

PART II
Statutory Notifications (S.R.O.)
Government of Pakistan
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTIFICATION

Islamabad, the 15th October, 2015

S.R.O. 889(I)/2015. In exercise of powers conferred under clause (ii) of sub section (2) of section 169 of Securities Act, 2015 (Act No. III of 2015), the Securities and Exchange Commission of Pakistan hereby makes the following regulations, the same being previously published in the Official Gazette Vide S.R.O.889 / 2015 dated September 01, 2015 and also placed on its website as required under sub section (4) of the said Act, namely,-

CHAPTER I
PRELIMINARY

- 1. Short title and Commencement.-** (1) These Regulations shall be called the Joint Inspection Regulations, 2015.
- (2) They shall come into force at once.
- (3) They shall apply to;
- (i) the Securities Brokers of all Securities exchanges in Pakistan;
 - (ii) the Broker Participants;
 - (iii) the Broker Clearing Members of NCCPL;
 - (iv) the employees, officers, directors and management of Securities Brokers of the Securities exchanges, Broker Participants and Broker Clearing Members of NCCPL;
 - (v) the members of Oversight Committee;
 - (vi) the members of the Inspection Team including manager and supervisor; and
 - (vii) the employees of the SROs, as the case may be, who perform the enforcement related activities under respective regulatory framework.

2. **Definitions.**- (1) In these Regulations unless there is anything repugnant in the subject or context,-
- (a) "Act" means the Securities Act, 2015 (Act No. III of 2015);
 - (b) "Articles" means the Articles of Association of the SROs;
 - (c) "Branch office" means an office, or branch thereof, opened and maintained by a Securities Broker within or outside the premises of a securities exchange for conducting the business and trading of securities;
 - (d) "Broker Clearing Member" (BCM) shall have the same meaning as assigned to it in the NCCPL Regulations 2003;
 - (e) "CDC Act" means Central Depositories Act, 1997;
 - (f) "CDS" means the Central Depository Systems established and operated by the Central Depository;
 - (g) "Central Depository" shall have the same meaning as assigned to it under clause (vi) of section 2 of the Securities Act, 2015;
 - (h) "Central Depository Regulations" means Central Depository Company of Pakistan Limited Regulations for the time being in force;
 - (i) "Commission" means the Securities and Exchange Commission of Pakistan established under section 3 of the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997);
 - (j) "CRO" means Chief Regulatory Officer of the Securities exchange;
 - (k) "Days" wherever used means calendar days;
 - (l) "Demutualization Act" means the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012;
 - (m) "House Account" means the house account as defined and prescribed under the Regulations of Central Depository as amended from time to time;
 - (n) "Joint Inspection" means inspection of Securities Brokers carried out under these regulations;
 - (o) "Inspection Team" means Inspection Team constituted by the Committee under these regulations;
 - (p) "Inspection Report" means the Inspection Report submitted by the Oversight Committee under these Regulations;
 - (q) "ISE" means Islamabad Stock Exchange Limited;
 - (r) "KSE" means Karachi Stock Exchange Limited;
 - (s) "LSE" means Lahore Stock Exchange Limited;

- (t) "NCSS" means the National Clearing and Settlement System of the NCCPL established and operated by NCCPL under NCCPL Regulations and NCSS Procedure made thereunder;
- (u) "NCCPL" means National Clearing Company of Pakistan Limited;
- (v) "NCCPL Regulations" means the National Clearing Company of Pakistan Limited Regulations, 2003;
- (w) "Non-Broker Clearing Member" shall have the same meaning as ascribed thereto in the NCCPL Regulations;
- (x) "Ordinance" means Securities and Exchange Ordinance, 1969;
- (y) "Oversight Committee" means a Committee constituted under these regulations;
- (z) "participant" shall have the same meaning as is assigned to it in clause (17) of section 2 of the Central Depositories Act, 1997 (XIX of 1997);
- (aa) "Regulations" means Joint Inspection Regulations, 2015;
- (bb) "Regulations of the Securities exchange" means and include regulations made by the Securities exchanges and approved by the Commission under Section 34 of the Ordinance and Section 169 of the Securities Act, 2015;
- (cc) "SECP Act" mean Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997);
- (dd) "SECP Rules" means the Securities and Exchange Rules, 1971;
- (ee) "Secretary" means secretary of the Oversight Committee;
- (ff) "SRO" means Self-Regulatory Organizations and includes all Securities exchanges, Central Depository and NCCPL;
- (gg) "Sub-Account" means a sub-account as defined under the Central Depository Regulations, as amended from time to time; and
- (hh) "Team Member" means member of Inspection Team as defined under these regulations.

(2) All words and expressions used but not defined in these Regulations shall, have the same meaning as assigned to them in the Act, SECP Act, the Ordinance, the Companies Ordinance, 1984 and the CDC Act or any rules and regulations made thereunder.

CHAPTER II

THE PROCEDURE FOR JOINT INSPECTION

3. Joint inspection of Securities broker.- (1) The Joint Inspection will be carried out by joint inspection team of SROs as per the requirements of these regulations;

(2) The Oversight Committee may order Inspection of books and record required to be maintained by a Securities broker of Securities exchange under respective rules and regulations.

(3) All Securities brokers of the Securities exchanges shall be liable for Inspection under these Regulations. For the purpose of this clause, the selection criteria shall be assessed by the Oversight Committee at the start of each quarter.

4. Process for issuance of inspection order.- (1) The Oversight Committee shall determine the total number of Securities brokers for Inspection at the start of the each quarter on the basis of available information and details using risk based approach as per the requirement of this regulations.;

(2) The Oversight Committee may assign risk based rankings to Securities brokers by giving appropriate weightage to the factors including but not limited to the following at the start of each quarter:

- (a) net Capital Balance of Securities broker;
- (b) number of UINs registered with the Securities broker;
- (c) assets under Custody of the Securities broker;
- (d) volume of trades in terms of quantity and amount;
- (e) number of erroneous transactions carried out/rectified;
- (f) number of NDM Transactions;
- (g) number of complaints outstanding against the Securities brokers;
- (h) history of Non-compliances or irregularities identified during last system audit, Central Depository inspection or inspection carried out by the Commission;
- (i) financial statements analyses of Securities brokers;
- (j) any news in electronic or print media; and
- (k) any other factor which could impact investors' rights and functioning of the securities market.

(3) The cumulative weight should be used to assign risk based ranking and Oversight Committee shall use the latest available data for this purpose and the process shall be repeated at the start of each quarter.

(4) On the basis of above categorization, Securities brokers with the highest risk rankings shall be selected by the Oversight Committee for Inspection at the start of each quarter;

(5) The decision of the Oversight Committee regarding selection of securities broker shall be binding on the respective Securities brokers.

(6) The Securities brokers selected for joint inspection shall be excluded from the forthcoming balloting Cycle of system audit of respective securities exchange in which the said securities broker was required to be considered for selection and the same broker will also be excluded from the forthcoming inspection of CDC.

(7) The Securities brokers selected by Oversight Committee for inspection and data and basis used including related workings for its selection shall be communicated to the Commission by the Oversight Committee on immediate basis.

5. Inspection notice.- (1) The Oversight Committee shall give a fifteen days prior notice to the Securities broker selected for the purpose of Inspection as per the format attached herewith as **Appendix-I:**

Provided that not more than seventy five per cent (75%) of the total number of Securities Brokers selected under regulation 4(1) may be given prior notice and the decision, whether or not to serve the notice, shall be made by the Oversight Committee considering the risk based rankings assigned to Securities Brokers under regulation 4(2) of the regulations and in all cases, Inspections of at least twenty five (25%) of the Securities Brokers will be conducted without prior notice. The Oversight Committee shall record in writing reasons and basis of such decision and report the same to the Commission.

(2) The Oversight Committee shall appoint two or more officials of SROs as Inspectors to inspect the books and record of the Securities brokers. The inspection team shall at least include one official from central depository.

(3) The Inspection request communication shall be issued by the inspector which may at least include the minimum list of documents/information/details as specified in **Appendix-II** or may include a comprehensive list of documents that are required to be made available by the selected Securities broker at the start of the Inspection. The selected Securities brokers shall be liable to ensure the availability of the documents on the date of commencement of Inspection as notified.

(4) Such Securities brokers shall provide required access to the information and documents needed by the inspector for the Inspection and co-operate with the inspector for timely and smooth completion of the Inspection.

6. Scope of Inspection.- (1) The Inspection Team shall carry out the Inspection to ensure compliance with the requirements of the Act, the Ordinance, the Securities and Exchange Rules, 1971, the Code of Conduct for Brokers as enshrined in the Third Schedule of the Brokers and Agents Registration Rules, 2001, Rule Book of KSE, Regulations of LSE and ISE (whichever is applicable), Regulations of Central Depository and NCCPL, Central Depository Act, Demutualization Act, Securities and Exchange Commission of Pakistan Act, 1997 and any other relevant rules/regulations of the Commission, and directives/ circulars/ guidelines issued by the Commission / Securities exchange / Central Depository / NCCPL:

Provided that the scope of Inspection shall at least include the minimum activities as specified in **Appendix III** or as may be prescribed by the Commission from time to time under the Act.

7. Inspection Period.- The Inspection period shall be at least one year which may be most latest financial year or calendar year at the time of issuance of Inspection Notice:

Provided that the inspection period may be more or less than one year if considered expedient by the Oversight Committee.

8. **Team Mix.** - (1) The Inspection shall be carried out by the Inspection Team comprising of members from SROs. The Manager and/or Supervisor of the Inspection Team shall be from respective securities exchange. The Managers and Supervisor of the inspection team shall be from the securities exchange where the respective broker has most actively carried out business in the review period.

(2) Illustration of Team Mix:

S #	Broker Type	Joint Inspection Teams
1	Securities broker of KSE	KSE + CENTRAL DEPOSITORY + NCCPL
2	Securities broker of LSE	LSE + CENTRAL DEPOSITORY + NCCPL
3	Securities broker of ISE	ISE + CENTRAL DEPOSITORY + NCCPL

9. **Inspection Procedures.**- (1) The Inspection Teams shall carry out the inspection in accordance with the scope defined in these Regulations and submit its Report as per the format specified in **Appendix V** to the Oversight Committee within 75 days from their appointment including the views, counter views and comments of the Securities brokers as well as Inspection Team. The Oversight Committee shall forward to the Commission as well as to respective SRO copies of the Inspection Reports along with comments of Oversight Committee, if any, on the discrepancies/observations, within 30 days of receipt of the Reports from the Inspection Teams. The Oversight Committee shall also forward its adjudication recommendation note to respective SRO on each observations/non-compliances identified by the inspection team in their inspection report. For the purpose of clarity respective SRO means and include SRO(s) whose rules or regulations have been violated by the inspected Securities brokers as identified by the inspection team in their inspection report:

Provided, that, if the Report highlights any material non-compliance by the Securities broker, the Oversight Committee shall forward such Report to the Commission immediately. The Oversight Committee shall exercise judgment in determining the severity of non-compliance in the context of protecting the interest of the Investors and reputation of the Securities exchange and capital market.

(2) The Inspection Team shall ensure that the Securities broker has rectified non-compliances identified in the previous Report and specify the areas along with the reasons where the Securities broker has not been able to rectify the non-compliance(s), if any.

(3) The Inspection Team shall ensure that the Inspection is carried out in a fair, just, efficient and transparent manner.

10. Human Resource Requirement for Inspection.- (1) The Oversight Committee shall determine number of Inspection staff, their qualifications, education and/or experience level required from each SRO.

(2) The Inspection staff required to carry out Inspection under these regulations shall include staff of different level including manager, supervisor and field staff.

(3) The Oversight Committee shall coordinate and liaise with respective SRO to ensure timely availability of required number of Inspection staff for smoothly conducting the Inspection under these regulations.

(4) Manager and supervisor level staff shall be from Securities exchange.

(5) An Inspection Team may comprise of two or more members or as may be determined by the Oversight Committee and at least one member of the inspection team should be from Central Depository.

(6) Staff engaged in conducting Inspection under these regulations shall be an employee of SRO and shall be engaged in conducting Inspection under these regulations as determined by the Oversight Committee from time to time considering materiality and confidentiality factors.

(7) All SROs shall ensure to provide required number of respective staff as determined by the Oversight Committee from time to time.

11. Availability of work place for Inspection.- (1) The Oversight Committee shall determine the work place to carry out the inspection and its related works and ensure availability of necessary logistic support required from respective SRO.

(2) The Oversight Committee shall coordinate and liaise with respective SRO to ensure timely availability of required work place, and necessary logistic support referred in 11(1) above for smoothly conducting the Inspection under these regulations.

(3) The Securities Exchange shall ensure to provide sufficient work place including maintenance of central database for joint inspection at its premises.

(4) The SROs shall ensure to provide necessary logistic support as determined by the Oversight Committee from time to time.

12. Inspection planning.- The manager/supervisor of Inspection Team shall be responsible for planning, execution and completion of Inspection work of the selected Securities brokers within the time as prescribed in these regulations.

13. Comments on observations or findings.- (1) The Inspection Teams shall forward its findings through a letter on the format specified in **Appendix IV** to the relevant Securities broker within forty five days of commencement of the Inspection.

(2) The Securities broker shall respond or submit its comments on findings of Inspection Team within fourteen days of receipt of letter of findings.

14. Limited Scope Inspection.- (1) If the Inspection Report forwarded by the Oversight Committee to the Commission and respective SRO contains any non-compliance(s), the Securities broker shall rectify the same immediately and such Securities broker shall be subject to limited scope Inspection in the same / following year to confirm that it has rectified the non-compliances reported by the Inspection Team.

(2) The period for limited scope Inspection shall not be less than three months from the date of completion of the last Inspection in order to ensure that discrepancies identified in the Report are rectified and the Securities broker has remained compliant during the said period.

(3) The decision of limited scope Inspection of a non-compliant Securities broker shall be taken by the Oversight Committee.

(4) The Oversight Committee may require the Inspection Teams to initiate limited scope Inspection of a Securities broker, and the inspection team will be required to report to the Oversight Committee rectification status within thirty days from the date of initiation of limited scope inspection.

(5) The Oversight Committee shall issue Inspection notice at least seven days in advance to the concerned Securities broker.

(6) The Oversight Committee shall provide a copy of such report of limited scope Inspection to the Commission and/ or respective SRO within fifteen days of receipt of the Inspection Report from the Inspection Team.

(7) The limited scope Inspection shall not alter or affect the Securities broker's normal selection process.

15. Reporting Templates.- (1) Inspection Team shall submit their findings through a report as per formats specified in **Appendix V** which shall include relevant and necessary details of all queries raised during the Inspection including queries resolved together with the details how those queries were resolved.

(2) The inspection team will be required to use or follow the specified format or templates to document and report their inspection work.

16. Fee Structure.- (1) The SRO engaged in conducting inspection of Securities broker under these regulations shall be entitled to charge Inspection fee as determined by oversight committee from time to time.

(2) The Oversight Committee shall liaise with respective Securities broker being inspected for payment of inspection fee.

(3) For collection of inspection fee, the respective Securities exchange shall issue the invoice to respective Securities broker.

(4) In respect of collection of Inspection fee, a separate bank account shall be opened by each Securities exchange where amount of fee received from the Securities brokers shall be deposited for onward payment of proportionate amount of fee to Central Depository and NCCPL.

(5) The manner, mechanism and ratio to proportionate the fee between respective SROs shall be determined by the Oversight Committee. The Oversight Committee shall communicate its decision in this regard in writing to the Commission on immediate basis.

(6) The Securities broker being inspected shall pay/reimburse all the fees, charges and costs of the Auditors/respective SRO. The said fees, charges and costs shall be deposited with the respective Securities exchange within fifteen days of receipt of invoice by the Securities broker and no separate fee will be charged for limited scope Inspection.

17. **Special Inspections:** In addition to the regular Inspections conducted under these Regulations, the Oversight Committee may, at any time, instruct Inspection Teams to inspect a Securities broker with expanded, restricted or different scope or period of Inspection given in these Regulations. The cost of any such inspections, including but not limited to a financial audit and a regulatory compliance Inspection shall be paid by the Securities broker.

CHAPTER III OVERSIGHT COMMITTEE

18. **Formation of Oversight Committee.-** (1) The Commission shall constitute an "Oversight Committee" comprising of members from each SRO to provide overall supervision and direction for conducting joint inspection and to liaise with the Commission for all joint inspection related matters.

(2) Each SRO shall nominate its CRO, Chief Compliance Officer “CCO” or the Chief Compliance and Risk Officer “CCRO”, as the case may be, as their representative on the Committee.

(3) Each SRO shall also provide the names and designations of the persons that will represent them on the Committee in the absence of the CRO, CCO or the CCRO and such person nominated by the SRO shall have a senior management level of experience in operations, audit, finance or compliance.

(4) The Commission shall appoint the Chairman of the Oversight Committee from its members who shall hold the office for a period of at least two years from the date of appointment or a shorter period as determined by the Commission.

(5) The Commission shall also appoint a Secretary of the Committee from any senior officials of the Securities Exchange for a period of two years who shall be responsible for arranging the Committee meetings, preparing and circulating the agenda and working papers for the meeting and recording the minutes of the meetings. The Commission may reduce/change the term of appointment of the chairman and/or secretary of the Oversight Committee if the Commission so desire to improve the performance and efficiency of the Oversight Committee or otherwise as the case may be. The Secretary may not be the member of Oversight Committee.

(6) All the minutes of the meeting and the joint inspection reports shall be kept in safe custody at a dedicated place and the Committee shall be empowered to determine the place where the records and minutes shall be kept. The Commission shall be informed about the place where the Reports and minutes have been kept.

(7) The quorum for the Committee meeting shall be one member representing any of the three Securities exchanges, one member from NCCPL and one member from Central Depository. However, where any matter relating to joint Inspection of a member of a particular SRO is on the agenda, then presence of the representative of such SRO shall be compulsory.

(8) The Committee shall meet at least once on a monthly basis provided that the Chairman of the Committee may call more than one meeting on the request of any of the SRO for reasons to be recorded.

19. Powers and responsibilities of the oversight committee.- The Oversight Committee and all its members shall have following responsibilities:

- (a) Overall supervision of the joint inspection regime;
- (b) appoint, save as provided in sub-clause 5(2), the inspectors and issue Inspection notice for commencement of Inspection;
- (c) review the joint scope of Inspection every six month to ensure that it is comprehensive and covers all the critical areas;
- (d) review and approve the selection criteria for the joint inspection on continuous basis;
- (e) ensure that the selection criteria take into account all the relevant factors that will result in selection of topmost brokers from the list of brokers updated on quarterly basis using risk based approach;
- (f) review and approve the quarterly Inspection plan prepared by the joint inspection team;
- (g) ensure timely execution of the quarterly Inspection plan during its monthly meetings;
- (h) review the progress of the Inspection of the Securities brokers selected for Inspection during the quarter;
- (i) ensure the adequacy of the reporting templates and recommend changes therein for improvement from time to time with the prior approval of the Commission;
- (j) provide guidance and assistance on technical matters as and when required by the Inspection Team;
- (k) review all the Inspection Reports containing the observations, comments of the relevant Securities broker, comments of Inspection Team and the action(s) proposed by the Inspection Team;
- (l) discuss, where appropriate, the report with the relevant Inspection Team;
- (m) provide its comments, if any, on observations / recommendations given in the Inspection Report;

- (n) direct, where appropriate, the Inspection Team to provide documentary supports for the reported observations;
- (o) direct the Inspection Teams to further investigate any area of concern highlighted during the review performed by the Oversight Committee;
- (p) summon the team leader, manager, supervisor and member of the Inspection Team for discussion on the Report;
- (q) ensure adequacy of relevant human resource from each SRO and their proper allocation in teams;
- (r) call for the special Inspection of a Securities broker which was inspected during the year under these regulations;
- (s) appoint, if deemed necessary, an audit firm for conducting special Inspection under these regulations at the cost to be borne by the securities broker;
- (t) review the fee structure for the Inspection on an annual basis and make necessary recommendation to ensure development of an optimal fee structure with prior approval of the Commission;
- (u) ensure availability of proper work place and necessary logistic supports to carry out the inspection under these regulations by coordinating with respective SRO in this regard;
- (v) forward copy of Inspection Reports to the Commission and to respective SRO containing comments on each observation by respective Securities broker and counter comments/views of the Inspection Team along with views or comments if any of the Oversight Committee;
- (w) form sub-committee(s) for performing any role or functions relating to Joint Inspection and determine its terms and conditions;
- (x) submit status report to the Commission on joint inspection on quarterly basis on the format provided in Appendix VII along with minutes of meetings of the oversight committee and its subcommittees. Where a member of Oversight Committee is of the view that his dissenting note has not been satisfactorily recorded in the minutes of meetings of the Oversight Committee and/or sub-committee of Oversight Committee, he may refer the matter to the Secretary. The member may require the note to be appended to the minutes, failing of which he may file an objection with the Commission in the form of a statement to that effect within thirty days of the date of confirmation of the minutes of the meeting;

- (y) ensure confidentiality of available data, information/details pertaining to joint inspection and in this regard may determine standardized operating procedures including nature of printer to be used, printing methodology and procedures;
- (z) prepare, determine, adopt and suggest any procedures, formats, manuals for the purpose of the inspection from time to time;
- (aa) establish central data base of information and details for selection of Securities brokers for joint inspection including procedures pertaining to access to its data base, its authorization, maintenance of access log;
- (bb) central data base maintained by the Oversight Committee should also include necessary details and history of enforcement actions against Securities brokers by SROs and the Commission;
- (cc) to determine and introduce code of conduct for inspection team including its manager and supervisor;
- (dd) arrange and manage orientation and training for inspection teams; and
- (ee) any matter as assigned by the Commission.

20. Obligations of a Securities broker.-(1) Every director, officer, employee, sponsor, representatives and major shareholder of a Securities broker being inspected shall produce such books of accounts, record and other documents under its custody or control with information relating to transaction in securities market within such time as may be required by the person inspecting the record.

(2) A Securities broker shall allow a person carrying out Inspection to have reasonable access to the premises occupied by it or any other person on its behalf and also extend reasonable facility for examining any books, record, documents computer data in possession of the Securities broker or any other person and also provide copies of documents or other materials which, in the opinion of the person carrying out the Inspection are relevant.

CHAPTER IV

ENFORCEMENT AND HEARING

21. Action on findings. (1) If the Inspection Report identifies any non-compliance(s) including that of the CDC Act, Articles, Rules, Regulations and directives/ notices/ circulars/

guidelines of the Central Depository, NCCPL and/or Securities exchange, the respective SRO(s), as the case may be, may, after giving the Securities broker, an opportunity of being heard and considering the severity and materiality of the non-compliances, take appropriate enforcement action under its regulatory framework;

Explanation: For the purposes of these regulations the expression “regulatory framework” means CDC Act, Rules, Regulations, Guidelines, Directives, Circulars, etc. of NCCPL, Securities Exchange(s), and CDC.

(2) If a Securities broker fails to provide the documents as per the list included in the Inspection Notice issued and/or any other communication by the inspector in this regard under regulation (5) of these Regulations at the commencement of the Inspection or fails to co-operate with the inspector/Inspection Team including failure to provide the documents required during the course of Inspection, the Oversight Committee shall, upon receiving a written complaint from the inspector through its Secretary, refer the matter to respective securities exchange to call a hearing of the Securities broker and the Securities exchange may issue a warning letter or may impose a penalty not exceeding Rs.50,000 per day during which the default continues on the said Securities broker. If the Securities broker, subsequent to the imposition of the said penalty fails to cooperate with the inspector or fails to pay the penalty, the Oversight Committee shall refer the matter to respective securities exchange for initiation of disciplinary actions against non-compliant Securities broker as per law. The entire penalty amount recovered by the respective Securities broker shall reimburse to the Commission on immediate basis and will be utilized as per applicable law

(3) If the Securities broker fails to pay the audit/inspection fees and charges within the specified time, the Oversight Committee shall refer the matter to respective securities exchange and the securities exchange may impose a penalty on such Securities broker as it may deem fit.

(4) Where the inspector/Inspection Team appointed under these Regulations to conduct inspection, fails on account of intentional misconduct to discharge its duties or does not carry out the Inspection in accordance with the scope of the Inspection on account of the aforesaid reason, the Oversight Committee shall refer the case to respective SRO to initiate such action

against the inspector/Inspection Team as deemed appropriate by the SRO in the interest of the capital markets and may remove the inspector from the panel.

22. Where the Oversight Committee or any of its members fails to discharge its/his duties or does not carry out the inspection in accordance with the provisions of these regulations on account of intentional misconduct, the Commission may on its own or on receiving any complaint after giving due opportunity of hearing to the member of the Oversight Committee, impose penalties as provided under the law and such other necessary action against such member as it may deem fit for such intentional misconduct.

23. Where the Securities Exchange, Central Depository, NCCPL or any of its employees, officers, directors including, where the context so permits, Board, any Committee, sub-committee to whom any function of the securities exchange may for the time delegated fails to discharge its/his duties or does not carry out the enforcement action(s) in accordance with the provisions of these regulations on account of intentional misconduct, the Commission may on its own or on receiving any complaint after giving due opportunity of hearing to the employees, officers, directors including members of Committee, sub-committee of Securities Exchange, Central Depository, NCCPL, impose penalties as provided under the law and such other necessary action against such employees, officers, directors and respective member as it may deem fit for such intentional misconduct.

24. **Appeals.** - Except as otherwise provided, any person aggrieved by an order passed by the Commission or the respective SRO, may within thirty days of the order, file an appeal to an Appellate Bench of the Commission or Disciplinary Tribunal/Relevant Authority of the SROs, as the case may be, against an Order passed by the Commission and/or the SRO, as provided under the law.

CHAPTER V

CONFIDENTIALITY OF INFORMATION

25. **Obligation of confidentiality.**- (1) Subject to this section, any person who is or was at any time-

(a) acting as a member of Oversight Committee;

- (b) engaged as a member of the Inspection Team; or
- (c) authorized to perform or exercise any function or power of the Inspector under these regulations,

shall not, except to the extent necessary to perform his official duties, or in performance or exercise of such a function or power, either directly or indirectly, make a record of, or disclose to any person, any information that is or was acquired by him because of having been so appointed, engaged or authorized, or make use of any such information, for any purpose other than the performance of his official duties or the performance or exercise of that function or power.

- (2) The Oversight Committee may determine the procedure in this regard.

CHAPTER VI

MISCELLANEOUS

26. Maintenance of Inspection Record. - (1) The information and details (in soft or hard form) obtained by the Inspection Team during Inspection under these regulations shall be maintained at the premises provided by the Securities Exchange with appropriate staff/ resources from the Securities Exchange under the supervision of Secretary and retained in working paper file;

(2) All working paper files prepared during inspection under these regulations shall be submitted to the Secretary;

(3) The Secretary shall preserve the Inspection files under safe custody;

(4) The information/details/data/explanation obtained during Inspection under these regulations are required to be maintained at least for a period of five years from the completion of Inspection; and

(5) The Secretary shall be responsible to provide information and details/data pertaining to Inspection conducted under these regulations as and when required by the Commission.

(6) The Secretary shall also be responsible to maintain central database of inspections with assistance from Securities Exchange, pertaining to Inspections conducted under these regulations.

27. Penalty.- Whoever fails or refuses to comply with, or contravenes any provision of these Regulations shall be punishable with a penalty as provided under the Act.

Appendix I

NO. INSPECTION/-.....

Dated:

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INSPECTION NOTICE

**INSPECTION OF M/S ----- TREC HOLDER OFSTOCK
EXCHANGE LIMITED**

**UNDER REGULATION ...OF JOINT INSPECTION REGULATIONS 2015 ISSUED
BY SECURITIES & EXCHANGE COMMISSION OF PAKISTAN UNDER SECTION
40 OF SECURITIES AND EXCHANGE ACT, 1997**

In exercise of the powers conferred upon Regulation ...of the Joint Inspection Regulations 2015, I hereby appoint the following officials as inspectors to conduct an inspection of M/s('Inspectee Securities broker'):

	<u>Name</u>	<u>Designation</u>	<u>Status in inspection team</u>
1)	(Team Member/Manager)
2)	(Team Member/Supervisor)
3)	(Team Member)
4)	(Team Member)
5)	(Team Member)
6)	(Team Member)

The scope of inspection shall extend to examination of books and records required to be maintained by the Inspected Broker and to check compliance of the applicable Laws, Rules and Regulations. In the course of the inspection, the inspectors will cover the period fromto ('Review Period'), however, if required the inspectors may examine any record prior and/or after the review period. Through this Notice a fifteen days' notice is hereby given to the Inspected Securities broker as required under clause5 of the Joint Inspection Regulations. The inspectors will commence the inspection work from at your registered/corporate office located at and may visit other offices/branches as and when required.

All the officials of the Inspected Securities broker are hereby directed to furnish all information that may be required by the inspectors for the purpose of the inspection and to co-ordinate with the inspectors in all respects. Please note that failure to co-operate with Inspection Team shall render such person liable under the law.

Given under my hand and seal of this office on

(.....)
**Chairman Oversight
Committee**

The Chief Executive Officer, (of Inspectee)

.....,
.....

Copy forwarded to:

All concerned Officers

Appendix II

Draft Information Request Letter

NO.

Date:

The Chief Executive Officer,
-----,

SUBJECT: INFORMATION REQUEST

Dear Sir,

This is with reference to Inspection Order No.dated Please ensure that the following records, books of accounts, papers and other documents are available for inspection on

Back Office

1. Copy of latest Net Capital Balance Certificate (NCB) along with acknowledgment for submission of the same with the securities exchange.
2. Soft copy of NCB and its working/breakup in respect of each head of account appearing therein.
3. Working of weekly Net Capital Balance for the first week of
4. Soft copies of Adjusted Trial Balance as on and
5. Soft copies of all General Ledgers and all Client Ledgers for the period fromto
6. Soft copy of client-wise Securities Balance Report as onand.....

CDS

1. Soft copy of client-wise Central Depository Activity Report for the period fromto
2. Soft copy of client-wise Central Depository Balance Report as onand
3. Soft copy of Pledge Report of House/Sub-accounts for the period fromto
4. Soft copy of Central Depository Activity Report of Collateral Account for the period fromto

5. Soft copy of Email Status Report generated from Central Depository System for the period fromto
6. Soft copy of Central Depository and back office reconciliation/comparison report as on
7. Evidence of sending Quarterly Securities Balance Statement to the Sub-Account Holders during the period fromto

General

1. Soft copy of complete UIN report as on
2. Soft copy of UIN report of Employees as on&
3. Soft Copy of list of employees specifying their CNIC numbers and designations as onalong with acknowledgment for submission of the same with the securities exchange.
4. Details of employees, along with their CNIC numbers and designations, left duringto
5. Written authorization and undertaking is required in respect of employees trading, as prescribed in code of conduct for trading by employees in the regulations of the securities exchange.
6. Details of Settling Bank and other bank accounts (with Back office Codes, Title of account & Account no.) being maintained for keeping clients' funds and its balances as onand
7. Details of banks accounts, its balances as on.....andtogether with back office codes.
8. Details of loan/finance facilities obtained by the company from the banks/financial institutions.
9. Copies of all policies and procedures prepared by the securities broker.
10. List of agents as on (Including agents left during the inspection period) along with copies of agreements with them specifying the scope of authority and responsibilities of the Broker and agent.
11. List of associated entities/persons of the Securities broker, if any.
12. Details of all KATS and BATS including DR terminal installed at all locations.
13. Documentary evidence of compliance of circular 34 of 2009 pertaining to ICM certification.
14. Copy of the intimation filed with the securities exchange regarding nomination of Compliance Officer.

15. Sub Lease/Rent Agreements of branches, if any.
16. Details of complaints outstanding, if any.
17. Name, Designation, email, cell phone number, land line number of the person who will co-ordinate with the inspection team.
18. List of clients opted for UIN Information system (UIS) of NCCPL through your securities broker.
19. Copies of research reports prepared by the securities broker during last month of
20. Latest audit report under Internet trading regulations.

The above requirements are not conclusive and the inspection team may require additional information/data/documents/explanations to ensure the compliance status of your securities broker with the applicable Regulatory Framework.

Please also make available all information and details as per regulatory requirements pertaining to Standardized Account Opening Forms (SAOF) and Central Depository Sub Account Opening Forms of clients which will be verified by the inspection team during inspection on sample or total basis as the case may be.

Yours truly,

Appendix III

S.NO	SCOPE OF JOINT INSPECTION
	<i>Client Registration And Verification:</i>
1.1.	The Brokers comply with the requirements of Clause 4.17. of the KSE Regulations and the Standardized Account Opening Forms (SAOFs) opened and maintained by the Brokers are not in contradiction with the SAOF as prescribed in Annexure-I to Chapter 4 of the KSE Regulations.
1.2.	Standardized Sub-Account Opening Forms are in compliance with prescribed requirements and the clients' registration details fed into the CDS by the Broker are matched with the details provided in the Standardized Sub-Account Opening Forms by the sub-account holders.
1.3.	Handling of book-entry securities in Sub Account (Compliance of Section 24 of the Act): SAOFs are inspected for Sub-Accounts in which activity has been carried out during the inspection period.
1.4.	The information relating to a UIN registered in NCSS for each client is matched with the SAOF and CDS account set up report of that client.
1.5.	Same client code (even after closure) has not been assigned to more than one client of the same CM ID and Trader ID.
1.6.	In order to verify the authenticity of the UIN records maintained by the Broker, the following measures will be taken:
a)	The Brokers will be required to provide the supporting documentary evidence for establishing the authenticity of the UINs and their postal addresses;
b)	Confirmation letters printed on the letterheads of the Brokers will be sent to the UIN holders as per the prescribed format. (Appendix-VI)
c)	The UIN holders will be required to confirm particulars / information of UIN accounts within 10 days from the date of the letter. In case of non-receipt of response within 10 days, a notice will be served to non-responding UIN holders to appear in person before the NCCPL within 30 days of the date of the notice. The notice will disclose that if UIN holder fails to appear and confirm his/her particulars/information, the NCCPL will have the right to block the UIN account upon expiry of 30 days from the date of notice.
d)	Upon expiry of 30 days' notice period, the NCCPL shall block the UIN(s) of non-responding person(s) until receipt of confirmation of particulars / information.
	<i>Order Instructions:</i>

2.1.	If the order instructions are taken verbally by the Broker, check that the Broker is authorized to take verbal orders as per the SAOF or otherwise written instructions for orders are available.
2.2.	For telephonic orders, match the telephonic recording with orders placed.
	<i>Recording Of Orders Placed Through Telephone:</i>
3.1.	Clients' orders received and/or confirmed via telephonic [landline] communications are recorded in the manner specified by the Securities exchange.
3.2.	For clients' orders received and/or confirmed via mobile phones, an appropriate and reliable recording of the time of receipt and order details are being maintained.
	<i>Collection Of Margin From Clients:</i>
4.1.	The Broker has collected applicable margins from his clients i.e. exposure margins and mark to market losses, mark-ups (in case of leverage transactions) or any other margins as prescribed under KSE and NCCPL Regulations in all applicable markets including Leveraged Market.
4.2.	The applicable margins were available in the clients account and reflected in books of accounts in an identifiable and verifiable manner at the relevant times.
	<i>Issuance Of Contract Note:</i>
5.1.	The Broker has transmitted to clients the trade confirmations within 24 hours of execution of clients' orders and such confirmations comply with the requirements mentioned in Chapter 4 of KSE Regulations and bear the name of the Broker along with address of principal place of business.
5.2.	Further, duplicates or counterfoils of memos/confirmation issued to clients are preserved for a period of at-least five years.
	<i>Maintenance Of Order Register:</i>
6.1.	The Broker has maintained order register/trading systems generated daily activity log and order log maintained by telephone recording, in compliance with the relevant rules and regulations.
	<i>Segregation Of Clients' Assets:</i>
7.1.	In order to ensure segregation of clients' assets from Broker's assets, the broker has maintained:
a)	Necessary records and books of accounts to distinguish clients' funds and securities from Broker's funds and securities;
b)	Separate bank account(s) which includes the funds of his all clients along with client-wise record/breakdown of balances; and
c)	Separate sub-accounts under his participant account in CDS for each of his clients to maintain the custody of securities deposited by the clients as margins and securities bought for clients.
	<i>Trading, Financing And Other Ancillary Matters:</i>

8.1.	All transactions are recorded in records and books of accounts [manually or electronically] in timely, adequate, proper, identifiable and verifiable manner on UIN/Client Code basis.
8.2.	The names of clients with provision of aging of receivables and payables are available.
8.3.	The movement of securities in sub-accounts is in conformity with the records maintained by the Broker in his back office.
	<i>Capital Gain Tax:</i>
9.1.	The client code of an investor has not been closed unless the investor obtains a clearance certificate from NCCPL confirming discharge of all CGT liability.
9.2.	The evidence of clients' receipt of annual certificates issued by the NCCPL to each investor through the Broker is available.
	<i>Free-Delivery Mechanism:</i>
10.1.	The movements from clients' sub-accounts through free delivery facility are made in accordance with the central Depository Regulations and/or after obtaining due authorization from clients.
	<i>Pledge Transactions:</i>
11.1.	The Broker has not pledged any security of a client as collateral in contravention of the KSE and/or Central Depository Regulations.
11.2.	The details of ownership of securities lying in the house account of the Broker.
11.3.	Bank-wise detail of securities pledged with different financial institutions/banks and securities exchanges.
11.4.	Specific authorization has been provided by the sub-account holder to the broker on each occasion for pledge of securities available in his sub-account with financial institutions/banks.
	<i>Deposit And Withdrawal Of Physical Securities:</i>
12.1.	Records relating to deposit and withdrawal of physical securities are available to ensure proper documentation.
	<i>Trading By Employees Of The Broker:</i>
13.1.	Employees of the Broker who have traded in securities have obtained prior written authorization from the Broker.
13.2.	The Broker has registered all its employees into the UIN database with all registration details including their respective designations and updates/modifies the registration details whenever any change occurs.
13.3.	The employees who are trading in securities have submitted to the Broker a written undertaking of their understanding and willingness to strictly abide by all the relevant rules, regulations,

	codes and procedures as prescribed by the Commission, the Securities exchange, Central Depository and NCCPL.
	Leveraged Trading:
14.1.	The Broker fulfil admission criteria in accordance with NCCPL Regulations such as continuous and timely information to the Company regarding its current Authorized Persons together with, in case the BCM is a body corporate, Board Resolutions or attested Powers of Attorney pursuant to which the appointment of such Authorized Persons was made.
14.2.	The transactions executed by the Broker on behalf of a client in the Leveraged Market are supported with appropriate agreement between the Broker and the client as per the conditions described in NCCPL Regulation and in accordance with the Securities (Leveraged Markets and Pledging) Rules, 2011.
14.3.	The Broker has fully disclosed all risks involved in the relevant transactions and has obtained a written confirmation from the client that they have understood and have the ability to bear the risks in such transactions.
14.4.	The Broker has fully disclosed and explained various allowed financing facilities/options available to a client.
14.5.	The Broker has evaluated the credit worthiness of the clients through a proper credit risk assessment methodology.
14.6.	The credit limits are assigned to each client beyond which the client is disallowed to transact in Leveraged Market.
14.7.	The Broker has not financed, borrowed, lent or pledged in contravention of applicable rules and/or regulations.
14.8.	The Broker has maintained record of Leverage Transactions in compliance with the relevant rules and regulations.
14.9.	The Broker has provided NCCPL, on monthly basis, information regarding margin financing provided to its clients out of own resources in accordance with the procedures. Also verify the accuracy of detail provided to the NCCPL.
	Registration With The Commission:
15.1.	The agents of the Broker have obtained certificate of registration from the Commission and such registration is being renewed every year.
	Branch Offices And Agents:
In case the Broker has any office/branch office for conducting the business and trading of securities within and outside premises of the Securities exchange:	

16.1.	The Broker has obtained certificate of registration for all of its branch offices from the Securities exchange.
16.2.	The Broker has maintained all the clients' related records/information of the office/branch office at its head office
16.3.	Printed stationery of the Broker including confirmation/contract note /cash memo and any other document is issued only in the Broker's name along with address of principal place of business.
16.4.	Addresses of all offices/branches are clearly stated on such printed stationery.
16.5.	Name of the Broker is prominently displayed outside the branch.
16.6.	Registration Certificate of office/branch office is prominently displayed at the office(s)/branch office(s).
16.7.	The certificate of registration of manager as Agent with Commission except in case of Broker's main office is displayed.
16.8.	A board at a conspicuous place at the reception/front office is displayed which contains the requirements as mentioned in Chapter 22 of the KSE Regulations for conducting the business and trading of securities within and outside the Securities exchange.
16.9.	The Broker properly maintains the register [manual or electronic form] of accounts of all agents.
16.10.	List of agents obtained from Broker matches with list of registered agents appearing in the Securities exchange's records/website.
16.11.	All the managers of the branch offices have obtained certificate of Registration from the Commission and such Certificate of Registration is being renewed every year.
16.12.	Verify the transactions to ensure that the agent does not deal with his clients in his own name. Dealing with clients includes receiving cash or cheque from the client in the agent's own name and issuing cash memos, receipts, delivery notes or any other document in his name.
16.13.	The authority given to the agent or employee to perform all acts on behalf of the Broker.
16.14.	The agreement with the agent specifying the scope of authority and responsibilities of the Broker and his agent.
16.15.	The business being done at the branch office is in the name of the Broker.
16.16.	The remedies available to investors and procedures for dispute resolution and arbitration in case of non-resolution of complaints are displayed at all times at a conspicuous location at the reception/front office of the office(s)/branch office(s).
16.17.	Branch offices' bank accounts are maintained in the name of the Broker.
16.18.	Customer accounts are properly maintained or electronically accessible at branch offices.
16.19.	Where a Broker has multiple CDS house and sub-accounts for a single UIN, in such case Broker

	has mapped any one active CDS house and sub-account with each client code of such UIN through NCSS UIN registration screen.
General Obligations Of The Broker:	
Compliance with Eligibility Criteria for TRE Certificate	
17.1.	The Broker complies, at all times, with the eligibility criteria prescribed under Chapter 4 of KSE regulations for being TRE Certificate Holder of the Securities exchange.
Calculation and reporting of Audited Net Capital Balance (NCB)	
17.2.	The NCB has been calculated in accordance with Third Schedule to the Securities and Exchange Rules, 1971 and verified NCB has been submitted to Securities exchange within prescribed timeframe.
Public Advertisement of Broker's Business	
17.3.	The Broker has not advertised his business publicly unless permitted by the Securities exchange, as required by Clause C (4) of Code of Conduct of the Brokers and Agents Registration Rules, 2001.
Compliance with Trader's Eligibility Criteria	
17.4.	All traders employed and working with the Broker meet the eligibility criteria mentioned in Rule 3(1) of Brokers' Agents and Traders (Eligibility Standards) Rules, 2001.
Dealings with Suspended/Expelled TREC Holder	
17.5.	The Broker has not, without the special permission of the Board, taken into or continued in his employment in any capacity in any business carried on by him, a former TRE Certificate Holder who has been suspended or expelled, as required by these Regulations.
17.6.	The Broker has taken prior permission of the Board, to carry on business for or with a person who has been declared a Defaulter by the Securities exchange and notice regarding such prohibition has been issued by the Securities exchange.
Circulation of Research Reports	
17.7.	The Broker has circulated research reports on securities only to its clients, joint stock companies and banks and such reports are not published in press and general circulation as required by the chapter 4 of the KSE Regulations.
Compliance with AML Act, 2010	
17.8.	All provisions of the Anti-Money Laundering Act, 2010 (Act VII of 2010) and any rules and regulations made there-under are complied with at all times.
Compliance with NCSS Requirements	
17.9.	The Broker meets the Technical and Performance requirement for operating NCSS as required

	by NCCPL Regulation and Procedures.
<i>Mandatory Activation of SMS or E-alerts</i>	
17.10.	The Broker has activated SMS or E-alerts services provided by the Central Depository to its clients.
<i>Transmission of Account Balance Statement</i>	
17.11.	The Broker has sent account balance statements to all those sub-account holders within 10 days of the end of every quarter in whose sub-accounts the account balance statement has been marked as 'physical'.
<i>Monitoring of Employees' Trading</i>	
17.12.	A mechanism is in place by the Broker to monitor their employees' trades regularly.
<i>Compliance Monitoring and Reporting</i>	
17.13.	The Compliance Officer/Internal Audit Department of the Broker ensures compliance of relevant rules and regulations and any violation is communicated to Audit Committee/Chief Executive Officer of the Broker.
<i>Telephone Recording System</i>	
17.14.	Effective procedures are in place to ensure the integrity, reliability and security of the telephone recording system and timely detection of any malfunctioning therein.
17.15.	Adequate compliance monitoring is exercised over the office staff responsible for recording the telephonic orders.
17.16.	Telephone recordings are being retained for a minimum period of six months or any other period specified by the Securities exchange and/or Commission. Further, in case of any complaint lodged by an investor, the Broker has retained the record of such investor till the resolution of the complaint.
17.17.	All telephone lines under use of the traders, agents, dealers and authorized persons who are involved in trading, are connected to the telephone recording system of the Broker.
<i>Receipts and Payments of Funds Through Banking Channels</i>	
17.18.	The Broker has accepted payments above Rs25,000/- from account holders through "A/c Payee Only" crossed banking instruments only or through electronic transfer of funds.
17.19.	The Broker has reported to the Securities exchange within one business day the instances and rationale thereof for acceptance of payments above Rs25,000/- in cash in exceptional circumstances in accordance with the mechanism prescribed by the Securities exchange.
17.20.	The Broker has made payments of Rs25,000/- and above through crossed banking instruments from their business bank accounts and has kept in record copies of the payment instruments or

	online instructions for at-least 5 years.
<i>Implementation of KYC & CDD Policy</i>	
17.21.	As laid down in Chapter 4 of KSE Regulations, the Broker has formulated and implemented an effective Know-Your Customer (KYC) and Customer Due Diligence (CDD) internal policy and framework in accordance with the guidelines issued by the Securities exchange with prior approval of the Commission and any notices/circulars issued by the Commission from time to time. Further, the said policy has been appropriately communicated to all the agents and branches of the Broker and the Broker has ensured that the said policy is understood by the relevant personnel.
17.22.	The Broker has complied with the requirements as mentioned in the Guidelines issued by the Securities exchange with the approval of SECP in this regard.
<i>Collateral Account</i>	
17.23.	<p>In case the Broker has maintained a collateral account under his participant account in CDS, the said account is used exclusively for instances where outstanding payment has not been received from clients against securities purchased on their behalf and the purchase obligation is to be settled. In such cases, the Broker has transferred the securities on the respective settlement date from the respective sub-account to the Collateral Account for a maximum period of three settlement days only to the extent of the transaction volume for which the client's payment is outstanding for whatsoever reason subject to compliance with relevant requirements contained in the Central Depository Regulations. The Broker has, in addition to the electronic reporting of such transfers through ways and means as specified by the Securities exchange, reported to the Securities exchange in writing explaining the reason for utilizing the Collateral Account and/or for holding client's securities immediately after such transfer. The notice from the Broker will be accompanied with following documents:</p> <ul style="list-style-type: none"> (i) Non-payment notice served on the client through courier, personal delivery method with acknowledgement due, facsimile, email or properly recorded telephone line, advising him to make payment by the close of banking hours on the next business day after the settlement day and notifying that otherwise the Broker shall have a right to dispose off the required securities to cover the shortfall in the client's account at client's risk and cost; (ii) Client's sub-account and Collateral Account Activity Report of movement date; and (iii) Documentary evidence substantiating the genuineness and circumstances of the reason for non-payment by the client which may include failure of client to pay in time due to non-clearance of client's cheque, any natural calamity, law and order situation, non or delayed functioning of an automated procedure, e.g., NIFT.

17.24.	The Broker has not transferred securities from a client's sub-account to Collateral Account more than once in a month.
17.25.	Except as permitted in scope 17.22, the Broker shall not use clients' funds and securities for any purpose other than as authorized by the client in writing in the manner and procedure prescribed by the Securities exchange and/or Central Depository. The Broker shall maintain and furnish documentary evidence to substantiate the compliance with the above regulations.
17.26.	On the basis of documents mentioned under scope 17.22, the Securities exchange shall determine if the requisite documents substantiate the transfer of client's securities by the Broker and shall maintain a database of such transfers. Securities exchange may also carryout enquiry and/or special audit in relation to non-compliance with this regulation.
<i>Internet Trading</i>	
If the Broker is providing Internet Trading services, check that the Broker has fully complied with the following in accordance with chapter 9 of these Regulations:	
17.27.	The Broker has minimum net worth as prescribed in the Chapter 9 of KSE Regulations.
17.28.	The Broker has well-defined procedures for allowing clients' access to its Internet Based Trading System (IBTS) including agreement with the Broker, assigning of trading limits, placement and execution of clients' orders, mode and timing of reporting of trade confirmation to the clients and margin requirements and margin calls. Further, the above procedures are available in writing and on the Broker's website for easy access by the clients.
17.29.	The Broker has not continued to provide IBTS without a valid internet trading certificate which has not been suspended or cancelled during such period.
17.30.	The Broker has maintained monthly reports on the reliability and compliance status of the IBTS.
17.31.	The Broker's service requirements are as per the applicable Regulatory requirements.
17.32.	The Broker has sufficient infrastructure, internal control procedures and technological and security measures and its encryption technology complies with the minimum requirements as prescribed by the Securities exchange from time to time.
17.33.	The Broker's website contains the General Disclosures as prescribed under Chapter 9 of the KSE Regulations.
<i>Compliance with SRO Notifications</i>	
17.34.	Necessary actions taken by the Broker to complete the compliance reporting through NCSS in accordance with various Gazette of Pakistan Statutory Notification (SRO).
<i>Circular 9 of 2015 dated April 8, 2015 issued by SECP (in place of Circular no. 34 of 2009)</i>	

17.35.	Necessary action has been taken by the Broker to appoint Compliance Officer and reporting of the same to Securities exchange
17.36.	The prescribed number of employees of the Securities Broker have got training as specified in the Circular
	<i>Compliance of KSE Notice no.3394 dated June 30, 2015</i>
18.1	Ensure that third party cheques or other banking instruments are neither received nor issued by the broker and all cheques issued to clients are crossed and issued in the name of beneficiary clients only.
18.2	Ensure that all cheques received from clients must be from that particular client's bank account only.
	<i>Clients' Assets Segregation Statement</i>
19.1	Ensure compliance of Regulation 4.19.6.(a) which requires that the Broker shall submit to the Exchange "Clients' Assets Segregation Statement" as per format prescribed by the Exchange within fifteen (15) days of the end of the latest fortnight.
19.2	Ensure compliance of Regulation 4.19.6. (b) which requires the Broker to submit within fifteen (15) days of the close of its financial year an annual "Clients' Assets Segregation Statement", duly verified by its Statutory Auditor.
	Any other area as SRO(s) may deem necessary.

Appendix IV

COVER LETTER FOR SUBMISSION OF COMMENTS ON FINDINGS OF INSPECTION

NO.

Dated:

.....

The Chief Executive Officer,

.....,

.....,

Subject: INSPECTION OF BOOKS AND RECORDS OFM/S.TREC HOLDER/BROKER OFSTOCK EXCHANGE LIMITED

Dear Sir,

Please refer to the Inspection Order No.....dated.....to conduct inspection of the books and records of M/s.under Joint Inspection Regulations, 2015 (“the Regulations”).

2. The inspection team in its report has highlighted the deficiencies /non-compliances committed by M/sin the conduct of its business as a broker under the governing laws, rules, regulations and guidelines. The inspection report is being shared with you under Regulation 10 of the Regulations with an advice to keep it confidential and disseminate it to your Board of Directors.

3. It may please be noted that during the course of inspection, the inspection team only reviewed sample business activities performed by M/sa broker during the period fromto Other business activities which have not been covered in the inspection report should not be construed to mean that such activities comply with the securities laws, regulations and rules etc.

4. Please provide your comments in respect of each of the deficiency / non-compliance highlighted in the report byas per format attached herewith as **Annexure-1** for our consideration, failing which we will proceed, on the basis of the information presently available with us.

Yours truly,

+++++

ANNEXURE-1

**COMMENTS ON FINDINGS IN RESPECT OF INSPECTION OF M/S
..... LIMITED**

Paragraph No.	Issue Inspected	Finding in respect of the issue	Comments from M/sLimited with reference to appropriate documents in respect of the findings
1	2	3	4

Appendix V

JOINT INSPECTION REPORT FORMAT/FINDINGS ON INSPECTION

Title page:

Name of TREC Holder: _____

Inspection Start Date: _____

Inspection Completion Date: _____

Period of Review: _____

Submission date (Committee): _____

Submission date (SECP): _____

TABLE OF CONTENTS

All the contents of the report should be summarized in the table of content.

Executive Summary:

It should summarize the observations given in the report and should also include a conclusion drawn by the Committee stating whether the status of inspection demonstrate an acceptable level of compliance with the applicable laws and regulations.

Scope of Inspection:

The Scope of the inspection should briefly include the nature of work performed. It should also highlight the name of the team members involved in the inspection and the particulars of the employees that have been consulted for all matters during the inspection.

Report Section - I: Observations

Under this section of the report all the observations that remain unresolved after discussion with the management shall be reported as per the format given below:

Observations:

The observation should be reported with reference to the Scope of the Joint Inspection. The applicable law that has been contravened should also be given and the number of material instances, where needed, should also be attached as annexure to the observation.

Implication:

The implication of the non-compliance should also be reported.

Comments:

Management:

The Comments of the management of the inspected entity should be obtained before the report is presented to the Committee. Where the management agrees with the observation they should also provide a proposed timeline for attaining the compliance.

Inspection Team:

If the management of the inspected entity provides comments that show disagreement with the observation the inspection team should provide its rationale for maintaining the observation. The inspection will be required to ensure that the Brokerage House has provided its comments on each observation or findings of the inspection team as communicated to the brokerage house through inspection report. The inspection team will also provide its counter comments after reviewing comments/evidences/details submitted by the brokerage house.

Oversight Committee:

The Oversight Committee should also provide its concluding comments on the observation.

Report Section - II: Observations Resolved During Inspection

Under this section of the report, all the observations that were highlighted during the course of inspection, however, subsequently resolved on the basis of the explanation or the documentary evidence provided by the management of the inspected entity should be reported as per the given format:

Observations:

The observation should be reported with reference to the Scope of the Joint Inspection.

Rationale:

The Inspection Team shall provide the basis used to drop the observation and shall explain and identify the grounds used to draw the conclusion that the observation stands resolved.

Oversight Committee:

The Oversight Committee should also provide its concluding comments on these observations.

Report Section - III: Recommendations

Under this section of the report, the matters those are not material enough to be reported as an observation should be included as recommendations as per the format given below:

Recommendation:

The matter should be reported with reference to the Scope of the Joint Inspection.

Committee:

The Committee should also provide its concluding comments on these recommendations.

Ref: F. No. -----/-----2015

Dated:

MR. ABC

CNIC No. -----

.....,

.....,

.....,

KARACHI

SUBJECT: ACCOUNT INFORMATION CONFIRMATION –MR. XXXXX

Dear Mr. ABC,

The Joint Inspection Team constituted under Joint Inspection Regulations is reviewing books and records of M/s XYZ (Pvt.) Limited (“XYZ”).

In this regard, you are requested to please confirm the details/information attached as Annexure- A, whether it is consistent with the account statements sent directly to you by XYZ or Not. You may either opt for reply through self-addressed envelope (enclosed) or email provided below.

We will appreciate your cooperation into the matter with this routine request. If you have any questions, please contact at 021-00000000 or email -----, To facilitate the completion of our examination, we ask you to return the status within 07 days.

Sincerely,

BBC

Designation

NOTE:

- i. In case of email please mention in the subject line “Your complete name and Name of Broker”
- ii. Your reply (in either mode of communication) should be strictly on the format prescribed in Annexed Table.

AS OF JUNE 30, 2015, XYZ'S RECORDS INDICATE THAT;				
S. No. (As per sequence provided above)	Description	Particulars	Confirmation (Yes/No)	In case of No, please share document ary evidence provided by the XYZ on the cutoff date mentione d above.
1	Name	ABC		
2	AddressKarachi		
3	Phone /Mobile (As per CDS/ NCSS)		
4	Email Address		
4	Ledger Balance as on ----- ----	Rs..... Dr OR Cr		
5	Share Holding			

position in CDC as on	Scrip	Owned	Pledged	Pending Out
	Number of shares			

Any other Comments/Suggestions.

Name of Accountholder
(As per Account Opening Form)

Signature of Accountholder

Dated:

QUARTERLY INSPECTIONS STATUS REPORT

(JOINT INSPECTION REGIME)

FOR THE QUARTER ENDED, -----

(PERIOD: March 01, 2015 to June 30, 2015)SUMMARY OF INSPECTIONS

Total number of Inspections commenced in the period	Total number of Inspections completed in the	Total number of Inspections in progress	Total number of Inspections that could not be commenced

Details of Inspections commenced

S. No	Name of Person Inspected	In Progress or Completed	If completed, date of Final Inspection	Actions recommended on the basis of the Inspection	Date on which the Oversight Committee proposed the action to the
1.					
2.					
3.					
4.					

(2) Details of Inspections that could not be commenced

No.	Name of Person against whom Inspection orders issued during the period but could not carried out	Reasons for not carrying out the Inspection

(3) Efficiency Report in respect of inspections completed during the period

S. No.	Date on which Inspection Order issued	Date on which Final Inspection Report prepared	Date on which Report Evaluation Memo

AAA – Chairman Over Sight Committee

Dated:

Bushra
16/10/15
(Bushra Aslam)
Secretary to the Commission