



**Consultation Paper**  
**on**  
**Amendments in Securities Brokers' Ratings Regime**

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## **Executive Summary**

Under the existing regulatory framework, securities brokers may be required to obtain multiple ratings such as the Entity Credit Rating (ECR) and Broker Management Rating (BMR) to perform various activities. The concept of Broker Fiduciary Rating (BFR) was introduced in 2020 with the aim of having a single ratings regime for securities brokers through phase-wise implementation of the BFR.

The purpose of the current amendments is to give effect to the planned regime by abolishing the requirement for securities brokers to maintain a specific ECR or BMR rating, and prescribing the minimum BFR to be maintained, where applicable. This requires introducing amendments in the Securities Brokers (Licensing and Operations) Regulations, 2016 (“Brokers Licensing Regulations”) and the Public Offering (Regulated Securities Activities Licensing) Regulations, 2017 (“Public Offering Licensing Regulations”). The proposed amendments are summarized below.

- The minimum rating requirement for Trading & Clearing (TC) brokers under Brokers Licensing Regulations shall be changed from ECR of A- to BFR 2.
- The minimum BFR required to be maintained by Trading & Self-Clearing (TSC) brokers under Brokers Licensing Regulations shall be specified as BFR 3.
- The BFR required to be maintained by brokers applying for the license of Consultant to Issue (CTI) under Public Offering Licensing Regulations shall be specified as BFR 3+.
- The brokers applying for the license of Underwriter are presently required to obtain minimum ECR of A- or A2 under Public Offering Licensing Regulations. They may alternatively maintain a minimum of BFR 3++.
- All requirements for brokers to obtain BMR shall be abolished.



## 1. Objective

The objective of this consultation paper is to seek input from market participants and the general public on the proposed regulatory amendments in the ratings regime for securities brokers. The aim of these amendments is to simplify the rating requirements for securities brokers in order to promote efficiency in the capital market.

## 2. Background

Under the existing regulatory framework, securities brokers may be required to obtain three different types of ratings: Entity Credit Rating (ECR), Broker Management Rating (BMR), and the recently introduced Broker Fiduciary Rating (BFR).

ECR is the rating traditionally employed to measure the credit worthiness of an entity. BMR was initially introduced upon promulgation of the Brokers Licensing Regulations on a voluntary basis with the aim to place greater emphasis on management quality and client services compared to ECR. BMR was subsequently made compulsory for obtaining the license of Consultant to Issue (CTI).

BFR combines elements of both ECR and BMR. It was introduced while implementing the new brokerage regime in 2020 with the objective of having a single rating requirement for brokers by eliminating the need for either ECR or BMR.

The existing rating requirements for different categories of brokers under the Brokers Licensing Regulations and the Public Offering Licensing Regulations are summarized below.

- All Trading & Clearing (TC) brokers, and Trading & Self-Clearing (TSC) brokers, are mandatorily required to obtain BFR.
- All TC brokers are further required to maintain ECR rating of A- or better.
- Brokers are encouraged to obtain BMR under securities brokers licensing framework.
- Any broker applying for the license of Underwriter must obtain long-term ECR of A- or better, and short-term ECR of A2 or better.
- Any broker applying for the license of Consultant to Issue (CTI) must obtain either BFR or BMR.

## 3. Proposal

In order to further rationalize the rating requirements for securities brokers, it is proposed to move towards a single rating regime, as planned, based on BFR. The brokers shall be required to obtain the prescribed BFR upon expiration of their existing ECR or BMR rating as appropriate, or within six months from the date of implementation of these amendments, whichever comes later. Hence, their existing ECR and BMR ratings shall remain valid until expiration. The following table summarizes the proposed changes in the rating requirements for brokers.

Table 1: Summary of existing and proposed rating requirements for securities brokers

	Clause/Regulation	Existing Requirement	Proposed Requirement
1	Clauses 7(5)(c) and (d) of Brokers Licensing Regulations	TC brokers to maintain ECR of A- and BFR as may be specified.	TC brokers to maintain BFR not less than BFR 2. ECR requirement to be removed.
2	Clause 7(4)(a) of Brokers Licensing Regulations	TSC broker to maintain BFR as may be specified.	TSC brokers to maintain BFR not less than BFR 3.
3	Regulation 37 of Brokers Licensing Regulations	Brokers may voluntarily obtain BMR on an annual basis.	Requirement to be removed.
4	Clause 2(2)(ii) of Schedule I of Public Offering Licensing Regulations	CTI, in case of a securities broker, to obtain BMR or BFR.	CTI, in case of a securities broker, to have BFR not less than BFR 3+.
5	Clause 2(3)(ii) of Schedule I of Public Offering Licensing Regulations	Underwriter to have ECR not less than A- (long term) and A2 (short term).	Underwriter to have BFR not less than BFR 3++ or ECR not less than A- and A2.

#### 4. Comparative Statement

The existing requirements under the Brokers Licensing Regulations and the proposed amendments, along with the rationale for the respective changes, are tabulated below.

Table 2: Existing regulations and proposed amendments in Securities Brokers (Licensing and Operations) Regulations, 2016 (“Brokers Licensing Regulations”)

Existing Regulation	Proposed Amendment in Regulation	Comments
<p><b>6. Financial Resources Requirement.</b> (1) An applicant for a licence as a securities broker shall comply with and ensure ongoing compliance with minimum paid up capital and net worth of Rupees thirty-five (35) million and net capital balance of Rupees five (5) million.</p> <p>...</p> <p>Provided further that a securities broker with minimum net worth of rupees 250 million, which is a subsidiary of a bank with minimum long-term credit rating of AA- and is compliant with the minimum capital requirements of the State</p>	<p><b>6. Financial Resources Requirement.</b> (1) An applicant for a licence as a securities broker shall comply with and ensure ongoing compliance with minimum paid up capital and net worth of Rupees thirty-five (35) million and net capital balance of Rupees five (5) million.</p> <p>...</p> <p>Provided further that a securities broker with minimum net worth of rupees 250 million, which is a subsidiary of a bank with minimum <del>long term credit rating of AA-</del> <b>Broker Fiduciary Rating of BFR 2</b> and is compliant with the minimum</p>	<p>For a broker which is the subsidiary of a bank, and applying for the license of a TC broker, the credit rating requirement of AA- is proposed to be replaced by “BFR 2” rating in order to eliminate the need for obtaining multiple ratings.</p>



Existing Regulation	Proposed Amendment in Regulation	Comments
<p>Bank of Pakistan, may be issued licence for the Trading and Clearing category if it is in compliance with all other conditions applicable on the Trading and Clearing category.</p>	<p>capital requirements of the State Bank of Pakistan, may be issued licence for the Trading and Clearing category if it is in compliance with all other conditions applicable on the Trading and Clearing category.</p>	
<p><b>7. Requirements for licence under Trading and Self-Clearing and Trading and Clearing categories.</b></p> <p>(4) Applicants opting for the Trading and Self-Clearing category shall comply with the following minimum requirements-</p> <p>(a) It must maintain a minimum Broker Fiduciary Rating, as may be specified by the Commission, from a credit rating company licensed by the Commission and disclose such rating at all times on its website and all advertisements;</p> <p>Provided that in case where the Trading and Self Clearing Broker has not obtained the Broker Fiduciary Rating, the reduced limits of assets under custody as provided in sub-regulation 1B of regulation 6 shall be applicable.</p>	<p><b>7. Requirements for licence under Trading and Self-Clearing and Trading and Clearing categories.</b></p> <p>(4) Applicants opting for the Trading and Self-Clearing category shall comply with the following minimum requirements-</p> <p>(a) It must maintain a minimum Broker Fiduciary Rating, <del>as may be specified by the Commission,</del> <b>of BFR 3</b> from a credit rating company licensed by the Commission and disclose such rating at all times on its website and all advertisements;</p> <p><b><u>Provided that all existing brokers licensed as Trading and Self-Clearing shall obtain Broker Fiduciary Rating within such time as may be specified by the Commission.</u></b></p> <p>Provided <b>further</b> that in case where the Trading and Self Clearing Broker has not obtained the Broker Fiduciary Rating, the reduced limits of assets under custody as provided in sub-regulation 1B of regulation 6 shall be applicable.</p>	<p>The minimum BFR to be maintained by TSC brokers is being prescribed as BFR 3 as part of phase-wise implementation of the single ratings regime for brokers.</p>
<p><b>7. Requirements for licence under Trading and Self-Clearing and Trading and Clearing categories.</b></p> <p>(5) Applicants opting for the Trading and Clearing category</p>	<p><b>7. Requirements for licence under Trading and Self-Clearing and Trading and Clearing categories.</b></p> <p>(5) Applicants opting for the Trading and Clearing category shall</p>	<p>The minimum BFR to be maintained by TC brokers is being prescribed as BFR 2. The requirement to maintain minimum ECR of A- is being deleted in order to implement the single rating regime.</p>



Existing Regulation	Proposed Amendment in Regulation	Comments
<p>shall comply with the following minimum requirements-</p> <p>...</p> <p>(c) it maintains a minimum long term entity rating of (A-) or equivalent from a credit rating company licensed by the Commission and disclose such rating at all times on its website and all advertisements;</p> <p>(d) it maintains a minimum Broker Fiduciary Rating, as may be specified by the Commission, from a credit rating company licensed by the Commission and disclose such rating at all times on its website and all advertisements;</p>	<p>comply with the following minimum requirements-</p> <p>...</p> <p><del>(e) it maintains a minimum long term entity rating of (A-) or equivalent from a credit rating company licensed by the Commission and disclose such rating at all times on its website and all advertisements;</del></p> <p><del>(d)</del><b>(c)</b> it maintains a minimum Broker Fiduciary Rating <b>of BFR 2</b>, as may be specified by the Commission, from a credit rating company licensed by the Commission and disclose such rating at all times on its website and all advertisements;</p>	
<p><b>37. Management rating.</b> The securities brokers licenced under these regulations may obtain management rating on annual basis from a credit rating company licensed by the Commission and disclose such rating at all times on their websites and all advertisements.</p>	<p><del><b>37. Management rating.</b> The securities brokers licenced under these regulations may obtain management rating on annual basis from a credit rating company licensed by the Commission and disclose such rating at all times on their websites and all advertisements.</del></p>	<p>The non-mandatory requirement for brokers to obtain BMR is proposed to be deleted to simplify the ratings regime.</p>
<p align="center"><b><u>Annexure A</u></b> <b><u>Information and Documents to be provided along-with application for licence as a securities broker</u></b></p>	<p align="center"><b><u>Annexure A</u></b> <b><u>Information and Documents to be provided along-with application for licence as a securities broker</u></b></p>	
<p>4.12A Entity rating of the applicant, where applicable.</p> <p>4.12B Broker Fiduciary Rating of the applicant, as may be applicable.</p>	<p><del>4.12A</del>Entity rating of the applicant, where applicable.</p> <p>4.12B Broker Fiduciary Rating of the applicant, as may be applicable.</p>	<p>Since Entity Credit Rating is no longer required to be maintained by securities brokers, it is being removed from the list of documents to be submitted along with the licensing application.</p>

The existing requirements under the Public Offering Licensing Regulations and the proposed amendments, along with the rationale for the respective changes, are tabulated as follows.



Table 3: Existing regulations and proposed amendments in the Public Offering (Regulated Securities Activities Licensing) Regulations, 2017 (“Public Offering Licensing Regulations”)

Existing Regulation	Proposed Amendment in Regulation	Comments
<p><b>SCHEDULE 1</b> [See regulation 4] <b>Eligibility criteria for license</b></p>		
<p>2. Specific Conditions: (2) Consultant to the issue: ... (ii) in case of a securities broker, it has obtained management rating or a broker fiduciary rating from a credit rating company licensed by the Commission;</p>	<p>2. Specific Conditions: (2) Consultant to the issue: ... (ii) in case of a securities broker, it has obtained <del>management rating or</del> a <b>minimum</b> broker fiduciary rating <b>of BFR 3+</b> from a credit rating company licensed by the Commission;</p> <p><b><u>Provided that all existing securities brokers licensed as Consultant to the Issue shall obtain Broker Fiduciary Rating within such time as may be specified by the Commission.</u></b></p>	<p>BMR is proposed to be replaced with BFR 3+ as a requirement for securities brokers applying for CTI license, in order to have a single ratings regime for the brokers.</p>
<p>2. Specific Conditions: (3) Underwriter: ... (ii) its credit rating, assigned by a credit rating agency licensed by the Commission, is not less than A- (long Term) and A2 (short term).</p> <p>Provided that a Trading and Self-Clearing category securities broker with a minimum Broker rating as may be specified by the Commission shall be eligible for the purposes of sub-regulation (5) of regulation 3 of the Public Offering Regulations, 2017 subject to the condition that the amount to be underwritten shall not exceed</p>	<p>2. Specific Conditions: (3) Underwriter: ... (ii) <b><u>either</u></b> its credit rating, assigned by a credit rating agency licensed by the Commission, is not less than A- (long Term) and A2 (short term) <b><u>or its broker fiduciary rating, assigned by a credit rating agency licensed by the Commission, is not less than BFR 3++.</u></b></p> <p>Provided that a Trading and Self-Clearing category securities broker <del>may</del> be specified by the Commission shall be eligible for the purposes of sub-regulation (5) of regulation 3 of the Public Offering Regulations, 2017 subject to the condition that the amount to be underwritten shall not exceed three</p>	<p>As an alternative to maintaining the prescribed Entity Credit Rating, the applicant may maintain BFR 3++. This option has been provided to facilitate the brokers seeking to obtain only a single type of rating.</p>





Existing Regulation	Proposed Amendment in Regulation	Comments
three times of networth of such securities broker and such other conditions as may be imposed by the Commission.	times of networth of such securities broker and such other conditions as may be imposed by the Commission.	
<b>Annexure-I LIST OF DOCUMENTS TO BE SUBMITTED ALONGWITH APPLICATION UNDER REGULATION 5(1) FOR LICENCE</b>		
3. latest Credit Rating/Broker Management rating/Broker fiduciary rating (where applicable) from a credit rating company duly licensed by the Commission.  4(viii) Latest Credit Rating/management rating (where applicable) from credit rating company duly licensed by the Commission.	3. latest Credit Rating/ <del>Broker Management</del> rating/Broker fiduciary rating (where applicable) from a credit rating company duly licensed by the Commission.  4(viii) Latest Credit Rating/ <del>management rating</del> <b>Broker Fiduciary Rating</b> (where applicable) from credit rating company duly licensed by the Commission.	Since BMR is proposed to be eliminated, it is being removed from the list of documents to be submitted along with the licensing application for CTI, underwriter, banker to an issue, and debt securities trustee.

## 5. Feedback

The feedback/comments on the proposed changes may be shared with the Commission as per the format below within 14 days.

Table 4: Format for submission of feedback on proposed amendments

Name of the Commenter			
Name of the related Entity			
Sr. No.	Regulation/Section No.	Proposed Changes	Rationale
<b>Confidentiality</b>			
I wish to keep the following confidential:	<i>(Please indicate any parts of your submission you would like to be kept confidential, or if you would like your identity to be kept confidential. Your contact information will not be published.)</i>		