

Statutory Notifications (S. R. O.)

GOVERNMENT OF PAKISTAN

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

NOTIFICATION

Islamabad, the 29th January, 2018

S. R. O. 77 (I) /2018. - In exercise of powers conferred by sub-section (1) of section 169 read with sections 68, 69, 75, 76, 77, 78, 79, 80, 82, 84 and 151 of the Securities Act, 2015 (III of 2015) and sub-section (1) of section 114 read with sections 51, 52, 58, 63, 64, 66, 68 and 95 of the Futures Market Act, 2016 (XIV of 2016), the Securities and Exchange Commission of Pakistan is pleased to make the following amendments to the Securities Brokers (Licensing and Operations) Regulations, 2016, the same having been previously published in official gazette vide S.R.O No. 1194(I)/2017 dated November 16, 2017, and also placed on the website of the Commission as required by sub-section (4) of section 169 of the Securities Act, 2015 and sub-section (4) of section 114 of the Futures Market Act, 2016; namely:-

In the aforesaid Regulations,-

- (1) In the preamble, after the expression “Securities Act, 2015” the expression “(III of 2015) and sub-section (1) of section 114 read with sections 51, 52, 58, 63, 64, 66, 68 and 95 of the Futures Market Act, 2016 (XIV of 2016)” shall be inserted;
- (2) in regulation 1, after sub-regulation (2), the following new sub-regulations shall be inserted, namely:-
 - “(3) Any person licenced by the Commission under these regulations to act as securities broker shall be permitted to undertake futures contracts based on securities and financial instruments in terms of sub-section (5) of section 52 of the Futures Market Act, 2016 (XIV 2016).”; and
 - “(4) These regulations shall not apply to the futures brokers to offer for trade futures contracts based on commodities and financial instruments in terms of sub-section 4 of section 52 of the Futures Market Act, 2016 (XIV 2016). A separate set of regulations shall be applicable to the licencing and operations of futures brokers to undertake futures contracts based on commodities and financial instruments.”.
- (3) in regulation 2,-

- (a) in sub-regulation (1);
- (i) for clause (e), the following shall be substituted, namely:-
- “(e) Companies Act” means Companies Act, 2017 (XIX of 2017);”;
- (ii) after clause (e), substituted as aforesaid, the following new clauses shall be inserted, namely:-
- “(ea) “financial instrument” includes any currency, currency index, interest rate, interest rate instrument, interest rate index, commodity index bond index and such other financial instruments as may be notified by the Commission in the official Gazette;
- (eb) “Futures Act” means the Futures Market Act, 2016 (XIV of 2016);
- (ec) “futures broker” means a person who, by way of business, whether as principal or agent,-
- (i) makes or offers to make with any person, or induces or attempts to induce any person to enter into or to offer to enter into any agreement for or with a view to purchase or sale of a futures contract; or
- (ii) solicits or accepts any order for, or otherwise dealing in, or effects transactions in a futures contract for its customer or on its own account;
- (ed) “futures contract” means-
- (i) an arrangement where one party agrees to enter into a contract to deliver a specified quantity of a specified commodity or securities or financial instruments, to another party at a specified future time and at a specified price payable at that time; or
- (ii) where the parties agree to discharge their obligations under the contract by settling the difference between the value of a specified quantity of a specified commodity or securities or financial instruments agreed at the time of the making of the contract and at a specified future time; or
- (iii) such other futures contract or class of futures contracts or derivative contracts as prescribed by the Commission, and includes options on contracts of the kind described in paragraph (i), (ii) or (iii);
- (ef) “regulated activity” means any activity, required to be licensed, under section 46 of the Futures Act;
- (eg) “regulated securities activity” means a regulated securities activity as specified in section 63 of the Act;

- (eh) “sale with pre-existing interest” shall mean the squaring up of:
 - (i) an earlier purchase in the same settlement or in a different settlement which will settle prior to the settlement of the sale; and
 - (ii) an open position in margin trading or margin financing as a financee on account of same UIN of same security.”;
 - (iii) for clause (g), the following clauses shall be substituted, namely;

“(g) “Securities broker” for the purpose of these regulations means a broker licensed to undertake securities broker activity under Securities Act, 2015 and permitted to undertake future’s broker activity for futures contracts based on securities and financial instruments in terms of section 52 of the Futures Market Act, 2016;

(ga) “securities lending and borrowing (SLB) contract” means the securities lending and borrowing contract executed through the system provided by an authorized intermediary as per the requirements of the applicable rules;

(gb) “senior management officer” as defined in the Act for the purposes of these regulations, in addition to the persons mentioned in clause (lviii) of section (2) of the Act and, includes the compliance officer;”;
 - (iv) for clause (i), following clause shall be substituted, namely;

“(i) “sponsor” means:

 - (a) a person who has contributed initial capital in the company or has the right to appoint majority of the directors on the board of the company directly or indirectly; and
 - (b) a person who replaces the person referred to in clause (a) above; and
 - (c) a person or group of persons who has control of the company whether directly or indirectly;
 - (b) in sub-regulation (2), the word “Ordinance”, shall be substituted with the words “Companies Act, the Futures Act.”
- (4) in regulation 3, the proviso, shall be deleted;
- (5) for regulation 4, following shall be substituted, namely-

“ 4. Eligibility criteria for licensing of a securities broker.- Subject to compliance with the provisions of the Act and the Futures Act, a company may apply to the Commission for licence as a securities broker, if-

- (a) the applicant's memorandum and articles of association allow it to apply for grant of licence as a securities broker under the Act and the Futures Act;
- (aa) it is not a single member company;
- (b) the applicant holds a valid TRE certificate issued in its name;
- (c) the applicant identifies names and details of its sponsors which shall be required to collectively hold and retain not less than fifty one per cent of the share capital of the applicant, and in the case of a listed company, not less than twenty five per cent of the share capital of applicant; provided that any change in sponsors shall not be affected without prior written approval of the Commission;
- (d) the applicant and its sponsors do not have controlling interest in any other company holding licence as a securities broker;
- (e) the applicant, its sponsors, directors and senior management officers are fit and proper persons as per the criteria specified in Annexure B;
- (f) the chief executive of the company does not hold such office in any other company;
- (g) the Director/employee of the company holding a licence as a securities broker does not hold the position of a Director in any other company licenced as a securities broker;
- (h) its sponsors have submitted verifiable documents including wealth statements submitted with the tax authorities to demonstrate that its net-worth is not less than twice the amount to be subscribed by him personally;
- (i) its sponsors have and will continue to have representation of at least twenty per cent on its board of directors;
- (j) it meets the financial resources requirements specified in these regulations; and
- (k) it has and shall continue to have the requisite number of personnel/employees having mandatory certification as specified by the Commission from time to time;

Provided that in case of a company licensed under regulation 3, the Commission may, upon a request made by the applicant, grant additional time for compliance with the requirements of clauses (c), (d) and (i), on a case to case basis.

Explanation:- For the purpose of this regulation, where the sponsor of applicant is a company, the requirements applicable to the sponsors shall be applied to such extent as may be practical upon the majority shareholder, sponsors and directors of such sponsor company and the sponsoring company and the applicant shall give an undertaking to the Commission that they will inform the Commission in case of any change in the sponsors of the sponsoring company and the required documents.”;

- (6) in regulation 5,-

- (a) in sub-regulation (1), after the expression “regulation (4),” the word “an” shall be inserted;
 - (b) the sub-regulation (2), shall be deleted; and
 - (c) in sub-regulation (4),-
 - (i) in clause (b), after the word “Act” the words “and the Futures Act” shall be inserted;
 - (ii) in clause (d), the word “and” appearing at the end shall be deleted; and
 - (iii) in clause (e), the full stop at the end shall be substituted with “; and” and thereafter the following new clause shall be inserted, namely:-
 - “ (f) the past track record of regulatory compliance of the applicant, its sponsors, directors and senior management officers is satisfactory.”;
- (7) for regulation 6, following shall be substituted, namely:-

“6. Financial Resources Requirement.- (1) An applicant for a licence as a securities broker shall comply with and ensure ongoing compliance with minimum paid up capital and net worth of Rupees thirty five (35) million and net capital balance of Rupees five (5) million.

Provided that existing securities brokers who are non-compliant with the above prescribed financial resource requirements in respect of paid up capital and net worth as of December 31, 2017, shall comply with these requirements latest by June 30, 2019.

Provided further that in case of securities brokers, who do not meet paid up capital and net worth requirements as prescribed above as of December 31, 2017, the Commission may impose other conditions including reduced custody limits, till such brokers are compliant with the requirements as prescribed above.

(2) In case a securities broker fails to meet the minimum paid-up capital and/or net-worth requirements as specified in sub-regulations (1), the securities exchange shall immediately restrict the trading facility of such securities broker and its licence shall be suspended by the Commission without prejudice to any other disciplinary action under the Act and the Futures Act and these regulations.

(3) A securities broker shall file monthly statements of net capital balance and liquid capital with the securities exchange and clearing house computed in a manner specified in Schedule II and III respectively, immediately after coming into force of these regulations, and shall also submit an audited statement of net capital balance on half yearly basis.

(4) The securities broker shall start maintaining minimum liquid capital as per such amounts and/or ratios and after such period of time as may be specified by the Commission and upon such specification by the Commission, the securities broker shall be required to submit audited statement of liquid capital on half yearly basis, and the requirement to maintain net capital balance, the requirement to submit monthly statements of net capital balance and the requirement to submit half yearly audited statements of net capital balance shall be discontinued.

(5) A securities broker shall immediately notify the Commission and the securities exchange if the net capital balance and/or the liquid capital fall below the specified threshold and shall immediately submit the revised net capital balance and/or liquid capital calculations.

(6) In case of non-submission of statements of net capital balance and liquid capital within a time period as may be notified by the exchange, and clearing house or any shortfall in the net capital balance and/or liquid capital, either reported by the securities broker or identified by the securities exchange, clearing house or the Commission, the securities exchange, and clearing house shall immediately restrict the trading facility of such securities broker and shall only allow it to close out the open position in a controlled environment.

(7) The net worth of a securities broker shall be calculated as total assets less total liabilities less surplus on revaluation, if any, created upon revaluation of fixed assets.

Provided that the Commission may issue clarification in respect of treatment of any item of assets and/or liabilities for the purpose of calculating the net worth of a securities broker.”;

(8) the regulation 7, shall be deleted;

(9) in regulation 8,-

(a) in sub-regulation (1),-

(i) after the word Act, wherever is appearing, the words “and the Futures Act,” shall be inserted;

(ii) for clause (e), the following shall be substituted namely:-

“(e) compliance of the applicant’s sponsors, directors and senior management officers with the fit and proper criteria specified in Annexure B; and”;

(vi) for clause (f), the following shall be substituted namely:-

“(f) history of past regulatory compliance and any pending penal action against the applicant, its sponsors, directors and senior management officers for an offence under the Act, the Futures Act and the Companies Act.”;

- (b) in sub-regulation (2),-
 - (i) for clause (b), the following shall be substituted namely:-

“(b) the applicant is in compliance with the provisions of the Act and the Futures Act, these regulations and any notifications or directives or guidelines or codes issued thereunder; and”;
 - (ii) after the words “provisions of the Act”, the words “and the Futures Act” shall be inserted;
 - (iii) a new proviso shall be inserted before existing proviso, namely:-

“Provided that any new license granted under these regulations shall have an expiry date of December 31, of that calendar year.”
 - (iv) in the existing proviso, after the word “Provided” the word “further” shall be inserted; and
 - (c) in sub-regulation (3), after the word “Act” the words “and the Futures Act” shall be inserted;
- (10) For regulation 9, following shall be substituted, namely-

“9. Renewal of licence.- (1) Subject to the provisions of the Act and the Futures Act and these regulations, a securities broker having a valid licence shall, through securities exchange, apply to the Commission by November 30, of every calendar year in Form C along with an undertaking stating that it is in compliance with all regulatory requirements and receipt evidencing payment of renewal fee of such amount as specified in Schedule I, for renewal of its licence for next calendar year.

(2) Any license renewed under these regulations shall be valid for a period of one year expiring on December 31 of each calendar year unless surrendered by the securities broker or suspended or cancelled by the Commission.

(3) An existing license granted to a securities broker under these regulations, irrespective of its validity date, shall be valid till December 31, 2018 unless surrendered by the securities broker or suspended or cancelled by the Commission. The securities broker may apply for renewal of its existing licence for the next calendar year i.e from 01 January to 31 December 2019 through securities exchange latest by November 30, 2018.

(4) The securities exchange shall scrutinize the application for renewal of licence and the documents submitted by the securities broker prior to submission of the same for consideration of the Commission, along-with a letter of recommendation stating that it has reviewed the contents of the application and the supporting documents and has found the same to be in conformity with the Act and the Futures Act and these regulations:

Provided that while submitting the letter of recommendation to the Commission, the securities exchange shall also take into account the securities broker's outstanding customer complaints and its track record with respect to its compliance with the applicable regulatory requirements:

Provided further that the securities exchange shall submit the applications of securities brokers eligible for renewal of licences to the Commission by December 15, of each calendar year.

(5) The Commission upon being satisfied that the applicant continues to meet the requirements for licensing, is in compliance with the provisions of the Act, the Futures Act, any rules, regulations, notifications, directives, guidelines or codes issued thereunder and it is in the public interest and interest of the capital market, may renew the licence of a securities broker as recommended by the securities exchange for another calendar year and convey the same to the securities exchange for onward dissemination to all stakeholders.

(6) Where the application for renewal of licence is made within the provided time but has not been decided by the Commission, the licence of the securities broker shall continue to be valid until the application for renewal is decided by the Commission.

(7) While renewing the licence of a securities broker the Commission may, also take into account the past track record and history of regulatory compliance of the securities broker, its sponsors, directors and senior management officers.

(8) The Commission shall send an intimation of renewal of licence of the securities broker to the securities exchange, clearing house and central depository.”.

(11) in regulation 10,-

- (a) in sub-regulation (1), after the word “Act” the words “and the Futures Act” shall be inserted;
- (b) in sub-regulation (3), for the words “A securities broker” appearing in the beginning, the words “An applicant” shall be inserted; and
- (c) in sub-regulation (4), the following shall be substituted, namely:-

“(4) The Commission shall communicate its decision of refusal to grant or renew the licence to the applicant/securities broker, the securities exchange, the central depository and the clearing house”;

(12) in regulation 11,-

- (a) in the sub-regulation (3), following shall be substituted, namely:-

“(3) A licence granted to a securities broker under these regulations shall stand cancelled automatically where-

- (a) the TRE certificate of such securities broker is cancelled by the securities exchange; or
- (b) the securities broker surrenders its licence; or
- (c) the securities broker is declared defaulter by the securities exchange or TRE certificate suspended by the securities exchange and the reason for such default and/or suspension is not removed within a period of six months from declaration of such default and/or suspension; or
- (d) the securities broker surrenders the TRE certificate and the securities exchange cancels such TRE certificate subject to the requirements of regulations of the securities exchange; or
- (e) the securities broker is declared insolvent by a Court; or
- (f) the securities broker fails to apply for renewal of licence within the specified time; or
- (g) the licence is suspended by the Commission and such suspension has not been revoked till the time of expiry of licence issued to the securities broker;
- (h) the terminals of the securities broker are suspended by exchange and the reason for such suspension is not removed within a period of six months from such suspension.”; and

(b) in sub-regulation (5), the words “and may also publish the order of cancellation in a newspaper of wide circulation in Pakistan”, appearing in the end, shall be deleted.

(13) in regulation 12,
in sub-regulation (6), after the words “securities market” the expression “and/or futures market” shall be inserted.

(14) in regulation 13,-
in sub-regulation (1),-

- (i) after the words “trading in securities”, the expression “and/or futures contracts” shall be inserted; and
- (ii) in clause (g), the word “on” shall be substituted with the words “in futures and”.

(15) in regulation 14,-

- (a) in sub-regulation (3), the words “or accredited representatives” shall be deleted;
- (b) in sub-regulation (4), the words “and accredited representatives” shall be deleted;
- (c) the sub-regulation (5), shall be deleted;

- (d) in sub-regulation (9), the words “and accredited representatives” shall be deleted.
- (16) in regulation 15, the words “and accredited representatives”, wherever appearing, shall be deleted;
- (17) for regulation 16, following shall be substituted, namely:-

“16. Duties and obligations of a securities broker.- (1) In addition to the requirements provided under the Act and the Futures Act and any other rules or regulations made thereunder, a securities broker shall:

- (a) ensure fair treatment of its customers, not discriminate amongst them, and treat customers instructions and orders in due turn;
- (b) prominently display the licence granted by the Commission at a conspicuous place at its premises;
- (c) exercise due care and diligence while handling unsubstantiated market information or non-public price sensitive information;
- (d) take reasonable steps to ensure that any agreement, written communication, notification or information that such securities broker gives or sends to customers to whom the services are to be provided or are being provided is presented fairly and clearly and adequate details regarding the services to be provided by the securities broker are covered therein;
- (e) ensure that it has adequate infrastructural systems with reliable back up procedures;
- (f) abide by the Corporate Governance Code provided in Annexure D;
- (g) ensure compliance with all legal and regulatory requirements applicable to the conduct of its business activities so as to promote the best interests of customers and the integrity of the securities market and/or futures market;
- (h) remain in compliance with the licensing requirements at all times and inform the Commission immediately when it is non-compliant with any of the said requirements;
- (i) establish an internal code of practice, aimed at ensuring that members of its board of directors, employees act in accordance with the best interests of its customers, the integrity of the market and are in compliance of the Act and the Futures Act, these regulations and any other applicable laws, notifications, guidelines, directives and circulars etc.;
- (j) frame policies and procedures to ensure compliance with the regulatory requirements governing prohibition of insider dealing and market abuse;

- (k) ensure that Know Your Customer and Customer Due Diligence is being conducted properly in accordance with the relevant rules, regulations, notifications, guidelines, directives and circulars etc. issued by the Commission and/or the securities exchange from time to time;
 - (l) ensure that the credit worthiness of its customers is evaluated through a proper credit risk assessment methodology and trading limits are assigned to each customer beyond which the customer shall not be allowed to take a position;
 - (m) ensure that its sponsors, directors and employees exercise due care and responsibility while interacting with the media, and making any statement regarding any regulatory authority, the securities market and/or futures market or any participant thereof on any forum/channel;
 - (n) maintain membership of an association of securities brokers which is approved by the Commission and abide by the code of conduct specified by such association at all times;
 - (o) inculcate a culture of compliance of the regulatory requirements through ongoing education and training of its directors, employees; specify and enforce any appropriate sanctions for breach by its directors, employees of any policies and procedures regarding market conduct to deter such practices; and
 - (p) ensure accuracy and completeness of the information shared or submitted by it to the clearing house, central depository, securities exchange, Commission and any other forum.
 - (q) maintain a functional and accessible website as per requirements prescribed by the Commission and submit quarterly compliance report to the securities exchange.
- (2) A securities broker shall not:
- (a) in any way contribute to manipulating the demand for or supply of securities in the market or to influence prices of securities and futures contracts based on securities, or indulge in any action that can detract from transparent and standard pricing on the securities markets and/or futures market;
 - (b) encourage sale or purchase of securities and futures contracts based on securities on account of a customer with the sole objective of generating commission or any other financial benefit for the securities broker or any of its employees;
 - (c) have an incentive structure that encourages dealing in securities and futures contracts based on securities not suiting the risk profile of its customers;

- (d) maintain anonymous accounts or accounts that are opened or maintained in the name of fictitious persons;
- (e) deal in securities and futures contracts based on securities while in possession of material non-public information;
- (f) deal or transact business directly or indirectly or execute an order for a customer where the name of such customer is appearing on the list of delinquent customers maintained by the securities exchange;
- (g) operate and have any branch without registration of the same with the securities exchange and after fulfilling all other applicable requirements;
- (h) engage in manipulative or deceptive conduct or any other form of misconduct which would give other users of the securities market and/or futures market a false or misleading impression as to the prevailing market conditions, including but not limited to price, supply or demand;
- (i) spread rumors or disseminate false or misleading information;
- (j) engage in any investment transactions and activities that would result in manipulation of prices;
- (k) accept any money from a customer or another person on a promise of predetermined or guaranteed return; and
- (ka) accept any money or deposit or borrowing by whatsoever name called and in whatsoever manner from any person including an individual or any segment of public or directors and sponsors of a securities broker except in the following manner: -
 - (i) redeemable capital issued by a securities broker or under the Companies Act;
 - (ii) finance obtained by a securities broker from a financial institution;
 - (iii) advance, application or subscription money for shares of a securities broker
 - (iv) subordinated loans from directors, sponsors or substantial shareholders of a securities broker subject to the conditions as may be imposed by the Commission from time to time;
- (l) appoint an auditor who is an associate of its director or a senior management officer.
- (m) Engage in any arrangement with a person against fixed fee or commission in relation to introducing or facilitating a customer for trading through the securities broker operate from any office/location other than the registered office of the securities broker and branch office of the securities broker registered with the securities exchange under Branch office Regulations of the securities exchange; and

- (n) provide Access to the trading terminals other than its authorized employees and customers.
- (3) A securities broker shall put in place, appropriate policies and procedures which govern trading or investment in securities and/or futures contracts based on securities by its employees, their spouses and dependent children, and such policies shall at the minimum cover following requirements/principles:
- (a) disclosure by its employee of any position of or open position in securities and/or futures contracts based on securities by him/her, his/her spouse and/or dependent children along with details of their accounts with a securities broker and such information shall be reported to the compliance officer of the securities broker;
 - (b) prior written approval for trading by its employees for their own personal accounts or on behalf of their spouses and/or dependent children;
 - (c) approval or rejection of an application seeking trading or investment in securities and/or futures contracts based on securities by its employees;
 - (d) periodic disclosure of securities and/or position in futures contracts based on securities held by its employees and their spouses and dependent children, and reporting of actual transactions, including volume, date and price, in a timely manner;
 - (e) restriction on employees from deriving any benefit or personal advantage from information which is generally not available and which is obtained by reason of or in the course of their employment with the securities broker;
 - (f) prescribing a minimum holding period and discouraging frequent short-term trading or trading for speculative purposes;
 - (g) prescribing trading windows and blackout periods to restrict the misuse of confidential information; and
 - (h) compliance of employees with the requirements specified by the securities exchange and the code of conduct specified by the securities exchange in relation to the trading by employees of a securities broker.
- (4) A securities broker shall not trade through another securities broker of the same securities exchange on its own account or on account of its customers.
- (5) Chief executive of the securities broker and his/her immediate family members can only trade through the securities broker which the chief executive is associated with in the said capacity.

(6) A securities broker shall formulate policies and take reasonable measures to restrict its employees, including employees serving as directors on its board, from trading through another securities broker of the same securities exchange.

(7) Shareholders and other directors of a securities broker shall be allowed to trade through another securities broker of the same securities exchange subject to the condition that the substantial shareholders and the directors fulfill the following requirements-

- (a) a one-time prior written approval is obtained from the securities broker of which such person is a director or substantial shareholder and the said approval shall also be submitted to the securities exchange; and
- (b) where any such director or substantial shareholder buys or sells securities and/or futures contracts based on securities through another securities broker of the same securities exchange, he/she shall notify in writing on the same day the following information to the company secretary of the securities broker of which he/she is a director or a substantial shareholder-
 - (i) name of the securities broker through which the transaction is carried out;
 - (ii) reason(s) for trading through another securities broker;
 - (iii) following details of the transaction-
 - (A) the date of transaction;
 - (B) the price at which the transaction is executed;
 - (C) type of security or instrument traded
 - (D) number of securities or futures contracts for securities /units traded;
 - (E) form of security i.e., physical or book-entry form in the central depository system;
 - (F) nature of transaction i.e., on-exchange or off-exchange transaction;
 - (iv) such director or the substantial shareholder shall also deliver a written record, along with a copy of the contract note issued by another securities broker, of the details mentioned under sub-clause (iii) to the company secretary within two days of effecting the transaction; and
 - (v) the company secretary shall immediately forward the above information to the securities exchange.

(8) A securities broker shall ensure that it has properly designed internal control policies and framework which are duly approved and periodically reviewed by its board of directors and the same shall be widely disseminated for compliance by all employees.

(9) The internal control policies and framework to be designed under sub-regulation (8), shall inter alia stipulate the following:

- (a) ensure that clear lines of responsibility, authority and tasks are adequately assigned to its employees;

- (b) ensure appropriate segregation of duties and information barriers between own account or proprietary trading and customer dealing functions;
- (c) ensure employment of sufficient human resource which is adequately trained to efficiently perform its functions;
- (d) ensure that channels of communications are properly documented and monitored regularly and effectively, including documentation of logs of e-mails and other inter-office communications;
- (e) put in place effective and operationally independent internal audit and compliance functions having appropriately trained and competent staff;
- (f) ensure that a periodic or annual review of the internal control system and assessment of overall level of compliance of the securities broker is carried out by the internal audit function, which reports directly to the board of directors or its audit committee;
- (g) ensure implementation of a trade review procedure, reasonably designed to identify trades that may violate the provisions of the Act and/or the Futures Act and any rules and regulations made thereunder; and
- (h) provide for periodic inspections of branch offices of the securities broker and supervision of business activities of such branches.

(10) A securities broker shall establish and implement a contingency plan to ensure continuity of its operations in the event of a disaster or crisis. Such contingency plan shall at the minimum cover the following requirements/principles-

- (a) offsite backup of key records, systems and information and mechanism for recovery;
- (b) alternate ways of communications with customers, employees and regulators;
- (c) details of alternate service providers in case of disaster;
- (d) details of availability of necessary redundancies - including infrastructural redundancies as well as operational and human capital; and
- (e) testing of the contingency plan on regular basis or any other interval as may be specified by the Commission.

(11) A securities broker shall not, unless it complies with the applicable framework for research analysts make a recommendation regarding purchase or sale of any particular security or taking position in any futures contract based on securities of any company, or publish, circulate or distribute any advertisement which represents, directly or indirectly, that any graph, chart, formula or other device set out or referred to in the advertisement:

- (a) can be used to determine which securities to buy or sell, or when to buy or sell them or which position to enter in to a futures contract based on securities or when to enter into such a position; or
 - (b) can be used to determine what transaction to enter; or
 - (c) will assist any person in deciding which securities and/or futures contracts based on securities to buy or sell, or when to buy or sell them.
- (12) A securities broker licensed under these regulations shall ensure:
- (a) compliance with customers' assets segregation requirements as specified by the securities exchange or the Commission from time to time;
 - (b) submission of returns and statements in relation to segregation of customers' assets including reconciliations of customer assets on such frequency and on such formats as may be required by the securities exchange and/or the Commission from time to time;
 - (c) periodic audit of the statements, returns and reconciliations of customer assets as per the requirements of securities exchange or in the manner specified by the Commission from time to time;
 - (d) that necessary steps are taken to keep its total assets under custody within the threshold specified by the central depository or the Commission from time to time;
 - (e) that the compliance officer appointed or designated by the securities broker regularly monitors the customer assets, movements therein, and prepares reconciliations as required in clauses (b) and (c). In case any discrepancy is observed or any instance of unauthorized use of customer assets or any violation of law with respect to segregation and safekeeping of customer assets is observed the same must be reported to the securities broker for taking immediate remedial action. In case the securities broker fails to rectify the position within three business days, the matter should be reported to the Commission and the securities exchange by the compliance officer;
 - (f) that in case where the allowed quantum of assets under custody exceeds such threshold as may be specified by the Commission from time to time, the securities broker shall appoint a whole-time compliance officer;
 - (g) establishment of systems and controls for maintaining accurate and up-to-date records of customers' asset holdings including information specifying the amount, location, and ownership status of customer assets. The records should be maintained in a way that appropriately distinguishes the customer assets account of one customer of the securities broker from the customer assets account of another customer of the securities broker and from the assets of the securities broker itself;
 - (h) its systems and controls should provide for reconciliations on a regular basis, consistent with the volume of activity in the accounts, between

internal accounts and records in relation to the customer assets and those of any third party with whom such customer assets are held; and

- (i) that an internal audit function, headed by a dedicated or designated head of internal audit possessing relevant qualification and experience, is put in place.

(13) In addition to meeting the conditions in these regulations, the securities broker licensed under these regulations shall comply with such other conditions as may be imposed by the Commission.”.

(18) in regulation 17,-

(a) in sub-regulation (1):-

- (i) after the words “with a customer”, the words “including acceptance of cash and securities from it” shall be inserted; and
- (ii) after the word “clearing house”, the word “or a” shall be substituted with the word “and”;

(19) in regulation 18,-

(a) in sub-regulation (1):-

- (i) in sub-clause (c), for the word “the” appearing for the fourth time, with the word “their” shall be substituted; and
- (ii) in sub-clause (c), the words “of a regulated securities activity”, appearing in the end, shall be deleted;

(20) in regulation 19,-

- (a) in sub-regulation (1), after the word “securities” appearing for the second time, the words “and/or futures contracts based on securities” shall be inserted; and
- (b) in sub-regulation (4), after the word “securities” appearing for the first, third and fourth time respectively, the words “and/or futures contracts based on securities” shall be inserted;

(21) in regulation 20,-

in sub-regulation (1), in sub-clause (a) the words “and accredited representatives” shall be deleted.

(22) in regulation 21,-

- (a) in sub-regulation (1), after the word “securities” appearing for the second time, the words “and/or futures contracts based on securities” shall be inserted; and
 - (b) in sub-regulation (3), in sub-clause (e) after the word “securities” the expression “and/or futures contracts based on securities” shall be inserted.
- (23) in regulation 23,-

in sub-regulation (2), after the word “Act” the words “and/or the Futures Act” shall be inserted.
- (24) in regulation 24,-

in sub-regulation (2), in sub-clause (c), after the word “securities”, appearing for the first time, the words “and/or futures contracts based on securities” shall be inserted;
- (25) in regulation 25,-
 - (a) in sub-regulation (1), after the word “securities”, appearing for the second time, the words “and/or future contracts based on securities” shall be inserted; and
 - (b) in sub-regulation (3), the word “the” shall be substituted with the words “these regulations”, and thereafter the words “Trading and Self Clearing category or Trading and Clearing category” shall be deleted;
- (26) in regulation 26,-

in sub-regulation (1), after the word “securities”, appearing for the third time, the words “, futures contracts based on securities” shall be inserted;
- (27) in regulation 29,-

the sub-regulation (2), shall be substituted with “The compliance officer shall also be responsible for ensuring compliance with and performing functions pertaining to the segregation and safekeeping of customer assets.”;
- (28) in regulation 32,-

for the word “Ordinance”, word “Companies Act” shall be substituted;
- (29) in regulation 33,-
 - (a) in sub-regulation (3), after the word “Act” the words “and/or the Futures Act” shall be inserted;
 - (b) in sub-regulation (4), after the word “Act” the words “and/or the Futures Act” shall be inserted;

- (c) in sub-regulation (5),-
 - (i) in sub-clause (b) after the words “sale of securities” the words “and/or futures contracts based on securities” shall be inserted;
 - (ii) sub-clauses (p) and (q) shall be deleted;
 - (iii) in sub-clause (u), after the word “securities” appearing for the first time, the words “and/or futures contracts based on securities” shall be inserted; and
 - (iv) in sub-clause (v), paragraph (vi) shall be deleted.
 - (d) in sub-regulation (7), in sub-clause (ii) after the word “broker” the words “, accredited representative” shall be deleted.
- (30) in regulation 34,-
- (a) in sub-regulation (1), for the word “Ordinance” the word “Companies Act” shall be substituted;
 - (b) in sub-regulation (2), sub-clauses (c) and (h) shall be deleted;
 - (c) in sub-clause (g), after the word “customers” the expression “including aging analysis thereof” shall be inserted.
- (31) for regulation 35, following shall be substituted, namely:-
- “35. Appointment of auditor and related matters.-** (1) A securities broker shall ensure that the auditor appointed has inter-alia the powers and duties specified under sub-regulation 3 and-
- (a) those powers and duties are set out in an engagement letter;
 - (b) the engagement letter is signed by the securities broker and the auditor; and
 - (c) the securities broker retains a copy of the engagement letter.
- (2) A securities broker shall, within seven days, give written notice to the Commission of the appointment, removal or resignation of an auditor.
- (3) The auditor appointed by a securities broker shall have the right to, –
- (a) access the accounting and other records of the securities broker and all other documents relating to its business including the documents the securities broker is required to maintain under the Act and/or the Futures Act and these regulations; and
 - (b) require from the securities broker such information and explanations as the auditor considers necessary for the performance of duties.

(4) In preparing an audit report, the auditor shall carry out such investigations as will enable him to form an opinion as to the matters required by sub-regulation 5 to be stated in the auditor's report.

(5) The audit report shall state all the matters as are required to be stated in accordance with the requirements of the Companies Act and where applicable, must state additionally an opinion as to whether the securities broker was in compliance with the requirements of section 78 of the Act and/or section 62 of the Futures Act, and the relevant requirement of these regulations as at the date on which the balance sheet was prepared.

(6) The auditor shall also make out a limited assurance report of the securities broker stating whether, during the period, the securities broker has, in all material respects:

- (a) maintained systems and controls adequate to identify with reasonable accuracy the assets held on behalf of customer and distinguish such assets from the proprietary assets of the securities broker;
- (b) implemented an adequate internal control system and compliance function commensurate with the size and nature of services performed by the securities broker ; and
- (c) established a compliance function which performed its functions with efficiency.

(7) If the auditor is of the opinion that one or more of the requirements of sub-regulation 5 have not been met, such opinion shall be stated in the report and the relevant requirements which they have not been met shall be specified.

(8) Where an auditor resigns or is removed by the securities broker, a notice to that effect shall be sent to the Commission containing a statement signed by the auditor to the effect that there are no circumstances connected with his resignation or removal which the auditor considers should be brought to the attention of the Commission:

Provided that where the auditor is removed during their tenure, the securities broker shall appoint the auditor with prior approval of the Commission.”.

(32) for regulation 37 the following shall be substituted, namely:-

“ **37. Management rating.**- The securities brokers licenced under these regulations may obtain management rating on annual basis from a credit rating company licensed by the Commission and disclose such rating at all times on their websites and all advertisements.”;

(33) after regulation 37, the following new regulation shall be inserted, namely:-

“**38. Repeal and savings.**- (1) The Securities and Exchange Rules, 1971, the Brokers and Agents Registration Rules, 2001, the Members Agents and Traders (Eligibility Standards) Rules, 2001 and Stock Exchange Members (Inspection of Books and Record) Rules, 2001 hereinafter referred to as repealed rules are hereby repealed.

(2) Anything done, actions taken, orders passed, registration granted, notifications issued, proceedings initiated and instituted, prosecutions filed, processes or communications issued and powers conferred, assumed or exercised by the Commission under the repealed rules referred in sub-regulation (1), shall, on the coming into operation of these amended regulations, be deemed to have been validly done, taken, passed, granted, issued, initiated or instituted, filed, conferred, assumed and exercised and every action, prosecution or proceeding instituted and every order, directive, notification, circular etc. issued by the Commission shall be deemed to have been initiated, instituted or issued under these regulations and shall be proceeded with to completion and be enforced and have effect accordingly.”;

(34) in Form A, in para 1, the words “under theTrading Only/Trading and Self-Clearing/Trading and Clearing.... category” shall be deleted and the words “and/or section 51 of the Futures Market Act, 2016” shall be inserted after the word “2015”.

(35) in Annexure A, in para 1, sub-para 1.9 after the word “2015” the expression “ and/or the Futures Market Act, 2016” shall be inserted.

(36) for Schedule I, the following shall be substituted, namely:-

“Schedule I
[see regulations 5(1) and 9(1)]

SCHEDULE OF FEES*

Description of fee	Amount of fee in PKR
Fee to be paid at the time of applying for licence as a securities broker	
a) For renewal of licence as a securities broker	Rs50,000
b) For grant of licence to act as a securities broker	Rs100,000

* The above fees shall be deposited into the designated bank account of the Commission, along-with applicable collection charges.”;

(37) for Annexure B, the following shall be substituted, namely:-

“Annexure B
FIT AND PROPER CRITERIA
[see regulation 4(e)]

FIT AND PROPER CRITERIA FOR APPLICANT, SPONSORS, DIRECTORS AND SENIOR MANAGEMENT OFFICERS OF SECURITIES BROKERS

This Fit and Proper Criteria is perpetual in nature and its compliance is mandatory.

All persons subject to Fit and Proper Criteria must submit any change in the submitted information, including financial soundness to the company secretary of the securities broker within three business days and the securities broker shall within a period of seven business days report the same to the securities exchange and the Commission.

In addition to the applicant and the sponsors of the applicant, eligibility of any person desiring to act as a director on the board of directors or senior management officer of a securities broker shall be judged on the basis of following criteria, which in the case of directors, shall be in addition to meeting requirements of the Companies Act, 2017 relating to eligibility of a director:

(a) Financial Soundness and Integrity

(i) The person should not have been adjudged as an insolvent or he should not have suspended payment of debts or compounded liabilities with its/his creditors.

(ii) The person should not have been convicted by a court of competent jurisdiction as a defaulter in payment of any loan to a financial institution including banking company, a Development Financial Institution or a Non- Banking Financial Company.

(iii) The person and companies, firms, sole proprietorship etc. where the person is a chief executive, director (other than nominee director), owner or partner etc., has/have no overdue payment to any customer, financial institution, securities exchange, clearing house, central depository and / or defaulted in payment of any taxes in the individual capacity or as a proprietary concern or any partnership firm or as director in any private unlisted and listed company.

Explanation: In case of overdue payment to any financial institution, CIB reports from the State Bank of Pakistan shall be examined and if there is any overdue/past due payment to a financial institution, irrespective of amount, in overdue column of latest CIB report of the person and of the companies, firms, sole proprietorship etc. where such person is a chief executive, director (other than nominee director), owner or partner etc., such person shall not be considered fit and proper person except:

(a) in case where such overdue amount is under litigation and the same is also appearing as amount under litigation in CIB report; or

(b) No overdue payment is appearing in the overdue column in the subsequent latest CIB report.

In case of overdue amount in CIB report, no rejection shall be made unless the person has been provided an opportunity of making a representation before the Commission.

(iv) The person should not have been a director and/or chief executive of any company or body corporate which has defaulted in payment of Government duties/taxes/cess or has misused customer securities.

(v) The person should be a tax payer and his name should be borne on the Active Tax Payers

List regularly published by Federal Board of Revenue.
Provided that this requirement shall not be applicable in the case of foreign nationals.

(b) Educational or other Qualification or Experience

(1) In case of directors, at least one director should have:

- i) membership of a recognized body of professional accountants; or a CFA degree; or a graduate degree in finance, accountancy, business management, commerce, economics, law, capital market, financial services or related disciplines from a university recognized by the Higher Education Commission of Pakistan, or equivalent; and
- ii) have an experience of at least five years in activities relating to capital market, specifically securities brokerage business.
- iii) have attained necessary certification as specified by the Commission from time to time.

(2) In case of chief executive officer, the person should:

- a) be a member of a recognized body of professional accountants or possess a post-graduate degree in finance, accountancy, business management, commerce, economics, law, capital market, financial services or related disciplines from a university recognized by the Higher Education Commission of Pakistan, or equivalent; and
- b) have a minimum experience of seven years in a senior management position, preferably in the regulated financial services sector.
- c) have attained necessary certification as specified by the Commission from time to time.

(3) In case of compliance officer, the person should

- a) be a member of a recognized body of professional accountants, or possess a graduate degree in finance, accountancy, business management, commerce, economics, capital market, financial services or related disciplines from a university recognized by the Higher Education Commission of Pakistan, or equivalent; and
- b) have a minimum experience of three years in audit, finance or compliance functions or any other managerial position in a company in the financial sector.

Provided that for all of the above persons, where a person possesses seven years of relevant experience of the capital markets, the minimum qualification requirement shall be relaxed.

(4) The directors and senior management officers must be fully conversant with the duties of director or senior management officer, as the case may be, as specified under the statutes, rules and regulations, memorandum and articles of association and the Corporate Governance Code.

(5) The sponsors of the securities broker have sound track record and extensive experience of providing financial services in any regulated market within or outside Pakistan.

(c) Competency

(i) Membership or licence of the person or any company in which the person was a director during the last three years has not been suspended/cancelled by the Commission, any other regulatory authority, any professional body, association or relevant entity e.g. the securities exchange, central depository or clearing house.

Provided that eligibility of a person may be considered on the basis of prior clearance obtained from any such organization that suspended/ cancelled the membership or licence.

(ii) No proceedings are pending with respect to the applicant's winding up, insolvency or analogous relief.

(iii) The person should not have been disqualified/ removed from the post of a key executive position of a company by the Commission or any other regulatory authority.

(d) Integrity, Honesty and Reputation

(i) The person should not have been convicted in any criminal offence or involved in any fraud/forgery, financial crime etc. in Pakistan or elsewhere, or is not being subject to any pending proceeding leading to such a conviction and/ or it has not been concluded by any regulatory authority that the person has been associated with any unauthorized financial activity including illegal brokerage business.

(ii) No investigation/enquiry/inspection, conducted under Section 139 of the Securities Act, 2015, Section 83 of the Futures Market Act, 2016, Section 29 of the Securities and Exchange Commission of Pakistan Act, 1997, Section 21 of the Securities and Exchange Ordinance, 1969, Section 256 or Section 257 of the Companies Act, 2017, has been concluded against the person by the Commission with material adverse findings or any settlement in civil/criminal proceedings particularly with regard to investments, financial matters/business, misconduct, fraud, formation or management of a corporate body etc. by any regulatory authorities (within or outside Pakistan), professional bodies or government bodies/agencies.

(iii) The person has not defaulted on settlement of a customer complaint where such complaint has been adjudicated by the Commission or the securities exchange.

(iv) An order restraining, prohibiting or debarring the sponsors, director or senior management officer of the securities broker from dealing in securities and/or future contracts based on securities in the capital market or from accessing the capital market has not been passed; or penalty of Rs.500,000/- or more has not been imposed on such persons by the Commission in the last three years, in respect of any laws administered by the Commission.

Provided that a person may be considered eligible in case a period of at least three years from the date of expiry of the period specified in the order for which such person has been restrained/prohibited/debarred has elapsed.

(v) The sponsors, director or senior management officer of the securities broker should not have been penalized for provided false or misleading information either to the Commission or to any of the regulatory body, securities exchange, central depository or a clearing house during the past three years.

(vi) The person should not have been actively involved in the management of a company whose registration or licence has been revoked or cancelled or which has gone into liquidation or other similar proceedings due to financial irregularities or malpractices.

(vii) The person must not be ineligible, under the Companies Act, 2017 or any other legislation from acting as a director.

(viii) The person should not have entered into a plea bargain arrangement with the National Accountability Bureau.

Information to be provided by individual sponsors, directors and senior management officers of the _____ (name of securities broker) _____

1.	Curriculum Vitae/Resume containing:			
(a)	Name:			
(b)	Father's or Husband Name:			
(c)	C.N.I.C # (attach copy)			
(d)	Latest photograph			
(e)	Nationality:			
(f)	Age:			
(g)	Contact details:			
	i) Residential address:			
	ii) Business address:			
	iii) Tel:			
	iv) Mobile:			
	v) Fax:			
	vi) E-mail:			
(h)	National Tax Number:			
(i)	Present occupation:			
(j)	Qualification(s):			
	i) Academic:			
	ii) Professional:			
(k)	Experience: (Positions held during the last 10 years along with name and address of company/ institution) Information to be provided on the following sample format*:			
	Sr#	Name of Organization	Designation	Period
	1	Company A		DD/MM/YY - DD/MM/YY
	2	Company B		DD/MM/YY - DD/MM/YY

2.	1. Nature of directorship:			
	a) Executive b) Non-executive			
	2. Status of directorship:			
	a) Nominee director b) Elected director c) Independent director			
	Number of shares subscribed or held _____			
	Nominated by (name of shareholder/ nominating entity)			

3.	Names of companies, firms and other organizations of which the person is presently a director, partner, office holder or major shareholder (Information to be provided on the following sample format*)		
	Sr. #	Name of Organization	Designation
	1	Company A	DD/MM/YY - DD/MM/YY
	2	Company B	DD/MM/YY - DD/MM/YY
4.	Names of any persons on the board of the (name of securities broker) who are related to the applicant.		

Signature _____

*use additional sheets if required”.

(38) in Schedule II, under the heading of **Schedule II**, the expression “see regulation 6(4)” shall be substituted with the expression “see regulation 6(3)”;

(39) for schedule III, the following shall be substituted, namely:-

“Schedule III
[see regulation 6(3)]

Monthly statements of liquid capital with the Commission and the securities exchange
NAME OF THE SECURITIES BROKER
Computation of Liquid Capital
As on dd.mm.yyyy

#	Head of Account	Value in Pak Rupees	Hair Cut / Adjustments	Net Adjusted Value
1. Assets				
1.1	Property & Equipment	Balance Sheet Value net of depreciation	100% of net value	Nil
1.2	Intangible Assets	Balance Sheet Value net of amortization	100% of net value	Nil
1.3	Investment in Govt. securities	Balance Sheet Value	Difference between book value and sale value on the date on the basis of PKRV published by NIFT	Sale value on the date on the basis of PKRV published by NIFT
1.4	Investment in debt securities	Balance Sheet Value net of any provision	If listed than i. 5% of the balance sheet value in the case of tenure upto 1 year ii. 7.5% of the balance sheet value, in the case	Net amount after deducting provisions and haircuts

			<p>of tenure from 1-3 years</p> <p>iii. 10% of the balance sheet value, in the case of tenure of more than 3 years.</p> <p>If unlisted than</p> <p>i. 10% of the balance sheet value in the case of tenure upto 1 year</p> <p>ii. 12.5% of the balance sheet value, in the case of tenure from 1-3 years</p> <p>iii. 15% of the balance sheet value, in the case of tenure of more than 3 years.</p>	
1.5	Investment in equity securities	Balance Sheet Value net of any provision	<p>i. If listed 15% or VaR of each securities on the cutoff date as computed by the Securities Exchange for respective securities whichever is higher</p> <p>ii. If unlisted, 100% of carrying value</p>	Net amount after deducting provisions and haircuts
1.6	Investment in subsidiaries	Balance Sheet Value net of any provision	100% of net value	Nil
1.7	Investment in associated companies/undertaking	Balance Sheet Value net of any provision	<p>i. If listed 20% or VaR of each securities as computed by the Securities Exchange for respective securities whichever is higher</p> <p>ii. If unlisted, 100% of net value</p>	Net amount after deducting provisions and haircuts
1.8	Statutory or regulatory deposits/basic deposits with exchanges, clearing house or central depository or any other entity	Balance Sheet Value	100% of net value	Nil

1.9	Margin deposits with exchange and clearing house	Balance Sheet Value	Nil	Balance Sheet Value
1.10	Deposit with authorized intermediary against borrowed securities under SLB	Balance Sheet Value	Nil	Balance Sheet Value
1.11	Other deposits and prepayments	Balance Sheet Value	100% of carrying value	Nil
1.12	Accrued interest, profit or mark-up on amounts placed with financial institutions or debt securities etc.	Balance Sheet Value	Nil 100% in respect of markup accrued on loans to directors, subsidiaries and other related parties	Balance Sheet Value
1.13	Dividends receivables	Balance Sheet Value	Nil	Balance Sheet Value
1.14	Amount receivable against Repo financing	Balance Sheet Value	Amount paid as purchaser under the REPO agreement. Securities purchased under repo arrangement shall not be included in the investments	Balance Sheet Value
1.15	Advances and Receivables other than trade receivables	Balance Sheet Value	1. No Haircut may be applied on the short term loan to employees provided these loans are secured and due for repayment within 12 months 2. No Haircut may be applied to the advance tax to the extent it is netted with provision of taxation 3. In all other cases, 100% of net value	Adjusted Value
1.16	Receivables from clearing house or securities exchange(s)	Balance Sheet Value	100% value of claims other than those on account of entitlements against trading of securities in all markets including MtM gains	Lower of net balance sheet value or value determined through adjustments
1.17	Receivables from customers	Balance Sheet Value net of provisions	i. In case receivables are against margin financing, the aggregate of (i) value of securities held in the blocked account after applying VAR based Haircut, (ii) cash deposited as collateral	i. Lower of net balance sheet value or value determined through adjustments

			<p>by the financee (iii) market value of any securities deposited as collateral after applying VaR based haircut</p> <p>ii. In case receivables are against margin trading, 5% of the net balance sheet value</p> <p>iii. In case receivables are against securities borrowings under SLB, the amount paid to NCCPL as collateral upon entering into contract,</p> <p>iv. In case of other trade receivables not more than 5 days overdue, 0% of the net balance sheet value</p> <p>v. In case of other trade receivables are overdue, or 5 days or more, the aggregate of (i) the market value of securities purchased for customers and held in sub-accounts after applying VAR based haircuts, (ii) cash deposited as collateral by the respective customer and (iii) the market value of securities held as collateral after applying VaR based haircuts</p> <p>vi. 100% haircut in the case of amount receivable from related parties</p>	<p>ii. Net amount after deducting haircut</p> <p>iii. Net amount after deducting haircut</p> <p>iv. Balance sheet value</p> <p>v. Lower of net balance sheet value or value determined through adjustments</p>
1.18	Cash and bank Balances	<p>i. Bank balance – Proprietary accounts</p> <p>ii. Bank balance – Customer accounts</p>	Nil	Balance sheet value

		iii. Cash in hand		
1.19	Subscription money against investment in IPO/ offer for sale (asset)	Balance Sheet Value	No haircut may be applied in respect of amount paid as subscription money provided that shares have not been allotted or are not included in the investments of securities broker.	Net amount after deducting haircuts
1.20	Total Assets	Balance Sheet Value		Adjusted Value
2. Liabilities				
2.1	Trade payables	i. Payable to exchanges and clearing house ii. Payable against leveraged market products iii. Payable to customers	Nil	Balance sheet value
2.2	Current Liabilities	i. Statutory and regulatory dues ii. Accruals and other payables iii. Short-term borrowings iv. current portion of subordinated loans v. Current portion of long-term liabilities vi. Deferred liabilities vii. Provision for Taxation viii. other liabilities as per accounting principles and included in the financial statements	Nil	Balance sheet value
2.3	Non-current liabilities	i. Long-term financing ii. Staff retirement benefits iii. other liabilities as per accounting	1. 100% haircut may be allowed against long term portion of financing obtained from a financial institution including amount due against finance leases.	Balance sheet value

		principles and included in the financial statements	2. Nil in all other cases	
2.4	Subordinated Loans	Balance Sheet Value	100% of Subordinated loans which fulfill the conditions specified by SECP are allowed to be deducted	Net value after deducting adjustments
2.5	Advance against shares for increase in capital of securities broker	Balance Sheet Value	100% Haircut may be allowed in respect of advance against shares if : (a) The existing authorized share capital allows the proposed enhanced share capital (b) Board of Directors of the company has approved the increase in capital (c) Relevant Regulatory approvals have been obtained (d) There is no unreasonable delay in issue of shares against advance and all regulatory requirements relating to the increase in paid up capital have been completed (e) Auditor is satisfied that such advance is against the increase of capital.	Net amount after deducting haircuts
2.6	Total Liabilities	Balance Sheet Value		Adjusted Value
3. Ranking Liabilities relating to				
3.1	Concentration in margin financing	Nil	The amount calculated client-to-client basis by which any amount receivable from any of the financees exceed 10% of the aggregate of amounts receivable from total financees	Amount as determined through adjustment
3.2	Concentration in securities lending and borrowing	Nil	The amount by which the aggregate of (i) amount deposited by the borrower with NCCPL, (ii) cash margins paid and (iii) the market value of securities pledged as margins exceed the 110% of the market value of shares borrowed	Amount as determined through adjustment
3.3	Net underwriting Commitments	Nil	<u>(a) in the case of rights issue:</u> if the market value of	Amount as determined

			securities is less than or equal to the subscription price, the aggregate of (i) the 50% of Haircut multiplied by the underwriting commitments and (ii) the value by which the underwriting commitment exceeds the market price of the securities. In the case of rights issue where the market price of securities is greater than the subscription price, 5% of the Haircut multiplied by the net underwriting commitment <u>(b) in any other case:</u> 12.5% of the net underwriting commitments	through adjustment
3.4	Negative equity of subsidiary	Nil	The amount by which the total assets of the subsidiary (excluding any amount due from the subsidiary) exceed the total liabilities of the subsidiary	Amount as determined through adjustment
3.5	Foreign exchange agreements and foreign currency positions	Nil	5% of the net position in foreign currency. Net position in foreign currency means the difference of total assets denominated in foreign currency less total liabilities denominated in foreign currency	Amount as determined through adjustment
3.6	Amount payable under REPO	Balance sheet value	Carrying value	Carrying value
3.7	Repo adjustment	Nil	In the case of financier/ purchaser the total amount receivable under Repo less the 110% of the market value of underlying securities. In the case of financee/ seller the market value of underlying securities after applying haircut less the total amount received, less value of any securities deposited as collateral by the purchaser after applying haircut less any cash deposited by the purchaser	Amount as determined through adjustment

3.8	Concentrated proprietary positions	Nil	If the market value of any security is between 25% and 51% of the total proprietary positions then 5% of the value of such security. If the market value of a security exceeds 51% of the proprietary position, then 10% of the value of such security	Amount as determined through adjustment
3.9	Opening Positions in futures and options	Nil	i. In case of customer positions, the total margin requirements in respect of open positions less the amount of cash deposited by the customer and the value of securities held as collateral/ pledged with securities exchange after applying VaR haircuts ii. In case of proprietary positions, the total margin requirements in respect of open positions to the extent not already met	Amount as determined through adjustment
3.10	Short sell positions	Nil	i. In case of customer positions, The market value of shares sold short in ready market on behalf of customers after increasing the same with the VaR based haircuts less the cash deposited by the customer as collateral and the value of securities held as collateral after applying VAR based Haircuts ii. In case of proprietary positions, the market value of shares sold short in ready market and not yet settled increased by the amount of VAR based haircut less the value of securities pledged as collateral after applying haircuts	Amount as determined through adjustment
3.11	Total Ranking Liabilities			Total determined amount

Calculations Summary of Liquid Capital

- (i) Adjusted value of Assets (serial number 1.20)
- (ii) Less: Adjusted value of liabilities (serial number 2.6)
- (iii) Less: Total ranking liabilities (serial number 3.11)

Note: The Commission may issue guidelines and clarifications in respect of the treatment of any component of Liquid Capital including any modification, deletion and inclusion in the calculation of Adjusted value of assets and liabilities to address any practical difficulty.

In case any securities are pledged, except those pledged in favor of securities exchange or clearing house against margin requirements or pledged in favor of banks against short-term financing arrangements, 100% haircut shall be applied for the purposes of computation of adjusted value of assets.”;

(40) for Form B, the following shall be substituted, namely;

“Form B
[see regulation 8(2)]

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN **LICENCE AS SECURITIES BROKER**

No.

Islamabad, ...(date)....

The Securities and Exchange Commission of Pakistan having considered the application for licence by..... (Name of the company).... for securities broker under section 68 of the Securities Act, 2015 and under section 51 of the Futures Market Act, 2016 and being satisfied that the said company is eligible for a licence, and that it would be in public interest and in the interest of the capital market so to do, hereby grants licence, in exercise of the powers conferred by section 69 of the Securities Act, 2015 and under section 52 of the Futures Market Act, 2016 to(name of the company).... subject to the provisions of the Securities Act, 2015 and the Futures Market Act, 2016 and the rules and regulations made thereunder, as amended from time to time.

2. This licence is valid up to one year from the date of issuance.

Signature of the Officer”;

(41) for Form C, following shall be substituted, namely:-

“Form C

[see regulation 9(1)]

FORM OF APPLICATION FOR RENEWAL OF LICENCE AS A SECURITIES BROKER

To
The Securities and Exchange Commission of Pakistan,
Islamabad.

Dear Sir,

1. We,(Name of the securities broker).... hereby apply for the renewal of the licence of securities broker under section 69 of the Securities Act, 2015 and under section 52 of the Futures Market Act, 2016.
2. The existing licence is due to expire on December 31,
3. Original receipt of the bank for the fee of Rs.....being the renewal fee is enclosed.
4. An undertaking stating that the securities broker is compliant with of all regulatory requirements including compliance with fit & proper criteria as specified in the Securities Brokers (Licensing and Operations) Regulations, 2016 is enclosed.
5. It is requested that the licence be renewed for a period of one year.

Yours faithfully,

Signature of the Chief Executive”;
(42) Annexure C, shall be deleted;

(43) Form D, shall be deleted; and

(44) for Annexure D, the following shall be substituted, namely:-

“

“Annexure D
[see regulation 16(1)(f)]

CORPORATE GOVERNANCE CODE FOR SECURITIES BROKER

All securities brokers shall ensure compliance with the following Corporate Governance Code. The listed securities brokers shall ensure compliance with this Code in addition to any Corporate Governance rules, regulations, codes or guidelines applicable on listed companies as prescribed in the regulations of the securities exchange by the Commission. In case where there is any inconsistency with the requirements of rules, regulations, codes or guidelines prescribed by the Commission for listed companies the provisions of such rules, regulations, codes or guidelines shall prevail over this code.

1. Board of Directors

- a) A securities broker shall establish an effective board of directors (board), responsible for ensuring long-term success and for monitoring and evaluating the management's performance. The size and composition of the board should reflect the scale and complexity of the securities brokers' business.
- b) The board is encouraged to have a balance of executive and non-executive directors, with the requisite skills, competence, knowledge and experience.

2. Responsibilities, powers and functions of board of directors

- a) The board should set the strategic objectives and ensure that necessary financial and human resources are in place for meeting those objectives. The board shall further ensure that significant policies have been formulated on the following issues, among others:
 - i) governance, risk management and compliance issues;
 - ii) customer relations including customer awareness and a mechanism and timeline for handling/resolving their complaints/grievances; and
 - iii) segregation of customer assets from securities brokers' assets.
- b) The board shall formulate and ensure adoption of a code of conduct/code of ethics to promote integrity of its business, its board and its employees with special emphasis on measures for curbing any market manipulative activities such as front running, insider trading and other market abuse.
- c) The board shall devise an effective whistle-blower mechanism enabling all stakeholders including employees to freely communicate their concerns about any illegal or unethical practices. The board would ensure that the interest of a whistle-blower is not prejudicially affected.
- d) The board shall appoint a Chief Executive Officer (CEO) to lead the management team, and exercise executive authority over operations of the company.
- e) Any casual vacancy occurring on the board shall be intimated immediately to the securities exchange. The board shall strive to fill such vacancy on the board as soon as possible.
- f) The board is encouraged to obtain fidelity insurance against risk of misconduct, negligence or frauds committed by the officials of securities brokers.

3. Meetings of the board

- a) The board shall meet at least once in every six months and be provided with appropriate and timely information.
- b) The board shall ensure that the minutes of meetings of the board are appropriately recorded.

4. Committees of the board

- a) The board may establish appropriate board committees in order to allow a more effective discharge of its duties.
- b) The board may define in writing the terms of reference of the various committees, explaining their role and the advisory authority delegated to them by the board. These terms of reference may be reviewed by the board on a periodic basis.
- c) The board is encouraged to form an audit committee which should preferably be constituted of independent/non-executive directors. At least one member of the audit committee, where formed, should have relevant financial/accountancy qualification/experience.
- d) The main responsibilities of the audit committee may include the following:
- To monitor the integrity of the financial statements of the company;
 - To review the company's internal controls and risk management systems;
 - To make recommendations to the board in relation to appointment or removal of the auditor;
 - To approve the remuneration and terms of engagement of the auditor;
 - To review and monitor the auditor's independence and effectiveness;
 - To develop and implement policy on engagement of the auditor to supply non-audit services;
 - To monitor and review the effectiveness of the company's internal audit function.

5. Appointment of senior management officers

Securities brokers shall have an appropriate and suitably qualified management team commensurate with the size and complexity of its business.

6. Awareness Programs for Directors

- a) Securities brokers are encouraged to make efforts to familiarize their directors with this Code, other applicable laws, and their duties and responsibilities.
- b) Securities brokers shall ensure compliance of its directors with any mandatory certification requirements as may be specified by the Commission from time to time.

7. Auditors

A securities broker shall have its statutory audit conducted from an auditor enlisted within Category "A" or "B" of the State Bank of Pakistan's Panel of Auditors.

8. Related party transactions

The details of all related party transactions shall be placed before the board for review and approval.

9. Corporate and financial reporting framework

- a) Not later than four months from the close of the financial year, all securities brokers shall prepare and circulate an Annual Report to the Commission and the securities exchange. The

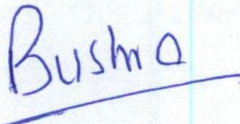
Annual Report shall contain the following:

- i) Annual audited financial statements;
 - ii) Directors' Report;
 - iii) A statement by the CEO that there are no transactions entered into by the broker during the year, which are fraudulent, illegal or in violation of any securities market laws.
- b) The quarterly and annual financial statements shall be approved by the board and the CEO.
- c) The directors may annex statements to the following effect with the Directors' Report, prepared under Section 226 of the Companies Act:
- The financial statements, prepared by the management of the company, present its state of affairs fairly, the result of its operations, cash flows and changes in equity;
 - Proper books of accounts of the company have been maintained;
 - Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
 - International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departures therefrom have been adequately disclosed and explained;
 - The system of internal control is sound in design and has been effectively implemented and monitored.
 - If the brokerage house is not considered to be a going concern, the fact along with the reasons shall be disclosed
 - The directors' report shall cover, loans, TFCs, Sukuks or any other debt instruments in which the company is in default or likely to default. There shall be a clear presentation with details as to the aggregate amount of the debt overdue or likely to become overdue and the reasons for the default/emerging default situation and the measures taken by the company to address and settle such default situation.

10. Statement of Compliance with the Code

All securities brokers, except listed securities brokers, shall publish a statement of compliance with this Code in their Annual Reports.”.

[SMD/L&RAD/Misc./2018]



Bushra Aslam
Secretary to the Commission