Press Release

January 29, 2018

For immediate release

SECP amends Securities Brokers Regulations to reduce regulatory burden and promote ease of doing business

ISLAMABAD, January 29: The Securities Exchange Commission of Pakistan (SECP) has introduced amendments to the Securities Broker (Licensing and Operations) Regulations, 2016 notified vide SRO No 77(I)/2018. The said notification and amended regulations are available on the SECP website, i.e. www.secp.gov.pk

The regulations have been amended to reduce regulatory burden and to promote ease of doing business for the brokerage industry, without compromising regulatory objectives.

To promote ease of doing business, instead of multiple mandatory licensing regime, now a securities broker has to obtain a single license to undertake brokerage activity in the capital market.

Moreover, in order to facilitate the brokerage industry as well as front line regulator, i.e. Pakistan Stock Exchange (PSX), a concept of single expiry date for licenses of the entire brokerage industry has been implemented. Consequently, the validity date for the existing brokerage licenses have been extended to December 31, 2018, and the securities brokers may apply for renewal of licenses for the next calendar year by November 30, 2018.

To reduce regulatory burden on the securities brokers, license renewal process has also been simplified and the annual renewal would be processed upon submission of PSX's recommendation along with an undertaking by the securities broker that he is compliant with all the regulatory requirements and deposit of regulatory fee.

Since non-custodial model to carry out securities broker business does not exist, the concept of categorization of securities brokers for licensing purposes has been eliminated. In order to facilitate the brokerage industry participants, the time line to comply with the existing financial resource requirements has been extended from June 30, 2018 to June 30, 2019.

Considering the dynamics of local capital markets, the SECP has decided to grant license to corporate entities only to undertake any regulated activity in the capital markets and not to any individual.

As the brokerage activity can only be undertaken in a corporate structure, the existing concept of agents for securities brokers has become redundant and is no more desirable. Accordingly, the Brokers and Agents Registration Rules, 2001, and the Members Agents and Traders (Eligibility Standards) Rules, 2001, have been repealed and all the existing agents, if already not employed, may be hired as employees by the securities brokers. Moreover, the proposed Accredited Representatives Regulations, 2017, notified for public consultation, have also been withdrawn by the SECP.

Meanwhile, the SECP has also proposed amendments to the Securities and Futures Advisers (Licensing and Operations) Regulations, 2017, notified vide SRO No. 78(I)/2018. The said notification on the proposed amendments has been placed on the SECP's website to elicit public opinion.

The amendments have been proposed to make advisory regulatory regime more practicable and conducive. The mandatory advisory licensing requirement for securities brokers have been withdrawn.

The securities brokers have been allowed to provide securities advisory to their brokerage customers, being incidental to the conduct of their business without receiving any separate compensation thereof. Moreover, the securities brokers have also been allowed to distribute units of mutual funds and voluntary pension funds of multiple assets management companies (AMCs).

The advisory regime has been segregated into two segments, i.e. advisory with portfolio management to be governed under the non-bank finance companies (NBFC) regime whereas advisory with distribution of units of mutual funds and voluntary pension funds of multiple AMCs to be dealt under the amended Securities and Futures Advisers (Licensing and Operations) Regulations, 2017.

Consequently, the proposed Securities Manager (Licensing and Operations) Regulations, 2017, notified for public consultation, have been withdrawn as the advisory business model encompassing portfolio management services is comprehensively covered under NFBC regime. The two different regimes for the same business model with different requirements not only create disparity and confusion but also result in regulatory arbitrage.

In order to help broaden investors' base, banks have been allowed to distribute units of mutual funds and voluntary pension funds of multiple AMCs, subject to certain regulatory requirements. To facilitate the existing distributors, the deadline to obtain license has been extended to June 30, 2018.

The rationalized licensing regime coupled with other measures introduced by the SECP, would definitely contribute in reducing regulatory burden and cost of doing business for the brokerage industry, ultimately promoting ease of doing business.