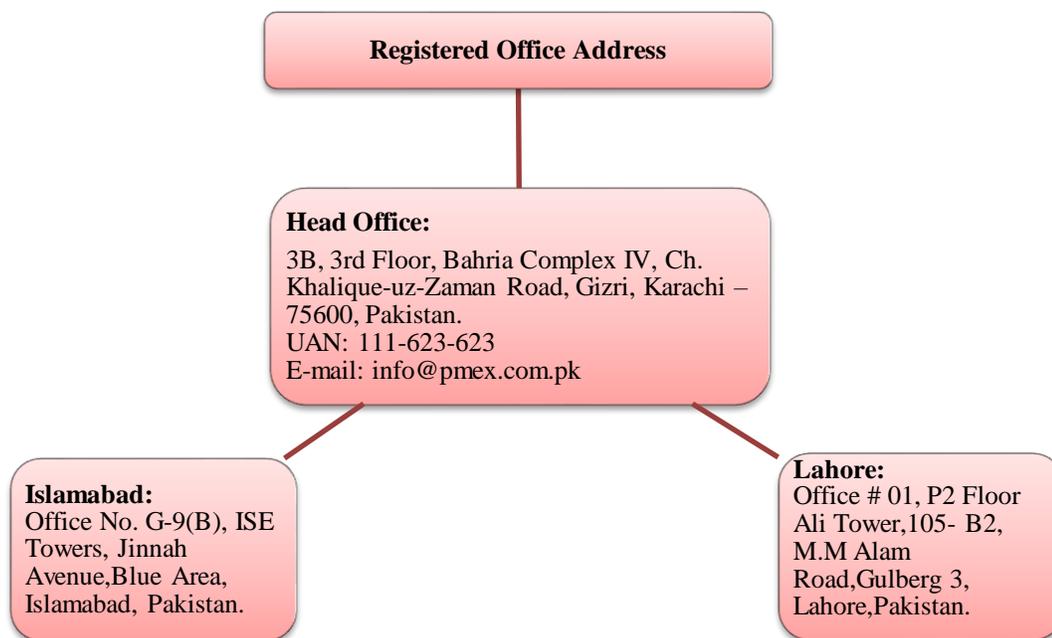
## **Memorandums of Understanding (MoUs)**

PMEX is committed to developing strategic ties with international exchanges to explore new business opportunities and adopting best practices. In line with this objective, PMEX has signed Collaboration Agreements (CA) with the following international exchanges:

1. Borsa Istanbul
2. Izmir Commodity Exchange (ICE)
3. Dubai Gold & Commodities Exchange (DGCX)
4. Iran Mercantile Exchange (IME)
5. Dalian Commodity Exchange (DCE)
6. Belarusian Universal Commodity Exchange (BUCE)

Under these pacts, PMEX will work together with these exchanges to share information, expertise and introduce staff training programmes to learn from each other's best practices and experiences. Moreover, PMEX in association with the these exchanges will consider hosting joint events (such as conferences, seminars and workshops) with the common objective of improving the knowledge of capital markets in their respective countries.

## 4. Corporate Information



- **Registration Number:** 0043602
- **National Taxation Number:** 1457095-5
- **Status:** Unlisted Public Limited Company
- Auditor: **Deloitte Yousuf Adil Chartered Accountants**
- Legal Advisors: **MCAS&W Law Associates**

### Associated Companies

- National Bank of Pakistan Limited
- Pakistan Stock Exchange
- ISE Towers REIT Management Limited
- LSE Financial Service Limited
- Pak Brunei Investment Company Limited
- Zarai Taraqiati Bank Limited
- Pak Kuwait Investment Company Limited

## 5. Regulatory Frame Work

### SECP Legislation:

- Futures Market Act 2016
- Futures Exchanges (Licensing & Operations) Regulations 2017
- Futures Brokers (Licensing & Operations Regulations), 2018

### PMEX Regulations:

- PMEX Regulations 2007
- Shariah Compliant Trading Platform Regulation

## 6. Market Timings

Current market timings of the Exchange are:

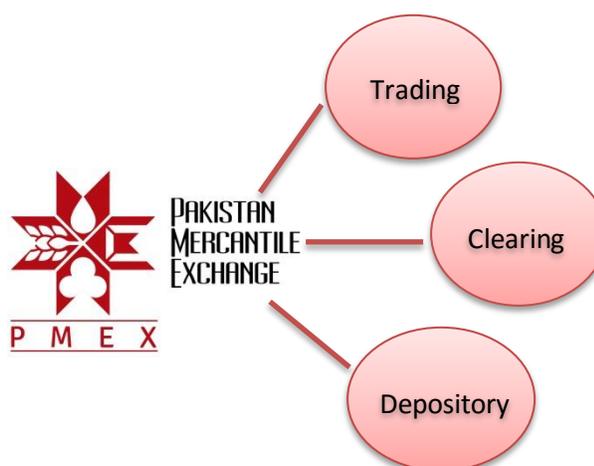
**Monday:** 4 am to 3 am (23 hours)

**Tuesday – Friday:** 6 am to 3 am (21 hours)

To facilitate PMEX clients, Customer Support Services are available five days a week throughout the trading hours on (UAN: 111-11-PMEX(7639) | email: support@pmex.com.pk).

## 7. PMEX Functionalities

- Three functions combined in 1



## 8. Products

The products that are generally offered at the exchange can be classified into the following two categories:

### 8.1 Global Product

Category	Commodity	Contracts
<b>Metals</b>	<b>Gold</b>	PMEX 1 Ounce Gold Futures Contract PMEX 10 Ounce Gold Futures Contract PMEX 100 Ounces Gold Futures Contract PMEX AUD Gold Futures Contract PMEX CAD Gold Futures Contract PMEX CHF Gold Futures Contract PMEX EUR Gold Futures Contract PMEX GBP Gold Futures Contract PMEX JPY Gold Futures Contract PMEX USD Gold Futures Contract
	<b>Silver</b>	PMEX Silver (10 Ounces) Futures Contract PMEX Silver (500 Ounces) Futures Contract PMEX Silver (100 Ounces) Futures Contract PMEX Silver (5,000 Ounces) Futures Contract
	<b>Platinum</b>	PMEX Platinum (5 Oz) Futures Contract PMEX Platinum (50 Oz) Futures Contract
	<b>Palladium</b>	PMEX Palladium (100 Oz) Futures Contract
	<b>Copper</b>	PMEX Copper Futures Contract (1,000 Pounds) PMEX Copper Futures Contract (25,000 Pounds)
<b>Energy</b>	<b>Crude Oil</b>	PMEX Crude Oil (10 barrels) Futures Contract PMEX Crude Oil (100 barrels) Futures Contract PMEX Crude Oil (1,000 barrels) Futures Contract
	<b>Brent Crude Oil</b>	Brent Crude Oil (10 barrels ) Contract Brent Crude Oil (100 barrels ) Contract Brent Crude Oil (1,000 barrels ) Contract
	<b>Natural Gas</b>	PMEX Natural Gas (10,000 mmbtu)Contract PMEX Natural Gas (1000 mmbtu)Contract
<b>Agriculture</b>	<b>International Cotton</b>	PMEX International Cotton (ICOTTON) Futures Contract PMEX International Cotton (ICOTTON) 50K Futures Contract
	<b>International Wheat</b>	PMEX Chicago Wheat Futures Contract
	<b>International Corn</b>	PMEX Corn Futures Contract
	<b>International Soybean</b>	PMEX Soybean Futures Contract
<b>Equity Indices</b>	<b>US Equity Indices</b>	PMEX US Equity NSDQ 100 Index Futures Contract PMEX US Equity Industrial Index Futures Contract PMEX US Equity 500 Index Futures Contract
	<b>Japan Indices</b> <b>Equity</b>	PMEX US Nikkei USD 1Index Futures Contract PMEX US Nikkei USD 5Index Futures Contract

## 8.2 Local Products

Category	Commodity	Contract
<b>Metal</b>	<b>Gold</b>	PMEX One Tola Gold Futures Contract Specification PMEX 50 Tola Gold Futures Contract Specification PMEX 100 Tola Gold Futures Contract Specification PMEX Gold 100 gms Futures Contract Specifications PMEX Kilo Gold Futures Contract Specifications PMEX Mini Gold Futures Contract Specification PMEX Milli Tola Gold Futures Contract Specifications/ PMEX Milli Tola Gold Brochure
<b>Agriculture</b>	<b>Red Chilli</b>	<b>Future Contracts</b> PMEX Dandicut (Longi) Red Chilli A Futures Contract PMEX Dandicut (Longi) Red Chilli A+ Futures Contract PMEX Dandicut (Longi) Red Chilli B Futures Contract PMEX Hybrid Red Chilli 1-A Futures Contract PMEX Hybrid Red Chilli 1-B Futures Contract PMEX Hybrid Red Chilli 1-C Futures Contract PMEX Hybrid Red Chilli 2-A Futures Contract PMEX Hybrid Red Chilli 2-B Futures Contract PMEX Hybrid Red Chilli 2-C Futures Contract PMEX Hybrid Red Chilli 3-A Futures Contract PMEX Hybrid Red Chilli 3-B Futures Contract PMEX Hybrid Red Chilli 3-C Futures Contract
		<b>Weekly Contracts</b> PMEX Hybrid Red Chilli 1-A Weekly Contract PMEX Hybrid Red Chilli 1-B Weekly Contract PMEX Hybrid Red Chilli 1-C Weekly Contract PMEX Hybrid Red Chilli 2-A Weekly Contract PMEX Hybrid Red Chilli 2-B Weekly Contract PMEX Hybrid Red Chilli 2-C Weekly Contract PMEX Hybrid Red Chilli 3-A Weekly Contract PMEX Hybrid Red Chilli 3-B Weekly Contract PMEX Hybrid Red Chilli 3-C Weekly Contract PMEX Red Chilli Weekly (Grade A) Futures Contract PMEX Red Chilli Weekly (Grade A+) Futures Contract PMEX Red Chilli Weekly (Grade B) Futures Contract
	<b>Rice</b>	PMEX-IRRI-6 Rice Futures Contract PMEX-Weekly IRRI-6 Rice Futures Contract
	<b>Sugar</b>	PMEX Sugar Futures Contract
	<b>Wheat</b>	PMEX Wheat ( Grade A+) Weekly Futures Contract PMEX Wheat (Grade A) Weekly Futures Contract
	<b>Palm Olein</b>	PMEX RBD PALM OLEIN Futures Contract

### 8.3 Liquid Contracts

S.No	Contract Name
1	Brent 10
2	Brent 100
3	Crude 10
4	Crude 100
5	Copper
6	Gold 1 Oz
7	Gold 10 Oz
8	Gold 100 Oz
9	Silver 500 Oz
10	Silver 100 Oz
11	Silver 10 Oz
12	International Cotton
13	GOLD EUR/USD
14	GOLD GBP/USD
15	GOLD USD/JPY
16	GOLD AUD/USD
17	GOLD USD/CAD
18	GOLD USD/CHF
19	PLATINUM (5 OZ)
20	PLATINUM (50 OZ)
21	NATURAL GAS (10,000 mmbtu)
22	NATURAL GAS (1000 mmbtu)

## 8.4 Intraday Trading Functionality

The Exchange has developed an Intraday trading functionality in following futures contracts listed at the Exchange:

S.No	Futures Contracts
1	Gold (1,10,100 Oz) Futures Contracts
2	Silver (10, 100, 500, 5000 Oz) Futures Contracts
3	Crude (10, 100, 1000 Barrels) Futures Contracts
4	EUR/USD through COTS
5	GBP/USD through COTS
6	USD/JPY through COTS
7	AUD/USD through COTS
8	USD/CAD through COTS
9	USD/CHF through COTS

This functionality is especially designed for those traders who wish to trade in the futures contracts and square-off their positions on the same day to avoid overnight market risk. The market makers are offering a better spread in these contracts as an added attraction for the traders. The Exchange is confident that the introduction of intraday functionality will encourage new market participants to trade at the regulated platform thereby increasing activity at the Exchange.

## 8.5 PMEX Shariah Compliant Trading Platform

In Pakistan, Islamic banking is growing at the rate of over 30 percent annually and its asset base has crossed PKR 1 trillion. However, such a significant growth has created surplus liquidity in the Islamic Finance industry. While deposits are on the increase, Islamic Financial Institutions (IFIs) have limited lending/investment options, there is an acute shortage of Islamic money market related instruments which are necessary to efficiently deploy the liquidity being generated due to increase in deposits. Although these IFIs have developed certain means by which the liquidity is currently being managed, there is no standardized product available to completely and efficiently meet the need of the industry. Considering the above, IFIs are looking for more trustworthy and efficient ways for conducting such transactions.

In the light of the above, Pakistan Mercantile Exchange (PMEX), under the able guidance of State Bank of Pakistan (SBP), Securities, Exchange Commission of Pakistan (SECP) and Sharia Advisory Board of Meezan Bank, has taken the initiative to develop PMEX Shariah Compliant Trading Platform (SCTP). Through this platform, IFIs will be able to execute commodity Murabaha transactions in a convenient, transparent and Shariah compliant manner.

PMEX SCTP is in line with the platforms offered by international commodity exchanges such as London Metal Exchange, Bursa Malaysia and Jakarta Futures Exchange, which are also enabling Murabaha transactions and are acting as hubs for Islamic Banking liquidity management.

With the assistance of the Sharia Advisor, PMEX lead multiple discussions with financial institutions and industry stakeholders and concluded that High Speed Diesel (HSD) would be the ideal underlying asset for the commodity Murabaha transactions at PMEX SCTP. The product meets key requirements of Sharia i.e. abundant supply, non-perishable nature, adequate infrastructure for the storage and handling, sold by all the OMCs operating in the country and certified quality standards of the product. Moreover, the price determination of the product is fixed by competent authority.

PMEX has been encouraged by the keen interest and enthusiasm shown by the IFIs in the SCTP and is confident that this landmark initiative would strengthen the Islamic financial sector and eventually serve as an industry benchmark and be the first choice for the IFIs.

To learn more, visit the following links:

[Introductory Presentation](#)

[Contract Specification](#)

[User Guide](#)

 [Video Tutorial](#)

 [Shariah Pronouncement](#)

 [Draft Regulations](#)

 [Account Opening Form for SCTP](#)

 [Draft Regulations Governing Shariah Compliant Trading Platform For Murabaha](#)

## 8.6 Upcoming Initiatives

### E-commerce Platforms

The Exchange has embarked upon the development of e-commerce platforms for local agricultural commodities. On the domestic front, the Exchange is developing an Electronic Pakistan Agriculture Market (ePAM). The objective is to create an online marketplace with a physical market (*mandi*) at the backend, connecting all mandis to form a unified national market for agricultural commodities in the country.

On the international front, PMEX is working on creating Pakistan's first international online trading platform under the name of Global Trading Platform (GTP). The objective of the platform is to showcase country's premium quality agri and non-agri commodities to the international market. GTP will function as a one window solution, which would allow the international buyers to purchase the desired produce with convenience and guaranteed quality standard from local sellers/exporters as per PMEX Contract Specifications.

The Exchange is confident that establishment of GTP will transform the local commodity markets by linking farmers directly to the international market, improve price discovery and induce transparency in commodity value chain, reduce transaction costs and increase Pakistan's agricultural exports.

### Trading of Electronic Warehouse Receipts

Agriculture is an important component of Pakistan's economy that provides livelihood to majority of its rural population. At present, the sector faces plethora of problems from water shortage to rising prices of inputs to post-harvest losses. The resulting inefficiencies are impacting all the market participants and eroding competitiveness of the sector.

There is an urgent need to organize agriculture sector on modern lines. For adopting modern farming techniques, financial inclusion is the need of the hour. Currently, financing to the farmers is mainly

provided on the basis of ‘passbook’, a document authenticating ownership of land. In addition, high interest rate is a discouraging factor for the small farmers. Resultantly, soon after the harvest, the small farmers are forced to sell bulk of the produce to the middlemen at a lower price, after keeping small percentage for their domestic use.

Over the last few years, the Government of Pakistan has taken the initiative for establishing the Warehouse Receipt Financing (WRF) system for the development of the agricultural sector in the country. The objective is to reduce wastage, improve the economic conditions of small farmers throughout the country and promote trading of electronically issued warehouse receipts.

WRF is a collateralized transaction where the commodities themselves act as security against the loan. The commodities are stored in the licensed warehouses that issue Electronic Warehouse Receipts (EWR) proving that the commodities are physically present at the warehouse. Against this receipt, the farmer can exercise two options: 1) acquire financing or 2) trade at commodity exchange.

The development of ecosystem for WRF in Pakistan is still at a nascent stage. The State Bank of Pakistan (SBP) has reviewed the existing system of commodity warehousing in the country, studied international best practices and formulated a framework for WRF system. Lately, Securities & Exchange Commission of Pakistan (SECP) has promulgated Collateral Management Companies (CMC) Regulations, 2019 to promote EWR and electronic trading of agricultural commodities.

Once the CMC becomes fully operational, EWR will be issued, which will be a proof of storage of commodity with quality and quantity held at an accredited warehouse. The EWR will be used by farmers for obtaining financing from the financial institutions as well as trading at Pakistan Mercantile Exchange (PMEX).

In line with this, PMEX will integrate its system with CMC to offer an end-to-end trading facility to the farmers. Moreover, the Exchange will design deliverable futures contracts based on EWR. Once EWR is traded at the Exchange, the ownership will be automatically transferred to the buyer in the systems. The buyer will now be eligible to take physical delivery of commodity from the respective warehouse. Additionally, the trading of EWR will give an extra comfort to the financial institutions, as they would be able to easily liquidate EWR through PMEX in case of any default by borrower.

Since the CMC will maintain inventory and issue EWR based on PMEX quality specifications, it is envisaged that the provision for EWR in upcoming e-commerce platforms i.e. Global Trading Platform (GTP) and Electronic Pakistan Agriculture Market (ePAM) will further facilitate the Exchange in fulfilling delivery obligations.

The ecosystem for EWR will be a game changer in revolutionizing the agriculture landscape of the country, boosting efficiency and making it more competitive. It can lead to myriad benefits including but not limited to reduced post-harvest losses, achieve food security, enhance farmers’ access to agricultural credit and ensure better returns to growers. It will also bring efficiency and transparency in the distribution and marketing mechanism of agricultural commodities.

### **Use of Futures Contracts for Hedging in Cotton Trade**

Cotton is grown widely around the world and has been used for at least 7,000 years. It is an important commodity in the world economy. Pakistan is the fourth largest producer of cotton in the world. The commodity earns USD 10 billion foreign exchange annually from exports of cotton based products, which is more than 50 percent of total exports of the country. Moreover, it has a 0.8 percent share in Pakistan’s GDP and contributes 4.5 percent in agriculture value addition.

At present, in Pakistan cotton faces significant challenges such as contraction in the cultivated area, unfavourable weather conditions, stunting of crop and attack of pests. However, the most important challenge is wide fluctuation in the price of the commodity.

Cotton is an essential raw material for the textile industry in Pakistan. The industry has the longest production chain, with inherent potential for value addition at each stage of processing, from cotton to ginning, spinning, weaving, dyeing and finishing, made-ups and garments. Keeping in view the lion's share of the textile sector in country's economy, it is imperative to facilitate the industry in growing and expanding its share in the world market. The industry needs forum for price discovery and tool for price risk management to further boost its growth.

One of the ways to mitigate the risk of volatility in cotton prices is through "Hedge/Futures Trading" of cotton. Globally, cotton is traded at a number of futures exchanges including US, China, Turkey and India, the leading cotton producing countries. Cotton Futures Contract listed at InterContinental Exchange (ICE), USA, is the global benchmark of cotton prices.

In Pakistan, PMEX has time tested and proven capability in terms of software, hardware, risk management, surveillance and human resource etc. to conduct and operate commodities futures trading.

At present, PMEX under the able guidance and support of Ministry of Textile/Commerce and Securities and Exchange Commission of Pakistan is working to provide a mechanism to the textile industry whereby the participants can hedge the price risk associated with cotton. In this regard, PMEX is in the process of developing consensus among the stakeholders to use its platform for hedging price risk in cotton trade.

### **Trading of Physical Gold**

The gold sector in Pakistan is grossly undocumented. Lately, the government has started the process of documenting economic activities. Additionally, to comply with the Financial Action Task Force (FATF) requirements, the documentation of this sector has become the most important. It is high time to come up with a new ecosystem which on one hand facilitates in documenting gold trade and on the other hand establishing credible money/gold trail.

In this regard, PMEX held detailed discussions with different stakeholders of gold trade and is in the process of building consensus among the stakeholders that the Exchange can play the most vital role in ensuring complete documentation of gold trade as well as making the basic raw material available to the jewellers.

In line with the above vision and International precedence, the Exchange has proposed a model that would enable members of PMEX to import unprocessed Gold. Furthermore, the imported precious metal would be deposited to the Exchange vault and trading & delivery will take place through PMEX's electronic trading platform. Jewellers/Buyers will be required to open account with PMEX for trading of gold. Buyers will be required to submit funds through online-banking directly to the Exchange. PMEX is currently in the process to discuss the operational modalities of the proposed model with the relevant stakeholders and regulatory authorities.

The Exchange is confident that once the proposed model with all regulatory approvals is in place for the sale and physical delivery of gold, it will yield multiple benefits that include documenting gold trade, boosting export of jewellery from Pakistan and creating a full-fledged gold-backed investment industry along with a formal gold-based lending market.

### **Hedging in Futures Contracts of Palm Olein**

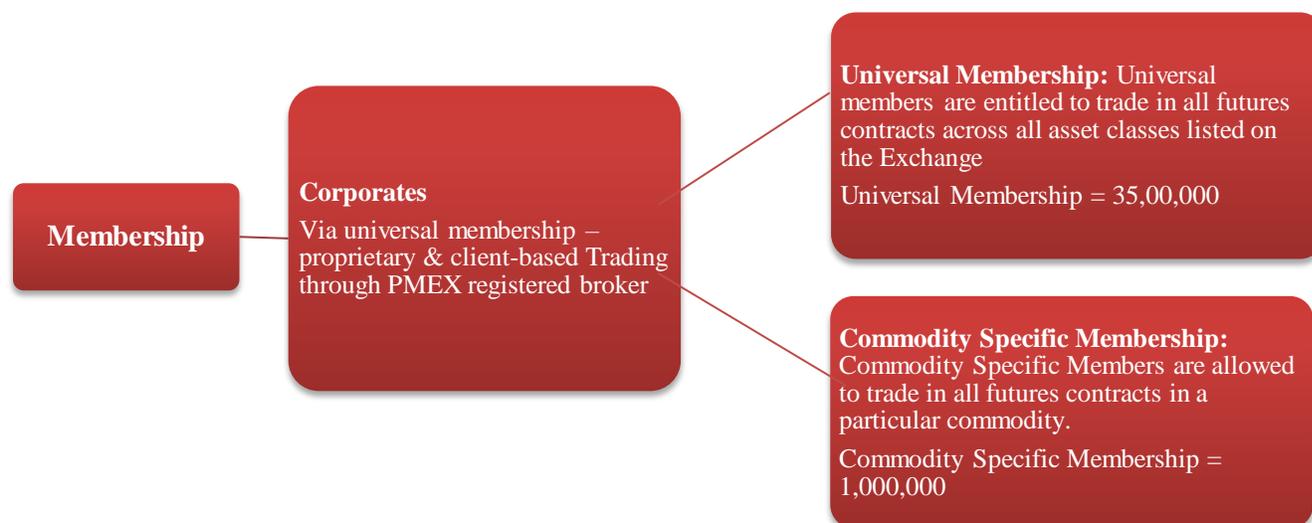
Although Pakistan produces edible oil locally, it is not enough to meet the growing domestic market. To meet the domestic need, Pakistan imports 75 percent of its edible oil, palm oil being the main import. The Palm Oil is used as vital raw material in the production of Vanaspati in Pakistan. At present, the local edible oil industry needs a mechanism to hedge the price risk as the price of Palm oil is significantly volatile.

In this regard, PMEX in consultation with industry stakeholders, plans to introduce deliverable and cash settled futures contracts of Palm oil so that the industry can conveniently and efficiently hedge risk associated with the price volatility of Palm Oil.

## 9. Membership

### 9.1 Types of Membership

PMEX Offers two types of memberships:



To learn more, visit the following:

- **Existing Members:** <https://www.pdex.com.pk/existing-broker/>
- **New Members:** <https://www.pdex.com.pk/new-broker/>

### 9.2 PMEX Members

PMEX has over **336** members out of which currently **71** are eligible to trade & registered with SECP.

To access complete list of registered Members & Brokers, visit: <https://www.pdex.com.pk/pdex-broker/>

# 10. Technology

## 10.1 Front End Trading Terminal

PMEX started MetaTrader 5 facility for all its market participants from February 26, 2018 thereby enabling them to benefit from advanced features of MetaTrader 5 and offer efficient trading and investment facilities to their clients.

The cutting-edge functionality of the popular platform is now available to Pakistani traders, including the most powerful automated trading possibilities through the desktop application, mobile applications for iOS and Android devices and the full-featured web platform.



To learn more, visit

- [MetaTrader 5 Platform – Key Features](#)
- [Release Notes – New MetaTrader 5 Platform](#)
- [Client Desktop Application](#)
- Mobile Application
  -  [Iphone/Ipad](#)
  -  [Android](#)
- [Demo Trading Account Guide](#)
- [Web Base Online Trading](#)

## 10.2 Back Office Management System

PMEX also offers a robust back office management system to its members comprising of three independent platforms, namely;

- Clearing, Settlement and Reporting CSR
- Trader Account Management System (TAMS)
- e-books

## 11. Risk Management

Risk management philosophy is based on applying the international best practices to the local conditions. Our robust risk management framework, which has withstood the test of time, includes measures like pre-trade checks; Value at Risk (VaR) based client – level margining, no-netting, segregation of funds and auto-liquidation of trades.

## 12. Business Continuity & Disaster Recovery (BC & DR)

The exchange has fully equipped itself to respond to all types of eventualities such as natural calamities, civil unrest and securities breaches. PMEX has a fully operational BC & DR sites, which provide a robust structure for resuming all the critical operations in the shortest possible time.

## 13. Benefits of Trading At PMEX

- **Market Transparency**  
Ensured through electronic matching of bids and offers based on price-time priority, using advanced technology and systems especially created for today's commodity markets.
- **Global Prices**  
Prices of International commodities traded at the Exchange are referenced to global exchanges.
- **Price Discovery:**  
For Local commodities traded in large quantities.
- **Counterparty Guarantee**  
Clearing and settlement is guaranteed through an in-house, regulated clearing house.
- **Risk Management:**  
Robust risk management framework based on international best practices.
- **Time Zone Convenience**  
21 hour seamless environment thereby providing trading opportunities virtually round-the-clock.

- **Multiple Connectivity Options**

The trading platform can be accessed through the internet using one of the following options:

- The in-house front-end provided by PMEX i.e. NEXT
- Meta Trader 5

## 14. Trading At PMEX

Any person or a body corporate who wants to trade on the exchange platform needs to approach a member broker of PMEX to open a trading account. Once the account is opened and funds [margins] are made available, clients can trade at their own convenience via the Exchange's web based trading platform.

### 14.1 Direct Funds Model

Protecting the interest of market participants has been one of the key objectives of PMEX, since inception. To meet this objective, the Exchange has been undertaking various measures for the creation and development of a robust and transparent futures market.

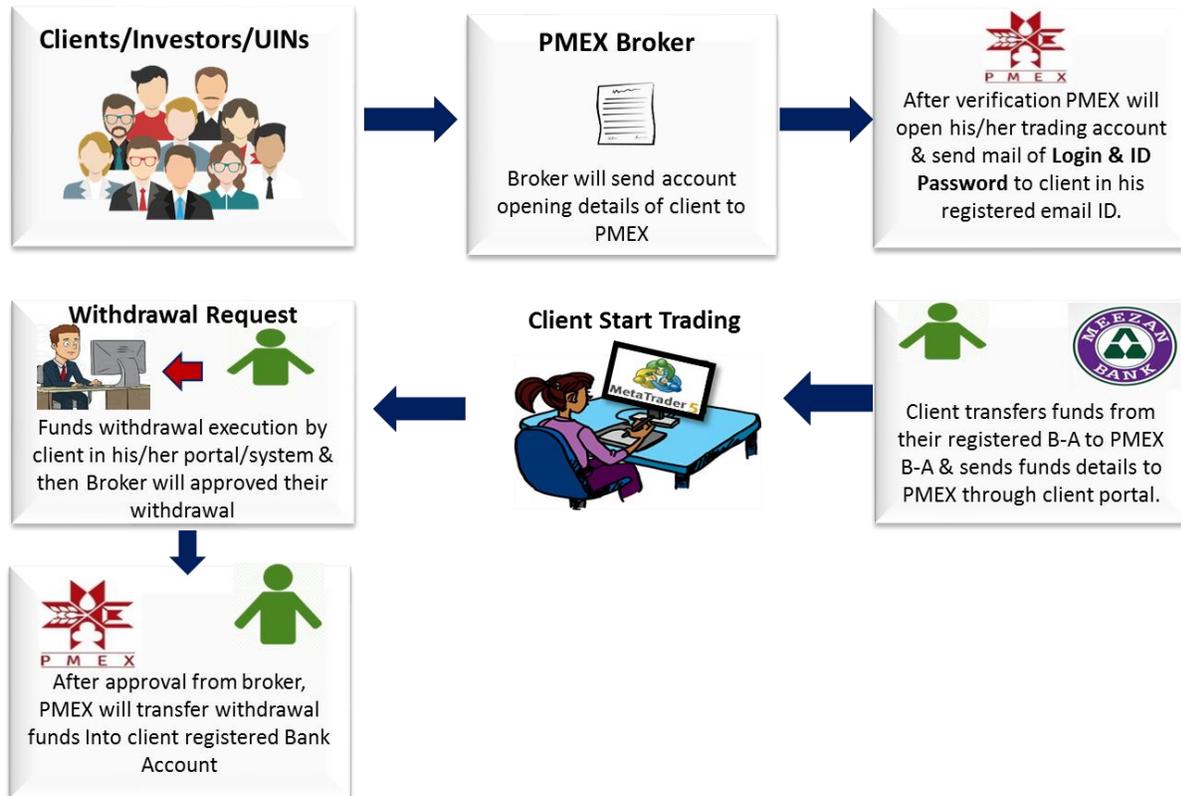
In its latest endeavor, PMEX has launched the Direct Funds Model (DFM). Under this arrangement, the Exchange directly collects funds from the clients as well as directly transfers the withdrawals into their bank accounts. In a nutshell, DFM allows the investors to directly deposit and withdraw cash from their account without involvement of the broker. In essence, the DFM empowers the market participants to get complete control of their assets at all the times and restricts the role of the brokers primarily to service the existing clients and solicit new business.

To maintain the sanctity of the clients' information and curb misuse of funds, the Exchange has incorporated additional features i.e. security checks and alerts in cash collection and withdrawal processes. These checks include approval of profile by the client, tagging of IBAN, email and mobile number to a single UIN and system generated SMS/email alerts for each trade and funds movement.

The Exchange is confident that the introduction of DFM will not only help the Exchange in strengthening its risk management system, but also in protecting the interest of the clients and boosting their confidence to actively trade at the regulated platform of PMEX.

To learn more, visit: <https://www.pmem.com.pk/direct-funds-model/>

## 14.2 Trade Flow



# 15. Guidelines

## 15.1 Guidelines for Commodity Futures Brokers

DO'S	DON'TS
<ol style="list-style-type: none"> <li>1. Always enter/maintain true and correct registration details of clients on Exchange Trading System, and do not change any detail without prior approval of the client</li> <li>2. Issue confirmations for trades executed on behalf of clients within 24 hours and obtain acknowledgment thereof</li> <li>3. Ensure that all requisite signed documents have been received from clients including Account Opening Form and Risk Disclosure Document</li> <li>4. Ensure that Know Your Customer and Customer Due Diligence is being conducted properly in compliance with anti-money laundering laws and the regulations/guidelines</li> <li>5. Ensure that the information contained in the Account Opening Form is updated, complete and correct at all times</li> <li>6. Ensure that all telephonic orders and orders received from clients in person are adequately recorded and preserved</li> <li>7. Maintain proper records of registered offices, authorized persons, branches and clients</li> <li>8. Ensure that investor grievance redressal mechanism is in place at all dealing locations such as head office and branches</li> <li>9. Ensure that all authorized persons and branches are registered with the Exchange</li> <li>10. Ensure that a list of commodity futures contracts that are permitted &amp; traded at the Exchange has been prominently displayed at the head/branch offices</li> <li>11. Ensure that the authorized persons/branches are following and complying with all the relevant</li> </ol>	<ol style="list-style-type: none"> <li>1. Do not maintain anonymous accounts or accounts that are opened or maintained in the name of fictitious persons</li> <li>2. Do not alter or change terms and conditions of Standardized Account Opening Form (SAOF). Any additional terms and conditions shall not contradict with the terms and conditions of SAOF.</li> <li>3. Do not obtain any blank document or blank cheque from client</li> <li>4. Do not enter any wrong, contradictory or incomplete information on Exchange Trading System</li> <li>5. Do not attract clients by alluring advertisements, rumors, hot tips or the promise of assured returns/fixed profit</li> <li>6. Do not execute discretionary trades on behalf of clients in any manner</li> <li>7. Do not obtain or use client's personal id and password</li> <li>8. Do not raise deposits from public/investors against fixed or guaranteed return on deposits as these activities are illegal and tantamount to defrauding the public</li> </ol>

<p>provisions of the rules, regulations, circulars or directives issued by the Exchange and Securities &amp; Exchange Commission of Pakistan (SECP)</p> <ol style="list-style-type: none"><li>12. Ensure that name of broker, registration number and certificate of registration of authorized person along with terms and conditions of branch dealing has been displayed at the registered branches</li><li>13. Always include the disclaimer specified by the Exchange while making any advertisement</li><li>14. Ensure that advertisement made by the branch/authorized person should have the approval of the broker</li><li>15. Notify change of the authorized person to the Exchange at least 15 days before the change</li><li>16. Conduct periodic inspection of the authorized persons/branches</li><li>17. Upon noticing any irregularities in the branch operations, immediately correct or deregister the authorized person or branch</li><li>18. Be vigilant about any fraudulent activity of employees and authorized persons</li><li>19. Approach PMEX in case of any clarification required on compliance related issues</li></ol>	
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## 15.2 Guidelines for Clients of Commodity Futures Brokers

DO'S	DON'TS
<ol style="list-style-type: none"> <li>1. Verify the authenticity of a Broker and its branches from the list of registered brokers from PMEX website (<a href="https://www.pmax.com.pk/pmax-broker/">https://www.pmax.com.pk/pmax-broker/</a>)</li> <li>2. Carefully read and understand the terms and conditions along-with Risk Disclosure Document</li> <li>3. Ensure that all information is accurately filled in the Account Opening Form and a signed copy of the form is retained for future reference</li> <li>4. In case of any change in information provided in the Account Opening Form, immediately communicate in writing to Broker</li> <li>5. Only deposit payments to PMEX through cross cheque or online transfer from your own bank account registered with PMEX</li> <li>6. Ensure that Broker sends daily, weekly, monthly account balance and activity statements to know the trade activity and cash balances in the trading account</li> <li>7. Ensure that Broker sends SMS alerts for trades and cash movement in the trading account</li> <li>8. Approach PMEX in case of any complaint that remains unresolved by the Broker</li> </ol>	<ol style="list-style-type: none"> <li>1. Do not deal with Brokers or their branches not registered with PMEX</li> <li>2. Do not give wrong, contradictory or incomplete information in the Account Opening Form</li> <li>3. Do not issue cross cheque pay order demand draft or any other instrument in the name of Broker, or any of its employee/authorized representative</li> <li>4. Do not deposit payments in cash in your account</li> <li>5. Do not deposit payments through third party cheque or online transfer from third party account</li> <li>6. Do not get misled by alluring advertisements, rumors, hot tips or the promises of assured returns by the Brokers or their authorized representatives</li> <li>7. Do not share personal ID and password provided by the Exchange with the Brokers or their authorized representatives</li> <li>8. Do not surrender the right of receiving cash and trade balances reports via email and SMS</li> <li>9. Do not start trading before reading and understanding the Risk Disclosure Document provided by PMEX</li> <li>10. Do not give deposit by whatever name called, to any Broker or any of its employee/ authorized representative against fixed or guaranteed returns on deposits as the same is illegal and any claim in respect of such deposits would not be considered/entertained by PMEX</li> </ol>

## 16. Futures Training 101

The Exchange also conducts *Futures Trading 101*, weekly free of cost training sessions, scheduled every Wednesday from 4:00 pm to 5:00 pm at Exchange's premises. The training is specially designed for existing and potential market participants to provide them with an in-depth knowledge of commodity fundamentals, technical analysis and listed products at PMEX. In addition, it also equipped the trainees with hands on experience with the trading system at PMEX.

To register click on the link: <https://csr.pmx.com.pk/ohlc/trainingssession.aspx>