Press Release

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For immediate release

SECP rationalized licencing regime for securities brokers

ISLAMABAD, January 15: The Securities Exchange Commission of Pakistan with an objective to reduce regulatory burden and to promote ease of doing business, has approved rationalization of existing licensing regime for securities brokers.

In order to provide ease of doing business, without compromising on regulatory objectives, the Commission has approved that a single licence would be issued to a securities broker. A licensed securities broker would not require all other mandatory licenses including futures broker, securities advisor, futures advisor and accredited representative.

As per new simplified procedure for annual renewal, a security broker will only required to provide recommendation from the Pakistan Stock Exchange (PSX) along with an undertaking from the securities broker and deposit of regulatory fee. The SECP has also approved a single cut-off date concept for expiry of licenses for entire brokerage industry. This is to facilitate the brokerage industry as well as the front line regulator i.e. PSX.

It is pertinent to mention here that in the prevalent licensing regime and the draft frameworks notified for public consultation, a securities broker has to obtain at least eight annually renewable mandatory licenses to act as a securities broker of capital markets. In case of mid-size and large brokerage houses, having more than one office, the requisite number of mandatory licenses increases even further.

The SECP believes that the securities broker activity should only be undertaken in a corporate structure and the existing concept of agents for securities brokers have become redundant and is no more desirable. Therefore, the existing regime, requiring registration of Agents with the SECP would be discontinued and the proposed draft Accredited Representatives Regulations 2017, would not be promulgated. The brokerage industry would be conveyed accordingly. Moreover, the Commission has decided to grant licenses of regulated activities to corporate entities only.

The Commission has also approved to undertake an objective review of the Advisory regime under the Securities Act, 2015 vis-a-vis Advisory regime under Non-Banking Finance Companies regulatory framework. The two different regimes for the same regulated activity with different requirements not only creates disparity and confusion but also results in regulatory arbitrage. Both the regimes envisage independent custody of clients’ assets with regard to portfolio management. Hence, the securities brokers would not be eligible to act as securities advisor as their business model allowed to have custody of their clients’ assets and managing their own portfolio i.e. proprietary trading as well. For the time being, granting of securities adviser licence to securities brokers would be against the basic spirit of advisory regime. However, the securities brokers would be allowed to distribute mutual funds units.

Owing to the fact that there is no difference in the business model and the scope of regulated activities of proposed draft Securities Manager regime vis-a-vis Securities Advisor regime, the draft Securities Manager (Licencing and Operations) Regulations 2017 would not be promulgated.

The Commission has granted approval of reviewed rationalized licensing regime for securities brokers that would be implemented through introducing appropriate amendments in the regulatory framework. The revised regime, once implemented, would contribute in reducing regulatory burden and cost of doing business for our brokerage industry, ultimately promoting ease of doing business.