

**Government of Pakistan  
Securities and Exchange Commission of Pakistan**

*Islamabad, the 9<sup>th</sup> May, 2018*

**NOTIFICATION**

S. R. O.600(I)/2018.- The following draft Futures Brokers (Licensing and Operations) Regulations, 2018 proposed by the Securities and Exchange Commission of Pakistan in exercise of the powers conferred by sub-section (1) of section 114 read with sections 58, 59, 61, 62, 63, 64, 66, 68 and 95 of the Futures Market Act, 2016, (XIV of 2016), are hereby published for information of all the persons likely to be affected thereby and notice is hereby given that objections or suggestions, if any, received within fourteen days from the date of publication in the official Gazette, with subsequent placement of the draft regulations on the website of the Commission, shall be taken into consideration, namely:-.

**CHAPTER I  
PRELIMINARY**

**1. Short title and commencement.-** (1) These regulations shall be called the Futures Brokers (Licensing and Operations) Regulations, 2018.

(2) These regulations shall come into force at once.

(3) These regulations shall be applicable on Futures Brokers dealing in Futures contracts based on specified commodities and financial instruments offered by a futures exchange other than a securities exchange.

**2. Definitions.-** (1) In these regulations, unless there is anything repugnant in the subject or context, –

(a) "Act" means the Futures Market Act, 2016 (XIV of 2016);

(b) "Annexure" means annexure appended to these regulations;

(c) "Advertisement" means dissemination or conveyance of information, or an invitation or solicitation, in respect of the services that the futures broker is licensed to carry on, by any means or in any form, including by means of, –

- (i) publication in a newspaper, magazine, journal or other periodical;
- (ii) display of posters, notices, billboards, hoardings etc.;
- (iii) circulars, handbills, brochures, pamphlets, books or other documents;
- (iv) letters addressed to individuals or bodies;
- (v) photographs or cinematograph films;
- (vi) sound broadcasting, television, the Internet or other media; or
- (vii) tele-marketing and SMS marketing;

- (d) "Companies Act" means the Companies Act, 2017 (XIX of 2017);
  - (e) "Customer bank account" means the bank account opened by the futures broker with a scheduled bank in Pakistan wherein all customer money is deposited and maintained;
  - (f) "financail instrument" shall have the same meaning as defined in clause (22) of Section 2 of the Act;
  - (g) "Form" means Forms appended to these regulations;
  - (h) "financail broker" shall have the same meaning as defined in clause (24) of Section 2 of the Act;
  - (i) "futures contract" shall have the same meaning as defined in clause (25) of Section 2 of the Act;
  - (j) "regulated activity" shall have the same meaning as defined in clause (40) of Section 2 of the Act;
  - (k) "scheduled bank" has the same meaning as defined in clause (m) of Section 2 of the State Bank of Pakistan Act, 1956 (XXXII of 1956);
  - (l) "schedule" means schedule appended to these regulations; and
  - (m) "senior management officer" as defined in the Act for the purposes of these regulations, in addition to the persons mentioned in clause (47) of section (2) of the Act and, includes the compliance office;
  - (n) "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;
  - (o) "unique identification number (UIN)" means the unique identification number issued, by a clearing house licensed under the Act, to a person for trading on the futures exchange.
- (2) Words and expressions used but not defined in these regulations shall have the same meaning as assigned to them in the Act, the Companies Act and the Securities and Exchange Commission of Pakistan Act, 1997, or any rules or regulations made thereunder.

## CHAPTER II

### LICENSING REQUIREMENTS FOR FUTURES BROKER

**3. Prohibition.**— No person shall act or perform the functions of a futures broker unless such person is licensed as a futures broker with the Commission in accordance with these regulations.

Provided that any person who is performing functions of a futures broker and having valid broker registration under the Commodities Exchange and Futures Contract Rules, 2005, immediately before coming into force of these regulations, shall be deemed licensed to act as Futures broker for a period of one year from the commencement of Part IV of the Act.

**4. Eligibility criteria for licensing of a futures broker.**— (1) Subject to compliance with the provisions of the Act, a company may apply to the Commission for licence as a futures broker, if-

- (a) the applicant's memorandum and articles of association allow it to apply for grant of licence as a futures broker under the Act;
- (b) it is not a single member company;
- (c) the applicant holds a valid TRE Certificate issued in its name;
- (d) 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.
- (e) the applicant and its sponsors do not have controlling interest in any other company holding licence as a futures broker;
- (f) the applicant, its sponsors, directors and senior management officers are fit and proper persons as per the criteria specified in Annexure B;
- (g) the chief executive of the company does not hold any office in any other company;
- (h) the Director or employee of the company holding licence as a futures broker does not hold the position of a Director or any other position in any other company licenced as a futures broker;
- (i) its sponsors have and will continue to have representation of at least twenty per cent on its board of directors;

- (j) 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:

Provided that in case of a company, its sponsors have submitted verifiable documents to demonstrate that they have financial resources not less than twice the amount of the paid-up capital requirement for the relevant category of futures broker for which application is made;

- (k) the name of its sponsors, directors and chief executive officer are appearing on the list of Active Tax Payers issued by the Federal Board of Revenue.
- (l) it meets the financial resource requirements specified in these regulations; and
- (m) it has and shall continue to have the requisite number of personnel or employees having mandatory certification as specified by the Commission from time to time:

(2) Where the sponsor 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 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 company and the required documents.

**5. Application and procedure for granting a licence.-** (1) Subject to regulation 4, an application for a licence as a futures broker shall be made to the Commission in Form A along with all the documents specified in Annexure A and receipt evidencing payment of non-refundable fee of such amount as specified in Schedule I.

(2) A company applying for licence under sub-regulation (1) shall submit its application along-with supporting documents through the futures exchange to the Commission.

(3) The futures exchange shall scrutinize the application for grant of licence, authenticate and certify the documents submitted by the applicant prior to submission of the same for consideration of the Commission along-with a letter of recommendation *inter alia* covering the following:-

- (a) the contents of the application for licence and supporting documents are in conformity with these regulations;
- (b) the applicant meets the requirements of the Act and these regulations for the purposes of licence under these regulations;
- (c) the applicant, its sponsors, directors and senior management officers are fit and proper persons as per the criteria specified in these regulations;

- (d) the applicant has arrangements for putting in place such trading, clearing and settlement, accounting and recording systems as are necessary for the purposes of the applicant's existing and anticipated operations of business;
- (e) the applicant has written policies, procedures, systems and controls to resolve customer complaints, handle conflict management, monitor unethical conduct and market abuse, prevent money laundering and combat terrorist financing; and
- (f) the past track record of regulatory compliance of the applicant, its sponsors, directors and senior management officers is satisfactory.

(4) The Commission, while considering the application for licence, may require the applicant to furnish such further information or clarification as it deems appropriate.

(5) The applicant shall, if so required, appear before the Commission for a representation through a person duly authorized for this purpose in writing by the board of directors of the applicant.

(6) Any subsequent change in the information provided to the Commission at the time of filing of application under sub-regulation (1) shall be communicated to the Commission within five working days from the date of such change.

**6. Financial Resources Requirement.-** (1) An applicant for a licence as a futures broker shall comply with and ensure ongoing compliance with minimum paid-up capital and net worth of Rupees twenty (20) million and net capital balance of Rupees five (05) million.

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

(3) A futures broker shall file monthly statements of net capital balance with the futures exchange and 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) A futures broker shall immediately notify the Commission and the futures exchange if the net capital balance falls below the specified threshold and shall immediately submit the revised net capital balance calculations.

(5) In case of any shortfall in the net capital balance either reported by the futures broker or identified by the auditors, futures exchange and/or the Commission; the futures exchange shall immediately restrict the trading facility of such futures broker and shall only allow it to close out the open position(s) in a controlled environment.

(6) In case of non-submission of statements of net capital balance within a time-period as

may be notified by the futures exchange; the futures exchange shall immediately restrict the trading facility of such futures broker and shall only allow it to close out the open position in a controlled environment.

(7) The net worth of a futures 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 futures broker.

**7. Grant of licence.**- (1) The Commission, while considering the application for granting a licence, shall *inter-alia* take into account the following matters,-

- (a) that the applicant meets the requirements of the Act and these regulations;
- (b) that the applicant has the ability to efficiently handle its functions as a futures broker and its obligations under the Act and these regulations;
- (c) that the applicant has the necessary infrastructure including but not limited to financial resources, policies, procedures, systems and controls to effectively and efficiently discharge its responsibilities as a futures broker;
- (d) that the applicant satisfies the Commission that the reasons for an earlier refusal for grant or renewal of licence, if any, as a futures broker are no longer applicable;
- (e) adherence to the fit and proper criteria contained in Annexure B; and
- (f) history of past regulatory compliance and any pending penal action against the applicant, its sponsors, directors or senior management officers for an offence under the Act, the Securities Act, the Securities and Exchange Commission of Pakistan Act, 1997, the repealed Securities and Exchange Ordinance, 1969, the repealed Companies Ordinance, 1984 and the Companies Act, 2017.

(2) The Commission, upon being satisfied after conducting such inquiries and obtaining such further information as it deems appropriate that,-

- (a) the applicant is eligible for a licence;
- (b) the applicant is in compliance with the provisions of the Act, these regulations and any directives or circulars or guidelines or codes issued thereunder; and
- (c) it is in the public interest and interest of the futures market;

may grant a licence to the applicant in Form B for a period of one year under the provisions of the Act and communicate this to the futures exchange.

Provided that the Commission may impose any additional condition on the applicant while granting the license under these regulations as it may deemed appropriate:

Provided that any new license granted under these regulations shall have an expiry date of November 14, of that calendar year.

Provided further that while deciding to grant licence to a futures broker, the Commission may seek additional information from other Government agencies or regulatory bodies including obtaining credit information bureau (CIB) reports from the State Bank of Pakistan and may also conduct a pre-licence assessment or a visit of the premises of the applicant to verify the genuineness of information submitted.

(3) Nothing in these regulations shall affect the power of the Commission to restrict, suspend or cancel the licence of a futures broker under the Act if any or all of the events as mentioned therein have occurred or the futures broker fails to comply with any of the requirements of these regulations.

(4) Within fifteen days of the grant of licence, the futures exchange, prior to allowing commencement of business to a futures broker, shall confirm through a visit of such futures broker's premises that the futures broker has put in place-

- (a) adequate professional management including branch heads, system operators and compliance officer, as is necessary to allow the futures broker to carry out its obligations in accordance with the applicable laws, circulars, directives, etc.;
- (b) necessary technology, systems and internal procedures;
- (c) organizational structure with clear lines of responsibility and authority;
- (d) risk management, supervisory system, infrastructure including but not limited to adequate office space, equipment and technical aspects including appropriate arrangement for clearing, and settlement services to effectively and efficiently discharge its responsibilities as a futures broker with capacity for ongoing maintenance of the same;
- (e) internal control measures to ensure that customer's risk profiling is carried out including measures to assess investor suitability, product compatibility and responsible selling; and
- (f) know-your-customer and customer due diligence measures are in place to combat money laundering.

**8. Renewal of licence.-** (1) Subject to the provisions of the Act and these regulations, a futures broker having a valid license shall, one month prior to the date of expiry of its licence, apply to the Commission through futures exchange in Form-C along with an undertaking stating that it is in compliance with all regulatory requirements, all the documents as specified

in Annexure C and receipt evidencing payment of renewal fee of such amount as specified in Schedule I, for renewal of its licence.

(2) Any license renewed under these regulations shall be valid for a period of one year unless surrendered by the futures broker or suspended or cancelled earlier by the Commission.

(3) The futures exchange shall scrutinize the application for renewal of licence and the documents submitted by the futures broker and submit the same 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 these regulations.

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

Provided further that only such documents will be required to be submitted by the applicant which have not already been provided by it at the time of applying for licence, or subsequent renewals, and the futures exchange and the Commission shall only check compliance of such applicant with any additional requirements as applicable under the Act.

(4) The Commission upon being satisfied that the applicant continues to meet the requirements for licensing, is in compliance with the provisions of the Act, regulations, directives, guidelines or codes issued thereunder and it is in the public interest and interest of the commodity market, may renew the licence of a futures broker

(5) 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 futures broker shall continue to be valid until the application for renewal is decided by the Commission.

(6) While renewing the licence of a futures broker the Commission may, in addition to the criteria laid down for grant of licence, also take into account the past track record and history of regulatory compliance of the futures broker, its sponsors, directors and senior management officers.

(7) The Commission shall send an intimation of renewal of licence of the futures broker to the futures exchange for onward dissemination to all stakeholders.

**9. Procedure where licence is not granted or renewed.-** (1) The Commission, after giving a reasonable opportunity of hearing to the applicant, may refuse to grant or renew a licence if in the opinion of the Commission such applicant does not fulfill the requirements specified under the Act and these regulations and where the Commission after taking into account the facts, is of the view that it is not in the public interest or in the interest of the futures market to grant or renew a licence.

(2) The applicant, if aggrieved by the decision of the Commission under sub-regulation



(1), may, within a period of thirty days from the date of receipt of such refusal, prefer an appeal to the appellate bench of the Commission under section 33 of the Securities and Exchange Commission of Pakistan Act, 1997.

(3) A futures broker whose application for renewal of licence is refused shall immediately inform all its existing customers, settle all dues of the customers within fifteen days and shall remain responsible for clearing and settlement of all its obligations up to the date on which it has been working as a futures broker, in the manner specified by the futures exchange with the approval of the Commission.

(4) The Commission shall communicate its decision of refusal to grant or renew the licence to the applicant or futures broker, as the case may be, and the futures exchange.

**10. Cancellation of licence.**- (1) A futures broker may apply to the Commission for cancellation of its licence along-with a confirmation from the futures exchange that such futures broker has informed all its existing customers, settled all dues and pending claims of the customers and has completed all formalities for closure of business.

(2) The Commission may, after being satisfied that all formalities for closure of business including settlement of customer claims have been completed, cancel the licence of such futures broker:

Provided that the Commission may impose such conditions as it deems appropriate at the time of such cancellation of licence.

(3) The licence of a futures broker suspended forthwith under the following circumstances –

- (a) the TRE Certificate such futures broker is cancelled by the futures exchange; or
- (b) the futures broker surrenders its licence; or
- (c) the futures broker is declared defaulter by the futures exchange or TRE certificate suspended by the futures 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 futures broker surrenders the TRE certificate and the futures exchange cancels such TRE certificate subject to the requirements of regulations of the futures exchange; or
- (e) the futures broker is declared insolvent by a Court; or
- (f) the futures broker fails to apply for renewal of licence before its expiry; 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 futures broker.

Provided that the futures broker shall be restrained to take fresh positions, however, it is only allowed to divest its exiting holdings and settle all dues and pending claims of its customers.

(4) A futures broker whose licence is cancelled under sub-regulation (3) shall inform all its existing customers, settle all dues of the customers within fifteen days and shall remain responsible for clearing and settlement of all its obligations up to the date on which it has been working as a futures broker

(5) The Commission shall send an intimation of cancellation of licence of a futures broker to the futures exchange.

### **Chapter III**

#### **CONDUCT OF A FUTURES BROKER**

**11. Invitations, Advertisements and Publications.-** (1) A futures broker shall not publish, circulate or distribute any advertisement or any information in any manner which is false, misleading or deceptive.

(2) A futures broker shall not publish, circulate or distribute any advertisement or any information in any manner which;

(a) refers, directly or indirectly, to any past specific recommendations of the futures broker which were or would have been profitable to any person; or

(b) contains any statement that any report, analysis or other service will be furnished free or without charge, unless such report, analysis or service is in fact or will in fact be furnished in its entirety and without any condition or obligation.

(3) The advertisement or any other form of publication shall not promise or guarantee any return or makes any exaggerated statement or presentation to exploit an individual's lack of experience and knowledge and should not include any other thing which otherwise is prohibited.

(4) The advertisement shall be legible, written in clear language, and should not be such that it may prejudice interest of the investors in general.

(5) In the event of suspension of any TRE certificate by futures exchange or suspension of licence of a futures broker by the Commission, the TRE certificate holder or futures broker so suspended shall not make any advertisement either singly or jointly with any other futures broker during the period of suspension.

(6) The advertisement shall not have any adverse reference regarding the reputation of any other futures broker or a participant of the futures market.

**12. Disclosure of financial risks.-** (1) A futures broker shall not commence business with a customer unless such futures broker provides the customer with a risk disclosure document in accordance with the specimen provided by the futures exchange, *inter alia* containing the basic risks involved in trading in futures contracts including explanation of the following:

- (a) the risk of higher volatility which may affect the complete or partial execution of an order and the price at which it may be executed;
- (b) risk of lower liquidity;
- (c) speculative trading;
- (d) risk of wider spread;
- (e) price fluctuations due to corporate announcements or any other announcement that affect the price of underlying commodity/contract;
- (f) systemic risk; and
- (g) specific risks of trading on futures markets etc.:

(2) The futures broker shall obtain a written acknowledgment duly signed and dated by the customer confirming that such customer has understood the nature and contents of the risk disclosure document.

**13. Conflict of interest.-** (1) The futures broker shall take all reasonable steps including the framing of appropriate policies and procedures to minimize conflict of interest between such futures broker and its customers.

(2) Subject to the provision of sub-regulation (1), where any conflict of interest arises between the futures broker and its customer, the futures broker shall immediately inform the customer through verifiable means and not gain any direct or indirect advantage from the situation and shall act in the best interests of the customer.

(3) The futures broker must take reasonable steps to ensure that neither such futures broker nor any of its employees either offers or gives, or solicits or accepts, any inducement that is likely to conflict with any duties owed to the customers.

(4) The futures broker shall put in place a mechanism and take steps to avoid and eliminate the misalignment of incentives due to conflict of interest between the compensation of senior management officers, employees of the futures broker and interest of the customers.

(5) The futures broker shall put in place a mechanism to resolve any conflict of interest that may arise in the conduct of business and take all reasonable steps to resolve all conflicts of interests in an equitable manner.

(6) Where a futures broker has a material interest in a transaction to be entered into with or for a customer, or a relationship which gives rise to a conflict of interest in relation to such a transaction, the futures broker shall not knowingly either advise, or deal in the exercise of discretion, in relation to that transaction unless the futures broker has, –

- (a) disclosed that material interest or relationship, as the case may be, to the customer; or
  - (b) taken reasonable steps to ensure that neither the material interest nor the relationship adversely affects the interests of the customer.
- (7) The futures broker shall make appropriate disclosure to customers of possible source or potential areas of conflict of interest which could impair its ability to render fair, objective and unbiased service.
- (8) In case of any breach of policies by its employees, the futures broker shall promptly investigate, and take appropriate action against the persons responsible.

**14. Confidentiality.-** (1) The futures broker must have in place proper systems and controls along with clearly documented policies and procedures reasonably designed, for ensuring confidentiality of information in relation to its business as a futures broker.

(2) The futures broker must establish 'Chinese walls' including policies and physical apparatus designed to prevent the improper or unintended dissemination of market sensitive information from one division or department to another.

(3) The futures broker must establish policies and procedures, reasonable under the circumstances, to ensure that individuals making proprietary investment decisions are not trading on the basis of material non-public information obtained from another departments or units of the futures broker.

(4) The futures broker and its employees shall neither profit nor seek to profit from confidential information, nor provide such information to anyone with the objective of making profit for itself or for its customers.

(5) The futures broker and its employees shall refrain from trading on the basis of confidential information, and its employees shall not reveal such information outside the company.

(6) The futures broker and its employees shall not disclose or discuss with any other person other than normal course of business or make improper use of the details of investments of customers and other information of confidential nature of a customer.

**15. Duties and obligations of a futures broker.-** (1) In addition to the requirements provided under the Act and any other rules or regulations made thereunder, a futures 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 in 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 futures 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 futures 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 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) not enter into any transaction that involve foreign currency exposure or may result into receipt or payment of foreign exchange without approval of State Bank of Pakistan.
- (j) establish an internal code of practice, aimed at ensuring that members of its Board of directors and employees act in accordance with the best interests of its customers, the integrity of the market and are in compliance of the Act, these regulations and any other applicable laws, guidelines, directives and circulars, etc.;
- (k) frame policies and procedures to ensure compliance with the regulatory requirements governing prohibition of insider dealing and market abuse;
- (l) ensure that Know Your Customer and Customer Due Diligence is being conducted properly in accordance with the relevant rules, regulations, notification, guidelines, directives and circulars etc. issued by the Commission and/or the futures exchange from time to time;
- (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 futures market or any participant thereof on any forum or channel;
- (n) maintain membership of an association of futures 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 futures 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 futures exchange; and
  - (r) intimate futures exchange prior to opening of any branch subject to the requirements as prescribed by the futures exchange/Commission from time to time. Provided that the futures exchange shall conduct periodic visit/inspection of the branches on an annual basis to ensure its compliance with the regulatory framework.
  - (s) futures exchange shall ensure the requirements after opening of branch by futures broker as prescribed by the futures exchange.
- (2) A futures broker shall not:
- (a) in any way contribute to manipulating the demand for or supply of commodities contracts in the market or to influence prices of commodities and futures contracts, or indulge in any action that can detract from transparent and fair market-driven pricing on the futures markets;
  - (b) encourage sale or purchase of futures contracts on account of a customer with the sole objective of generating commission or any other financial benefit for the futures broker or any of its employees;
  - (c) have an incentive structure that encourages dealing in futures contracts 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 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 futures exchange;
  - (f) operate and have any branch without registration of the same with the futures exchange and after fulfilling all other applicable requirements;
  - (g) engage in manipulative or deceptive conduct or any other form of misconduct which would give other users of the futures market a false or misleading impression as to the prevailing market conditions, including but not limited to price, supply or demand;
  - (h) spread rumors or disseminate false or misleading information;
  - (i) engage in any investment transactions and activities that would result in manipulation of prices;

- (j) accept any money from a customer on a promise of predetermined or guaranteed return;
  - (k) 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 futures broker except in the following manner: -
    - (i) redeemable capital issued by a futures broker under the Companies Act;
    - (ii) finance obtained by a futures broker from a financial institution;
    - (iii) advance, application or subscription money for shares of a futures broker;
    - (iv) subordinated loans from directors, sponsors or substantial shareholders of a futures broker subject to the conditions as may be imposed by the Commission;
  - (l) appoint an auditor who is an associate of its director or a senior management office;
  - (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 futures broker operating from any office or location other than the registered office of the futures broker and branch office of the futures broker registered with the futures exchange; and
  - (n) provide access to the trading terminals other than its authorized employees and customers.
- (3) A futures broker shall put in place, appropriate policies and procedures which govern trading or investment in futures contracts by its employees, directors, their spouses and dependent children, and such policies shall at the minimum cover following requirements/principles:
- (a) disclosure by its employee and directors of any open positions in futures contracts held by him/her, his/her spouse and/or dependent children along with details of their accounts with a futures broker and such information shall be reported to the compliance officer of the futures 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) periodic disclosure of position in futures contracts held by its employees and directors their spouses and dependent children, and reporting of actual transactions, including volume, date and price, in a timely manner;
  - (d) 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 futures broker;
  - (e) discouraging frequent short-term trading or trading for speculative purposes; and

- (f) compliance of employees with the requirements specified by the futures exchange and the code of conduct specified by the futures exchange in relation to the trading by employees of a futures broker.
- (4) A futures broker shall not trade through another futures broker of the same futures exchange on its own account or on account of its customers.
- (5) Chief executive of the futures broker and his/her dependent family members can only trade through the futures broker in which he/she holds the said position. .
- (6) A futures broker shall formulate policies and take reasonable measures to restrict its employees, including employees serving as directors on its board, from trading through another futures broker of the same futures exchange.
- (7) Shareholders and other directors of futures brokers shall be allowed to trade through another futures broker of the same futures exchange subject to the condition that one-time prior written approval is obtained from the futures broker of which such person is a director or substantial shareholder and the said approval shall also be submitted to the futures exchange.
- (8) A futures 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 futures 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 any rules and regulations made thereunder; and
  - (h) provide for periodic inspections of branch offices of the futures broker and supervision of business activities of such branches.
- (10) A futures broker shall establish and implement a contingency plan to ensure continuity of its operations in the event of a disaster or crisis and 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 quarterly basis or any other interval as may be specified by the Commission.
- (11) A futures broker shall not make a recommendation regarding taking position in any futures contract unless such recommendation is based on reliable information and the source of such information is disclosed. Any recommendation relating to target price shall also disclose the valuation method used to determine such target price and the risk that may impede achievement of the price target.
- (12) A futures broker licensed under these regulations shall ensure:
- (a) compliance with customers' assets segregation requirements as specified by the futures 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 futures 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 futures exchange or in the manner specified by the Commission from time to time;
  - (d) that the compliance officer appointed or designated by the futures broker regularly monitors the customer assets, movements therein, and prepares reconciliations as required in clauses (b) and (c);

- (e) 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 futures broker for taking immediate remedial action:

Provided that in case the futures broker fails to rectify the position within three business days, the matter should be reported to the Commission and the futures exchange by the compliance officer;

- (f) 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 and the records should be maintained in a way that appropriately distinguishes the customer assets account of one customer of the futures broker from the customer assets account of another customer of the futures broker and from the assets of the futures broker itself;

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

**16. Establishment of relationship with customer.-** (1) A futures broker shall not commence business with a customer including acceptance of cash and/or commodities from it, unless it has entered into an agreement with the customer, obtained acknowledgment of risk disclosure document, opened an account in the customer's name and completed all other requirements as may be specified by the futures exchange.

(2) A futures broker shall take reasonable steps to ensure that the identity, address and contact details of its customers are known and verified.

(3) A futures broker shall ensure that the information contained in the account opening form is updated, complete and correct at all times.

(4) A futures broker shall ensure maintenance of only true and correct information/particulars of its customers in the system and its records, and shall not change any detail provided by the customer in the official documents/records without prior approval of the customer and shall keep the record of such changes along with necessary documentary evidence.

(5) A futures broker shall hold in possession, copies of documentation regarding the identity of customer and the identity of any representative of the customer.

(6) A futures broker must take reasonable care in evaluating that the customer has sufficient financial resources to settle the transactions the customer wishes to enter into.

**17. Customers' rights.-** (1) A futures broker shall not, in any written communication or agreement, seek to exclude or restrict:

- (a) any duty or liability to a customer which such customer has under any law or under any regulations made by the Commission;
  - (b) any other duty to act with skill, care and diligence that is owed to a customer in connection with the provision of service as a futures broker; and
  - (c) any liability owed to a customer for failure to exercise the degree of skill, care and diligence that may reasonably be expected of the futures broker in the provision of their service.
- (2) A purported exclusion or restriction prohibited by this regulation shall be void and of no effect.

**18. Execution of customer orders.-** (1) A futures broker shall not deal in futures contracts on account of a customer without prior instructions of such customer.

(2) A futures broker shall not execute discretionary trades on behalf of customers in any manner.

(3) A futures broker or any of its employee shall not take or use the password on behalf of its customers.

(4) A futures broker shall take reasonable measures to execute the orders placed by the customers on the most advantageous terms as expeditiously as practical in the prevailing market conditions.

(5) A futures broker shall always give priority to outstanding customer orders.

(6) All orders to buy or sell futures contracts which a futures broker may receive shall be entered, in the chronological order, in a register to be maintained in a form which shows the name, and trader code and UIN of the person who placed the order, the name and number of the futures contracts to be bought or sold, the nature of the transaction and the limitation, if any as to the price of futures contracts or the period for which the order is to be valid.

(7) The chronological register to be maintained under sub-regulation (4) may be maintained in electronic form including the logs generated from the system and telephone recording.

**19. Order recording.-** (1) A futures broker shall ensure that all orders placed by customers through telephone are recorded over dedicated telephone lines.

(2) A futures broker shall ensure that all orders received in-person from visiting customers are adequately recorded and acknowledgement is obtained from the customers.

(3) A futures broker shall ensure that it has preserved all records pertaining to all orders received from customers in writing or through any other document, fax, email, or through

any other means,.

**20. Contract notes.-** (1) A futures broker shall, in respect of every contract for the purchase or sale of futures contracts entered into by such futures broker, not later than the start of the next trading day after the contract was entered into, make out a contract note in accordance with sub-regulations (2) and (3) and deliver it to the customer through a verifiable mode of communication and such futures broker shall retain proof of sending the contract notes to the customers.

(2) The contract notes shall be numbered with unique running serial numbers.

(3) The contract note shall state the nature of the transaction and shall include:

- (a) the name and licence number of the futures broker and the address of the principal place at which it carries on its business;
- (b) the name and address of the customer along with customer's account number;
- (c) the name of the futures exchange on which the transaction is made;
- (d) the date on which the transaction is executed, the settlement date, the date the contract note is made out and unique number of the contract note;
- (e) the quantity and description of the futures contracts traded;
- (f) the price and total consideration;
- (g) the amount of consideration paid or payable under the contract;
- (h) the rate or amount of the commission, ancillary charges, statutory and regulatory levies charged or payable for the transaction;
- (i) a statement stating that the transaction in the contract note shall be subject to the regulations of the futures exchange and/or the clearing house;
- (j) name of the authorized person of the futures broker, his/her telephone number and email address; and
- (k) such other information as may be specified by the Commission from time to time.

(4) A contract note may contain the particulars of more than one transaction which have been transacted during one market day in relation to a customer.

**21. Electronic contract notes.-** (1) A contract note that is issued by the futures broker may be in electronic form subject to authorization by the customer in writing.

(2) The electronic contract note shall be issued to the customer on the email address provided by such customer in writing and any change in the email address must be communicated by the customer to the futures broker in writing under signature and such futures broker must retain record of the same.

(3) The acknowledgment of the email sent to the customer shall be retained by the futures broker in soft and non-alterable form.

(4) The proof of delivery i.e., log report generated by the system at the time of sending the contract notes shall be maintained by the futures broker.

(5) The log report shall also provide the details of the contract notes that are not delivered to the customer's e-mails or are rejected or bounced back.

(6) Wherever the electronic contract notes have not been delivered to the customer or have been rejected (bouncing of mails), the futures broker shall send a physical contract note to the customer within the timeline specified under regulation 20.

**22. Segregation of customer money.-** (1) Customer money shall not form part of the assets of the futures broker for any purpose and shall not be available in any circumstances for payment of any debt or liability of the futures broker.

(2) A futures broker shall not use customer money for any purpose other than as allowed under the Act or any rules or regulations made thereunder.

(3) A futures broker who receives or holds customer money shall open one or more designated bank accounts with a scheduled bank in Pakistan for such purpose and the title of the account shall reflect the same.

(4) A designated customer bank account shall be kept segregated from any account holding money belonging to the futures broker.

(5) A futures broker shall forthwith deposit into a designated bank account for the customers, all customer money coming into the futures broker's hands from a customer and the same will be transferred to the futures exchange no later than 2 working days from the date of receipt of money:

(6) A futures broker shall keep records of:

- (a) all amounts deposited into the designated bank account(s), specifying the customers on whose behalf the amounts are held and the dates on which the amounts were received;
- (b) all payments from the designated bank account(s), the dates of those payments, and the names of the customers on whose behalf the payments are made; and
- (c) such other particulars as may be specified by the Commission.

(7) No amount from customer bank account(s) shall be withdrawn in cash and all payments shall be made through cross cheques or other banking channels and where payment is made through cross cheques, the futures broker shall keep copy of the cheques issued for the purposes of record.

(8) All payments due to the customer, received from the futures exchange shall be processed within 1 working day for transfer into the customer's account. No amount from the futures broker's bank account(s) shall be withdrawn in cash, and all payments shall be made through cross cheque(s) or other banking channels.

**23. Accounting for and use of customer money.-** (1) A futures broker shall properly account for customer money and ensure that, –

- (a) customer money is not mixed with other money;
- (b) a futures broker can at all times calculate how much customer money stands to the credit of each customer; and
- (c) money belonging to one customer is not used for another customer.

(2) A futures broker shall not withdraw money received and deposited in the designated bank account otherwise than for the purpose of, –

- (a) making a payment to a person entitled to the money;
- (b) meeting obligations emanating from dealing in futures contracts effected by the futures broker on the instructions of a customer;
- (c) defraying brokerage and other charges or levies incurred in respect of dealing in futures contracts effected by the futures broker on the instructions of a customer; or
- (d) making a payment that is otherwise authorized by law.

**24. Periodic reporting to the customer.-** (1) A futures broker shall on a daily basis or on such periodic basis, as may be specified from time to time by the futures exchange and/or the Commission, furnish to the customer, reports containing information regarding handling of contracts executed, receipts and payments, and the holding balance in customer's assets.

(2) A futures broker shall promptly provide to a customer any report or information pertaining to the account of such customer as and when requested by the customer.

**25. Customer Complaints.-** (1) A futures broker shall have internal procedures to ensure the proper handling of complaints received from customers and to ensure that appropriate remedial action on those complaints is promptly taken.

(2) A futures broker shall take all reasonable measures to redress customers' grievances

promptly but not later than thirty days of receipt thereof and when called upon by the Commission or the futures exchange or any other regulatory body to do so it shall redress the grievances of customers within the time specified.

(3) A futures broker shall maintain records regarding customers' grievances received by it and redressal of such grievances.

(4) A futures broker shall at the end of each quarter submit information about the number of customer grievances received, redressed and those remaining unresolved beyond three months of the receipt to the futures exchange along with the reasons thereof for delay.

**26. Proprietary trading.-** (1) The proprietary trades of a futures broker shall be executed through designated terminals and by designated system operator(s).

(2) A futures broker shall formulate procedures and controls for execution of proprietary trades in terms of secrecy and preventing trading ahead of outstanding orders of customers, and shall identify the persons who are authorized to operate the proprietary trading account.

**27. Appointment and functions of Compliance Officer.-** (1) A futures broker shall, as applicable, either designate or appoint a compliance officer, fulfilling the fit and proper criteria specified in these regulations and responsible for monitoring compliance of the futures broker with the applicable regulatory regime.

(2) The compliance officer shall also be responsible for ensuring compliance with and performing functions pertaining to the segregation and safekeeping of customer assets.

(3) The compliance officer shall immediately report any non-compliance with any requirement to the futures broker and the futures broker shall immediately take steps to ensure compliance with the regulatory regime.

(4) Where the futures broker fails to take steps as required under sub-regulation (3) the compliance officer shall immediately inform the futures exchange and the Commission of the non-compliance by the futures broker.

(5) The compliance officer shall prepare monthly compliance reports which shall be submitted to the board of directors of the futures broker.

## **Chapter IV**

### **ACCOUNTING AND AUDIT**

**28. General.-** (1) The obligations and duties of a futures broker under these regulations with respect to audit and accounts are in addition to the requirements of the Companies Act, the rules and regulations made thereunder and any directives issued thereunder.

(2) A futures broker may prepare financial statements on trade date or settlement date basis and accordingly account for income, assets and liabilities:

Provided that the futures broker shall disclose the said basis in its financial statements and shall not change the said basis during a financial year.

**29. Maintenance of books of accounts and other records.-** (1) A futures broker shall keep accounting and other records which shall sufficiently explain its business and transactions entered into (whether effected on its own behalf or on behalf of customers) and the financial position of the futures broker, and shall be such as to-

- (a) disclose with accuracy the financial position at that time;
  - (b) enable the futures broker to prepare financial statements at any time and which comply with the requirements of law; and
  - (c) demonstrate whether the futures broker is maintaining in its regulated securities activity adequate financial resources to meet its business commitments.
- (2) A futures broker shall ensure that all books and records with respect to accounting and audit under these regulations are updated in a timely manner.
- (3) A futures broker shall ensure that information which is required to be recorded under the Act and these regulations shall be recorded in such a way as to enable a particular transaction to be identified at any time and traced from initiation of the order to final settlement.
- (4) All records required to be maintained under the Act and these regulations including records maintained in electronic form shall be recorded, arranged, filed, indexed and cross-referenced so as to permit prompt access to any particular record.
- (5) A futures broker shall prepare and maintain books of accounts and other documents in a manner that will disclose a true, accurate and up-to-date position of business, including but not limited to:-
- (a) record of all assets and liabilities of the futures broker including any commitments or contingent liabilities;
  - (b) journal (or other comparable record), cash book and any other books of original entry, forming the basis of entries into any ledger, the books of original entry which contain a daily record of all orders for purchase or sale of futures contracts, all purchases and sales of futures contracts, all receipts and deliveries of commodities and all other debits and credits;
  - (c) ledgers (or other comparable records) reflecting asset, liability, reserve, capital, income and expense accounts;
  - (d) ledgers (or other comparable records) reflecting futures contracts bought or sold;



- (e) record of all balance of all ledger accounts in the form of trial balances;
  - (f) daily entries of all customer money which is deposited into or out of a designated bank account, where applicable;
  - (g) record of transactions with the banks and the aggregate balances on designated bank accounts;
  - (h) contract books showing details of all contracts entered into by the futures broker;
  - (i) documents relating to opening of trading account of a customer with the futures broker;
  - (j) record of individual customers balances stating the name of each customer and the amount held or received for that customer;
  - (k) record of the time, date and complete particulars of instructions received from and trades executed for customers;
  - (l) counterfoils or copies of the contract notes issued to the customers;
  - (m) margin deposit book;
  - (n) daily record of all purchases and sales of futures contracts by the futures broker distinguishing those which are made by the futures broker on his own account and those which are made by him on behalf of others;
  - (o) record of establishment of branch offices within or outside the premises of the futures exchange with the following information, namely:-
    - (i) location of the branch offices;
    - (ii) intimation to the futures exchange of such offices;
    - (iii) details of trading terminals installed at the branch offices;
    - (iv) status of the person authorized to manage the branch office;
    - (v) proof of business being done at the branch office in the name of the futures broker;
    - (vi) proof of maintenance of the branch offices' bank accounts in the name of the futures broker;
    - (vii) proof of proper maintenance of accounts of the customers at the branch offices; and
    - (viii) any other documents and records required to be maintained under regulations made by the futures exchange; and
    - (ix) all customer related record.
- (6) A futures broker shall intimate to the futures exchange and the Commission the place where the books of accounts, records and documents are maintained.
- (7) A futures broker shall maintain separate books of accounts for:

- (i) money received from or on account of and money paid to or on account of each of its customer; and
- (i) the money received and the money paid on a futures broker or an associated person's own account.

**30. Preparation and submission of financial statements.-** (1) A futures broker shall prepare financial statements for each quarter, half year and for each financial year. The financial statements of the futures broker shall be prepared in compliance with the requirements of the Companies Act including conformity with the accounting standards as directed by the Commission.

- (2) A futures broker must also disclose in its financial statements the following,
  - (a) customer assets held in the designated bank account;
  - (b) turnover during the period, separately showing turnover from proprietary trades, retail customers and institutional customers;
  - (c) pattern of shareholding, giving names of persons holding more than 5% shares;
  - (d) all changes in shareholding above 5%;
  - (e) treatment of amount receivable from customers including aging analysis thereof;
  - (f) customer-wise margin analysis.
- (3) A futures broker shall submit, within four months after the end of each financial year, its annual financial statements to the Commission along with its audit report.

**31. Appointment of auditor and related matters.-** (1) A futures 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 futures broker and the auditor; and
  - (c) the futures broker retains a copy of the engagement letter.
- (2) A futures broker shall, within fourteen days, give written notice to the Commission of the appointment, removal or resignation of an auditor.
- (3) The auditor appointed by a futures broker shall have the right to, –

- (a) access the accounting and other records of the futures broker and all other documents relating to its business including the documents the futures broker is required to maintain under the Act and these regulations; and
  - (b) require from the futures 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 (a) the futures broker was in compliance with the requirements of section 62 of the 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 futures broker stating whether, during the period, the futures broker has, in all material respects:
  - (a) maintained systems and control adequate to identify with reasonable accuracy the assets held on behalf of customer and distinguish such assets from the proprietary assets of the futures broker;
  - (b) implemented an adequate internal control system and compliance function commensurate with the size and nature of services performed by the futures 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 futures 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 futures broker shall appoint the auditor with prior approval of the Commission.

**32. Submission of information and returns.-** (1) The Commission may by written notice require a futures broker to submit to the Commission such information or periodic returns as it may require.

(2) In addition to any periodic returns required under sub-regulation (1), the Commission may by written notice require futures broker, either generally or in a particular case or class of cases, to submit to the Commission or to any other entity authorized in the matter, such other information or exceptional returns as it may require.

**33. Management rating.-** The futures broker licensed 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.

**34. Repeal and savings.-** (1) The Commodity Exchange and Futures Contracts Rules, 2005 is 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 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.

**FORM OF APPLICATION FOR LICENCE AS A FUTURES BROKER**  
***[see regulation 5(1)]***

To  
The Securities and Exchange Commission of Pakistan,  
Islamabad.

Dear Sir,

1. We ....(Name of the company)..... hereby apply for licence of futures broker, being member of .....(name of futures exchange)..... under section 51 of the Futures Market Act, 2016.
2. Certified true copies of all the documents specified in Annexure A of the Futures Brokers (Licensing and Operations) Regulations, 2018 are enclosed.
3. Original receipt of the bank for the fee of Rs.....being the licensing fee is enclosed.

Yours faithfully,

Signature of the Chief Executive

## **Annexure A**

### **Information and Documents to be provided along-with application for licence as a futures broker**

#### **1. General and business information:**

1.1. Brief history of the applicant containing at least name of the applicant, date and place of its incorporation, date of commencement of business, names and contact details of sponsors, directors and senior management officers including group structure, if any, and length of experience as futures broker, if any.

1.2. Address of the registered office of the applicant (postal address, postal code and telephone, fax numbers.)

1.3. Mailing address of the applicant (postal address, postal code, telephone number, fax numbers and e-mail address of the concerned officer of the applicant.)

1.4. Percentage of capital, each sponsor proposes to contribute in the company.

1.5. Name of the futures exchange of which the applicant is a TRE certificate holder, along with the TRE Certificate number.

1.6 Details of outstanding legal proceedings, if any, initiated against the applicant, its directors or senior management officers by the Commission or any other regulatory authority.

1.7 Details in case the applicant, its sponsors, directors, major shareholders or senior management officers have been declared insolvent or bankrupt, or declared defaulter by any authority.

1.8 Details of penal actions, if any, taken against the applicant, its sponsors, directors, major shareholders or senior management officers during the last three years by the Commission or any other regulatory authority.

1.9 In case any associated company of the applicant is already licensed under the Securities Act, 2015 or the Futures Market Act, 2016 the following details shall be provided, namely:-

- (i) name of such associated company;
- (ii) details of warning notices, if any, issued to such associated company by the Commission;
- (iii) details of legal proceedings, if any, initiated against such associated company by the Commission or any other regulatory authority; and
- (iv) penal action, if any, taken against such associated company by the Commission during the last three years.

**2. Details of infrastructural facilities** (to be used for performing the functions of a futures broker):

2.1 Computer systems installed:  
(a) hardware configurations; and  
(b) software used

2.2 Data processing capacity:  
(a) available infrastructure (computers and other electronic equipment used for data processing and communication);  
(b) available manpower; and  
(c) office space (mention extent of area in square feet available)

### **3. Other information:**

3.1 Details as per following format of all pending disputes in which the applicant is a party:

- a) Name of the party
- b) Name and place of court/tribunal where dispute is pending
- c) Amount involved
- d) Pending since
- e) Date of last hearing
- f) Decision at last hearing

3.2 List of civil and criminal offenses in which the applicant or any of its sponsors, directors or senior management officer has remained involved during the last three years.

3.3 Any other information considered relevant to the business of the futures brokers.

3.4 Any significant awards or recognition, collective grievances against the applicant.

### **4. List of documents to be provided along with application:**

4.1 Copy of memorandum and articles of association of the applicant duly certified from the concerned company registration office (CRO) containing copy of the certificate of incorporation and that of the certificate of commencement of business, duly certified from the CRO concerned.

4.2 Copy of Forms 3, 27, 28 and 29 of the applicant duly certified from the CRO concerned.

4.3 Audited accounts for the last three years and latest half yearly and quarterly accounts, where applicable.

4.4 Copies of documents evidencing compliance with the financial resource requirements specified in the Futures Brokers (Licensing and Operations) Regulations, 2018.

4.5 Profile/Fit and Proper related documents pertaining to the applicant, its sponsors, senior management officers and directors along with details such as name, qualification, experience and date of appointment, directorship in other companies, names of such other companies and date of appointment as director in such other companies.

4.6 An undertaking from the sponsors of the applicant that they will not sell or transfer their shares without prior written approval of the futures exchange and the Commission.

4.7 An undertaking from the directors of sponsoring company and the applicant that they will inform the Commission in case of any change in the sponsors/majority shareholders of the sponsoring company.

4.8 An undertaking that the futures broker, its directors, sponsors, senior management officers are in compliance with all the requirements for grant of a licence under the Futures Brokers (Licensing and Operations) Regulations, 2018.

4.9 Names and addresses of and particulars of any business carried on by each person holding an interest of 10% or more in the issued share capital of the futures broker.

4.10 The pattern of shareholding, identifying separately the sponsors and shares held by the sponsors

4.11 Bank details of the futures broker.

4.12 Details of the affiliation and outsourcing contracts, if any.

4.13 Any other information/document as required by the Commission.

**Note:** In case any of the above documents/information have already been submitted to the Commission, the applicant may only provide an undertaking that there is no change in the earlier submitted document/information.

**Schedule I**  
**[see regulations 5(1) and 8(1)]**

**SCHEDULE OF FEES\***

Description of fee	Amount of fee in PKR
a) Application for seeking license to act as a futures broker	Rs. 100,000/-
b) Application for renewal of licence of a futures broker	Rs. 50,000/-

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



**Annexure B**  
**FIT AND PROPER CRITERIA**  
***[see regulation 4(f)]***

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

This Fit and Proper Criteria is perpetual in nature and its compliance is mandatory. The futures exchange shall ensure that the applicant, its sponsors, directors and senior management officers are fulfilling the fit and proper criteria before submitting to the Commission.

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 futures broker within three business days and the futures broker shall within a period of seven business days report the same to the futures 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 futures 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, futures 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.

(iv) 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.

(v) 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/contracts.

(vi) 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 sponsor, at least one sponsor should have:

- (a) a recognized body of professional accountants; or a graduate from a university recognized by the Higher Education Commission of Pakistan, or equivalent; and
- (b) an experience of at least five years in activities relating to capital market or commodity business.

Provided that the minimum qualification requirement shall be relaxed, if a sponsor possesses seven years of relevant experience of the financial services sector/capital markets/commodity business.

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

- (a) 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
- (b) an experience of at least five years in activities relating to capital market or commodity business.
- (c) have attained necessary certification as specified by the Commission from time to time.

(3) 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 or equivalent recognized by the Higher Education Commission of Pakistan; and
- b) have a minimum experience of seven years in a senior management position, in financial services sector/capital market/commodity business.
- c) have attained necessary certification as specified by the Commission from time to time.

(4) In case of compliance officer, the person shall

- 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.

(5) 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.

### **(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 or futures 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 crimes, 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 138 & 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 and disposal thereof 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 futures exchange.

(iv) An order restraining, prohibiting or debarring the sponsors, director or senior management officer of the futures broker from dealing in futures contracts 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 person 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 futures broker should not have been penalized for providing false or misleading information either to the Commission or futures exchange.

(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 futures 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)	<p>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*:</p> <table border="1"> <thead> <tr> <th>Sr#</th> <th>Name of Organization</th> <th>Designation</th> <th>Period</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Company A</td> <td></td> <td>DD/MM/YY - DD/MM/YY</td> </tr> <tr> <td>2</td> <td>Company B</td> <td></td> <td>DD/MM/YY - DD/MM/YY</td> </tr> </tbody> </table>	Sr#	Name of Organization	Designation	Period	1	Company A		DD/MM/YY - DD/MM/YY	2	Company B		DD/MM/YY - DD/MM/YY
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*)												
	<table border="1"> <thead> <tr> <th>Sr. #</th> <th>Name of Organization</th> <th>Designation</th> <th>Period</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td>Company A</td> <td></td> <td>DD/MM/YY - DD/MM/YY</td> </tr> <tr> <td>2.</td> <td>Company B</td> <td></td> <td>DD/MM/YY - DD/MM/YY</td> </tr> </tbody> </table>	Sr. #	Name of Organization	Designation	Period	1.	Company A		DD/MM/YY - DD/MM/YY	2.	Company B		DD/MM/YY - DD/MM/YY
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	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 futures broker) who are related to the applicant.												

Signature \_\_\_\_\_

\*use additional sheets if required

**Schedule II**  
**[see regulation 6(3)]**

**COMPUTATION OF NET CAPITAL BALANCE**

**Current assets and current liabilities in relation to a futures broker for the purpose of net capital shall be determined by accounting for the current assets and liabilities in the following manner:**

<b>A-Description of Current Assets</b>	<b>Valuation basis</b>
1. Cash in hand or in bank	As per book value
2. Trade Receivables	Book Value less those overdue
3. Investment in listed securities in the name of broker	Securities on the exposure list marked to market less 15% discount;
4. Investment in listed securities in the name of broker	Securities on the exposure list marked to market less 15% discount;
5. Listed TFCs/ Corporate Bonds of not less than BBB grade assigned by a credit rating company in Pakistan	Marked to Market less 10% discount
6. FIBs	Marked to Market less 5% discount
7. Treasury Bill	At market value
8. Any other current asset specified by the Commission	As per the valuation basis determined by the Commission
<b>B-Description of Current liabilities</b>	<b>Valuation basis</b>
1. Trade payables	Book Value less those overdue for more than 30 days
2. Other liabilities	As classified under the generally accepted accounting principles

Guidelines issued by the Commission from time to time shall also be followed while calculating the Net Capital Balance

**Form B**  
**[see regulation 7(2)]**  
**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
**LICENCE AS FUTURES BROKER**

No. ....

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

The Securities and Exchange Commission of Pakistan having considered the application for licence by..... (Name of the company).... being member of ..... (name of futures exchange)..... ... 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 commodity market so to do, hereby grants licence, in exercise of the powers conferred by section 52 of the Futures Market Act, 2016 to .....(name of the company).... subject to the provisions of 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

**Form C**  
***[see regulation 8(1)]***  
**FORM OF APPLICATION FOR RENEWAL OF LICENCE AS A FUTURES BROKER**

To  
The Securities and Exchange Commission of Pakistan,  
Islamabad.

Dear Sir,

1. We, .....(Name of the futures broker).... being member of ..... (name of futures exchange)....., hereby apply for the renewal of the licence of futures broker under section 52 of the Futures Market Act, 2016.

2. The existing licence is due to expire on .....

3. Original receipt of the bank for the fee of Rs.....being the renewal fee is enclosed.

4. Certified true copies of all the documents specified in Annexure C of the Futures Brokers (Licensing and Operations) Regulations, 2018 are enclosed.

5. It is requested that the licence be renewed for a period of one year.

Yours faithfully,  
Signature of the Chief Executive



**Annexure D**  
***[see regulation 15(1)(f)]***

**CORPORATE GOVERNANCE CODE FOR FUTURES BROKER**

All futures brokers shall ensure compliance with the following Corporate Governance Code. The listed futures brokers shall ensure compliance with this Code in addition to the Code of Corporate Governance (CCG), rules, regulations, codes or guidelines applicable on listed companies as prescribed in the regulations of the futures 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 provision of such rules, regulations, codes or guidelines shall prevail over this code.

**1. Board of Directors**

- a) A futures 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 futures 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 futures 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, its employees and its accredited representatives, 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 and accredited representatives, 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 futures 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 futures 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**

Futures 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) Futures brokers are encouraged to make efforts to familiarize their directors with this Code, other applicable laws, and their duties and responsibilities.

b) Futures 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 futures 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 futures brokers shall prepare and circulate an Annual Report to the Commission and the futures 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 futures 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 236 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 futures brokers, except listed futures brokers, shall publish a statement of compliance with this Code in their Annual Reports.

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{No. SY/SECP/8/13}



( Bilal Rasul )  
Secretary to the Commission