

ICMA

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Shaping Pakistan's Economic Future

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ICMA INTERNATIONAL
lead strategically

ICMA's Defence Framework: Securing the Stock Market



Research and Publications Department

Institute of Cost and Management Accountants of Pakistan

MESSAGE FROM THE VICE PRESIDENT ICMA AND CHAIRMAN, RESEARCH & PUBLICATIONS COMMITTEE



I am delighted to present this timely publication, developed by ICMA's Research and Publications Department, which highlights a critical challenge, strengthening the resilience of the Pakistan Stock Exchange (PSX) during times of crisis. Recent geopolitical tensions and economic shocks have clearly shown how quickly PSX trading can be disrupted, making well-planned reforms an urgent priority.

This publication outlines ICMA's focused proposals that include introducing a Defence Sector Index, establishing a sovereign market stability fund, aligning circuit breaker rules with international best practices, and requiring crisis-risk disclosures from listed companies. These initiatives are practical steps to protect investors, reduce volatility, and keep the PSX steady and reliable in testing times.

I encourage policymakers, regulators, and market stakeholders to give serious consideration to these proposals. By taking timely action, we can build a stronger and more resilient PSX: one that upholds investor confidence and contributes meaningfully to Pakistan's economic stability and growth. I would like to appreciate our Research and Publications Team for addressing this vital issue and providing well-researched policy guidance to support our policymakers.

Muhammad Yasin, FCMA

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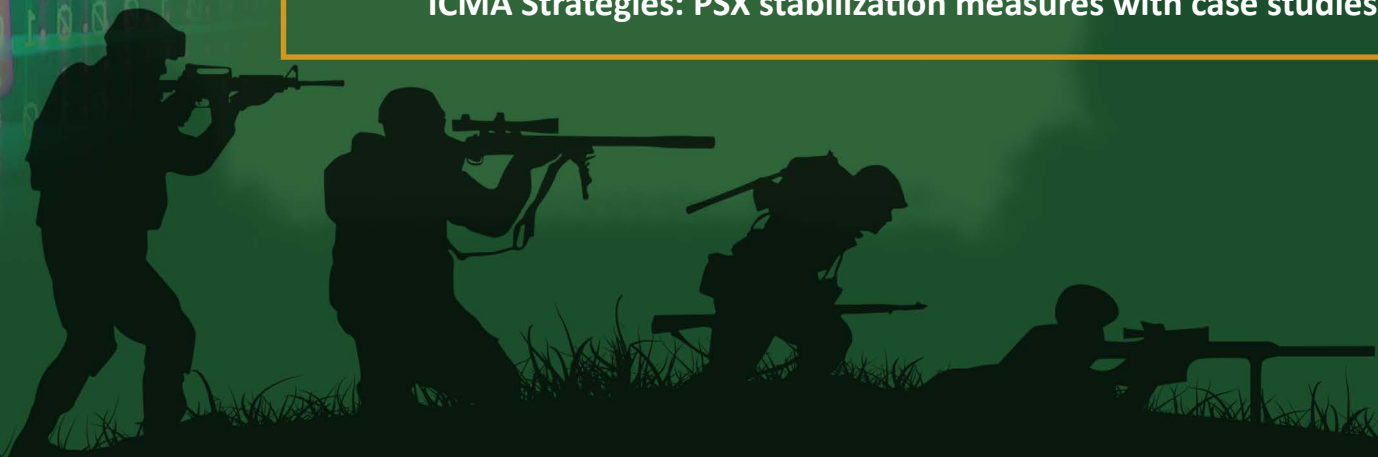
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Preamble

Surrounded by geopolitical tensions and economic vulnerabilities, strengthening Pakistan's capital markets is a national priority. The Pakistan Stock Exchange (PSX), a key barometer of investor confidence and economic health, remains vulnerable to volatility from armed conflicts, macroeconomic shocks, and global financial instability. The Apr-May 2025 Pakistan-India border tensions exposed these weaknesses, as the PSX suffered a steeper decline than National Stock Exchange of India (NSE).

Recognizing this need, ICMA, in this document, has proposed a set of focused measures to the Government, Ministry of Defence, PSX, and SECP to reinforce Pakistan's economic defences in times of crisis, war and other emergencies. *"These include: creating a Defence Sector Index to attract investment amid geopolitical uncertainty; aligning circuit breaker rules with global standards; establishing a sovereign market stability fund and mandating crisis-risk disclosures for listed companies."* Collectively, these measures aim to protect investors, curb market volatility, and strengthen the resilience of Pakistan's capital markets.

Geopolitical Tensions: Pakistan - India (Apr - May 2025)

The timeline below outlines key events during the Apr–May 2025 Pakistan–India tensions and their impact on the Pakistan Stock Exchange (PSX) and the National Stock Exchange of India (NSE).

Pre-War Escalations

Diplomatic Breakdown [23rd Apr]



Water Treaty suspended, borders closed, visas revoked, and diplomatic ties downgraded.

Border Clashes

[24th Apr – 6th May]

Frequent armed exchanges along the Line of Control raised regional tensions.



War Phase (7th - 10th May)

Note: PSX represents KSE All Share Index

| NSE represents Nifty Total Market Index

7th May - Hostilities Erupt:

India launched an attack on Pakistan.

(Market impact) PSX ↓ 3.06%; NSE: ↑ 0.55%.



8th May - Confidence Falls:

Investor sentiment plunged.

PSX ↓ 6.07%; NSE ↓ 1.03%.



9th May - Defensive Recovery:

Pakistan's successful war defence lifted the market.

PSX ↑ 3.08%; NSE ↓ 0.74%.



10th May - Counterstrike & Ceasefire:

In the pre-dawn hours, Pakistan launched "Operation Bunyan–UN–Marsoos" against India. By evening, both countries agreed to a full and immediate ceasefire.



Post-War Rebound (12th May)

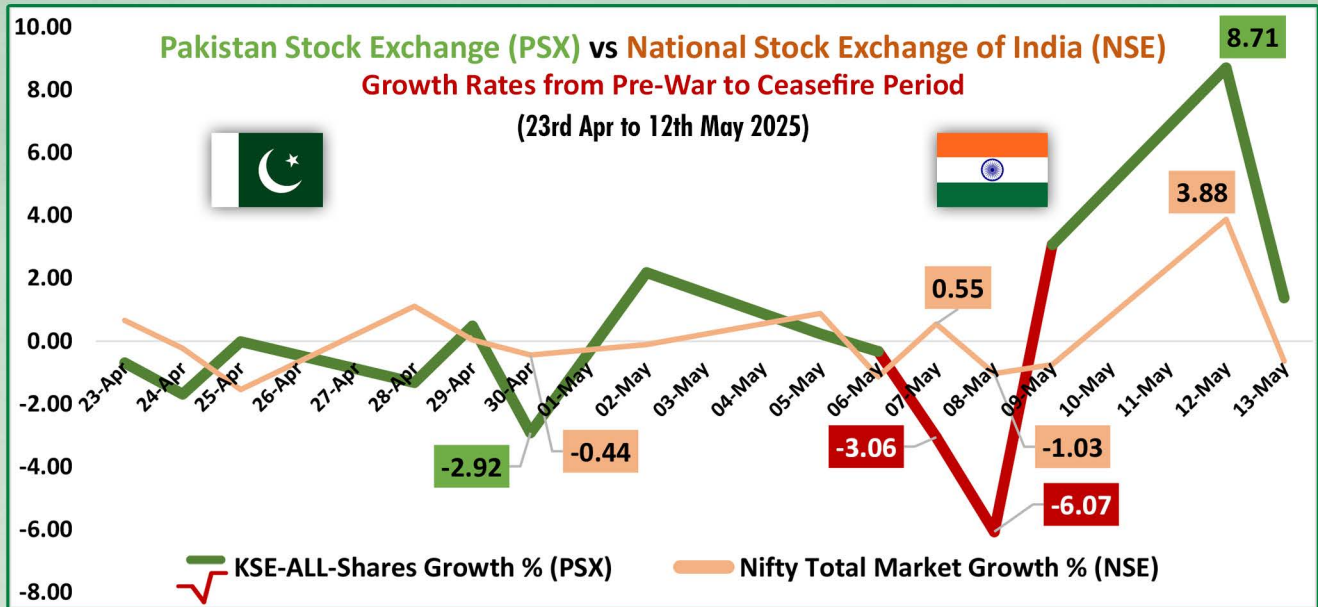
Confidence Restored:

Ceasefire optimism drove PSX ↑ 8.71%; NSE ↑ 3.88%.



ICMA Analysis: Graph Showing PSX and NSE Performance During Pre-War and War Periods

Figure: 1



Key Findings

- ICMA analysis indicated steep PSX losses on May 7 and 8, 2025, following India's attack on Pakistan.
- On May 8, the KSE-All-Share Index dropped 6.07%, compared to a 1.03% fall in India's Nifty Total Market Index.
- This sharper PSX decline points to the need for greater market resilience in Pakistan, aligned with global benchmarks.



ICMA Identifies Gaps in Pakistan Stock Exchange (PSX) Rules



1

In wars or emergencies, investors move to safe assets to counter balance market risks.



2

PSX needs robust circuit breakers to manage volatility and sustain confidence.



3

A backup fund should be in place to inject liquidity if conditions deteriorate.



4

PSX and listed companies should provide and publish risk disclosures and case studies to help prevent panic selling.









ICMA Proposed Strategies to Stabilize PSX Volatility in Times of Crisis

ICMA Proposal 1: Defence Sector Index on PSX

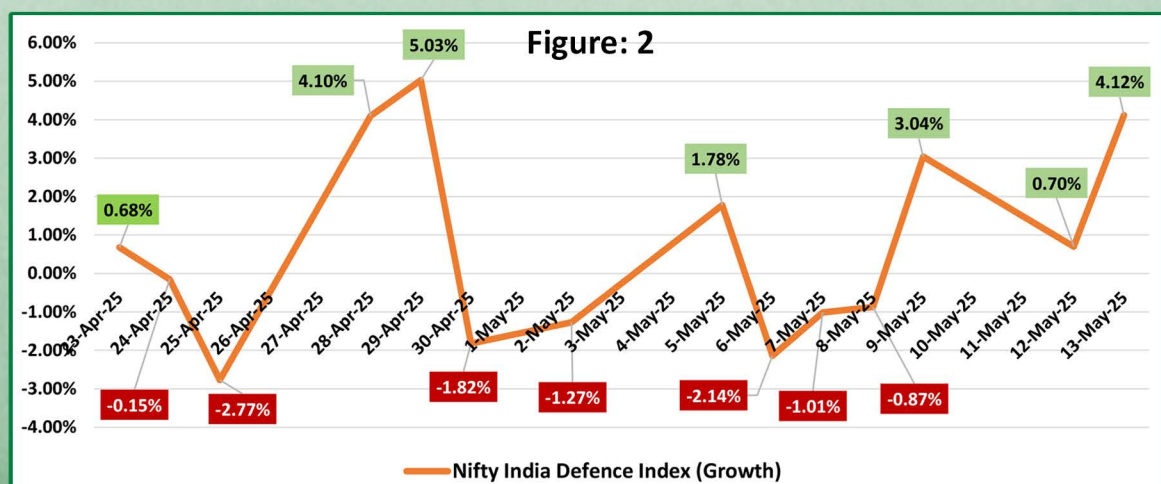
ICMA proposes creating a 'Defence Sector Index' on the PSX to attract investment in defence-related industries. This index would help offset geopolitical uncertainty, support market stability, and build investor confidence during crises.

Case Study: In many economies, a Defence Sector Index supports stock markets during wartime, typically representing around 2% of total market share.

Country	Stock Exchange	Sector Index	Avg. Market Share % (approx.)
 Germany	Frankfurt Stock Exchange (CDAX share Index)	Defence	4.91%
 Singapore	Singapore Exchange (SGX)	Aerospace & Defence	2.95%
 India	NSE (Nifty All Market share)	Nifty India Defence	2.81%
 USA	NYSE, Nasdaq and OTCQX	Aerospace and Defence	2.36%
 UK	London stock Exchange (FTSE All-Share Index)	Defence	1.5%
 Japan	Tokyo Stock Exchange (TSE)	Aerospace & Defence Market	1.12%

Source: Data obtained from relevant countries' stock exchanges for FY2025. Analysis by ICMA.

Pre & Post War: India's Defence Sector Index grew by about 9%, supported the stock market stability



Source: uk.investing.com, Analysis by ICMA.

ICMA Proposal 2: Restructured Circuit Breaker Rules

ICMA proposes the following revisions in circuit breaker rules which will also reduce market volatility during emergencies and war, increasing transparency, protecting investment and enhancing confidence, leading to investment inflows.

Level-Wise Trading Halts

As part of this proposal, ICMA recommends adopting a level-wise circuit breaker system at PSX, similar to the NYSE (USA). Under this system, trading would pause for 15 minutes during extreme volatility to prevent panic selling and safeguard market stability.

Level 1 Circuit Breaker

Trigger:

KSE-30 or KSE-100 index drops 4% from the previous day's close.

Action:

Trading halted for 15 minutes.

Timing:

Applies only before 3:25 p.m. PKT.

Level 2 Circuit Breaker

Trigger:

KSE-30 or KSE-100 index drops 8% from the previous day's close.

Action:

Trading halted for second time for 15 minutes

Timing:

Applies only before 3:25 p.m. PKT.

Level 3 Circuit Breaker

Trigger:

KSE-30 or KSE-100 index drops 12% from the previous day's close.

Action:

Trading halted for the rest of the day.

Timing:

Can be triggered anytime during market hours.

Note: After 3:25 p.m. PKT, only a **Level 3 breach** will trigger a trading halt. Level 1 and Level 2 thresholds will not apply beyond this time.

Present Circuit Breakers Used by PSX Market: Key Highlights

A circuit breaker is a regulatory mechanism that temporarily halts trading in a security or across the market when prices move beyond a pre-defined percentage threshold, either upward or downward, to curb excessive volatility and allow investors time to assess information.

A) Stock-Level Circuit Breakers:



- Triggered if a stock moves $\pm 7.5\%$ or Re. 1 (whichever is higher) from the last close.
- Limit increases by 0.5% every 15 days until it reaches 10% or Re. 1.

B) Index-Based Breakers (KSE-30)



- If the KSE-30 index moves $\pm 5\%$ for 5 minutes, trading halts across equity and derivatives.
- After the halt, a 5-minute pre-open session is held.
- Only brokers meeting NCCPL margin rules can trade after the halt.

Case Study: Market-Wide Circuit Breakers (NYSE, U.S. Markets – S&P 500 Based)

Purpose:

Temporary halts during sharp market declines to prevent panic-selling and allow investors time to assess.

Trigger Index:

Calculated on the S&P 500's drop from the previous day's close.

Direction:

Applies only to downward movements (not price rises).

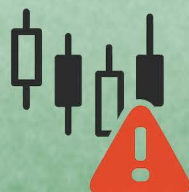
Circuit Breaker Levels:

Level 1: 7% fall → 15-minute halt (before 3:25 p.m. ET).

Level 2: 13% fall → 15-minute halt (before 3:25 p.m. ET).

Level 3: 20% fall → Trading stopped for the rest of the day.

Note: After 3:25 p.m. ET, only Level 3 applies; Levels 1 and 2 are ignored.



ICMA Proposal 3: Create a Sovereign Market Stability Fund

ICMA proposes a government-backed fund, managed by the Ministry of Finance and SECP, to support the PSX during crises. The fund would inject liquidity, buy listed stocks, or offer guarantees to institutional investors, helping prevent panic selling and protect investor confidence. Beyond emergencies, it would also serve as a strategic tool to strengthen long-term market resilience.

Case Study: South Korea – Market Stabilization Fund (2020):

1 In March 2020, South Korea launched USD 8 billion market stabilization fund to tackle the COVID-19 market crisis.

3 The fund was managed by Korea Exchange and Financial Investment Association.

2 The fund provided liquidity by buying corporate bonds and commercial papers.

4 This reduced financial stress, restored investor confidence, and stabilized markets.

ICMA Proposal 4: Mandatory Crisis Risk Disclosures for Listed Companies

ICMA proposes that SECP mandate listed companies to disclose timely geopolitical risk assessments and business continuity plans. These disclosures will enhance transparency, enable investors to better evaluate company-specific vulnerabilities, and strengthen overall market resilience in times of crisis.

Case Study: UK's Financial Conduct Authority (FCA) Risk and Sustainability Rules

1 The UK's Financial Conduct Authority (FCA) requires large financial firms to disclose systemic risks (e.g., geopolitical, climate) under its Prudential Standards and Sustainability Disclosure Requirements (SDR).

3 Effective May 31, 2024, the FCA introduced the Anti-Greenwashing Rule, mandating firms to ensure sustainability claims are fair and not misleading.

2 These regulations aim to enhance transparency, assess vulnerabilities, and uphold market integrity.

4 Overall, the measures have improved risk reporting quality and strengthened investor confidence.

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Defence Sector Index

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