

SECP amends KSE regulations to protect investors

ISLAMABAD, August 1: As part of its mandate to ensure fairness and transparency in the capital market, the Securities and Exchange Commission of Pakistan has amended KSE regulations. The amended regulations call for selection of auditors for net capital balance (NCB), statutory audit and system audit of brokerage firms from the category A and B of the State Bank of Pakistan (SBP) panel.

During the course of inspections of brokerage houses, various non-compliances of relevant laws and major irregularities such as miscalculation and misinterpretation of NCB requirements were observed, which posed serious threats to investors' interest.

At the same time, these inflated NCB facilitated brokerage firms to take excessive exposure limits for trading purposes, which transferred the same risk to the exchange trading system as the financial strength of such brokerage houses was not sound enough. Moreover, considering the existing practice adopted by other financial sector intermediaries relating to selection of auditors of excellent repute and expertise for the purposes of statutory audit and other audit assignments, the apex regulator felt an immediate need to prescribe a more effective criterion for selection of auditors for statutory audit, system audit and net capital balance of the brokerage firms to improve quality of audits, ensure impartial view and reliability of financial position of brokerage firms. The implementation of the new regulation will not only curb the menace of inflated NCB, but also protect the interest of investors who have to rely on the misinterpreted financials.

Earlier, the KSE framework allowed all audit firms listed on the SBP panel to conduct statutory audit and audit of net capital balance of brokerage firms. Now, under newly approved regulations, the same audit firm from the category A or B of SBP panel shall be appointed for NCB and statutory audit so as to bring consistency, a better understanding of brokerage operations and true and fair view for the regulators and other stakeholders. Furthermore, the regulation reinforces all listed brokerage firms to only appoint auditors from category A of SBP panel for system audit whereas category A or B can be appointed for the audits by unlisted brokerage firms.