

**Government of Pakistan**  
**Securities and Exchange Commission of Pakistan**

**NOTIFICATION**

Islamabad, the 24th June, 2016

**S.R.O. 569(I)/2016.-** \*\*\* In exercise of powers conferred by sub-section (1) of section 169 read with sections 68, 69, 75, 76, 77, 78, 79, 80, 82, 84 and 151 of the Securities Act, 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. 1087(I)/2015 dated November 5, 2015 and also placed on its website as required under sub-section (4) of section 169 of the said Act, namely:

**CHAPTER I**

**PRELIMINARY**

**1. Short title and commencement.-** (1) These regulations shall be called the Securities Brokers (Licensing and Operations) Regulations, 2016.

(2) They shall come into force on the date of commencement of Part V of the Act.

**2. Definitions.-** (1) In these regulations, unless there is anything repugnant in the subject or context, —

- (a) “Act” means the Securities Act, 2015 (III of 2015);
- (b) “advertisement” means dissemination or conveyance of information, or an invitation or solicitation, in respect of the services that the securities broker is licensed to carry on, by any means or in any form, including by means of, —
  - (i) publication in a newspaper, magazine, journal or other periodical;
  - (ii) display of posters, notices, billboards, hoardings etc.;
  - (iii) circulars, handbills, brochures, pamphlets, books or other documents;
  - (iv) letters addressed to individuals or bodies;
  - (v) photographs or cinematograph films;
  - (vi) sound broadcasting, television, the Internet or other media; or
  - (vii) tele-marketing and SMS marketing;

- (c) "blank sale" means sale by a securities broker on its proprietary account or on customer's account when the securities broker or customer does not own shares respectively, or the sale does not constitute a sale with pre-existing interest or is a sale without entering into an SLB contract to meet delivery obligations on the settlement date;
- (d) "customer bank account" means the bank account opened by the securities broker with a scheduled bank in Pakistan wherein all customer money is deposited and maintained;
- (e) "Ordinance" means the Companies Ordinance, 1984 (XLVII of 1984);
- (f) "scheduled bank" has the same meaning as defined in clause (m) of Section 2 of the State Bank of Pakistan Act, 1956 (XXXII of 1956);
- (g) "sale with pre-existing interest" shall mean the squaring up of :
  - (i) an earlier purchase in the same settlement or in a different settlement which will settle prior to the settlement of the sale; and
  - (ii) an open position in margin trading or margin financing as a financee on account of same UIN of same security.
- (h) "short sale" means a sale by a securities broker, on its proprietary account or on customer's account, where the securities broker or customer does not own shares respectively, or the sale does not constitute a sale with pre-existing interest, but the securities broker or the customer, as the case may be, has an SLB contract to meet delivery obligations on the settlement date;
- (i) "securities lending and borrowing (SLB) contract" means the securities lending and borrowing contract executed through the system provided by an authorized intermediary as per the requirements of the applicable rules; and
- (j) "unique identification number (UIN)" means the unique identification number issued by a clearing house to a person for trading on the securities exchange.

(2) Words and expressions used but not defined in these regulations shall have the same meaning as assigned to them in the Act, the Ordinance, the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997), Central Depositories Act, 1997 (XIX of 1997), and any rules or regulations made thereunder.

## **Chapter II**

### **LICENSING REQUIREMENTS FOR SECURITIES BROKER**

**3. Prohibition.**— No person shall act or perform the functions of a securities broker unless such person is licensed as a securities broker with the Commission in accordance with these regulations:

Provided that any company deemed to be licensed as a securities broker under sub-section (3) of section 177 of the Act shall be allowed to carry out its functions under the category of Trading and Self-Clearing till the time as provided in the said section and thereafter an application for licence shall be made by such company under regulation 5 for any one of the categories as provided in sub-regulation (2) of regulation 5.

**4. Eligibility criteria for licensing of a securities broker.**— Subject to compliance with the provisions of the Act, a company may apply to the Commission for licence as a securities broker under any one of the categories specified in sub-regulation (2) of regulation 5, if-

- (a) the applicant's memorandum and articles of association allow it to apply for grant of licence as a securities broker under the Act;
- (b) the applicant holds a valid TRE certificate issued in its name;
- (c) the applicant identifies names and details of its sponsors which shall be required to collectively hold and retain not less than fifty one per cent of the share capital of the applicant, and in the case of a listed company, not less than twenty five per cent of the share capital of applicant;
- (d) the applicant and its sponsors do not have controlling interest in any other company holding licence as a securities broker;
- (e) the applicant, its sponsors, directors and senior management officers are fit and proper persons as per the criteria specified in Annexure B;
- (f) the chief executive of the company does not hold such office in any other company;
- (g) in case of a company other than a company deemed licensed under regulation 3 above, its sponsors have submitted verifiable documents to demonstrate that they have financial resources not less than twice the amount of the paid-up capital requirement for the relevant category of securities broker for which application is made;
- (h) the names of its sponsors, directors and senior management officers are appearing on the list of active tax payers issued by the Federal Board of Revenue;

Provided that this requirement shall not be applicable in the case of foreign nationals;

- (i) its sponsors have and will continue to have representation of at least twenty per cent on its board of directors;
- (j) the sponsors' portion of share capital of the applicant or any part thereof shall not be sold or transferred, nor any arrangement for transfer of control of the securities broker shall be affected without prior written approval of the Commission;
- (k) its memorandum of association requires prior approval of the Commission for making any changes therein, other than an increase in its authorized share capital;
- (l) it meets the financial resources requirements specified in these regulations; and
- (m) it has and shall continue to have the requisite number of personnel/employees having mandatory certification as specified by the Commission from time to time;

Provided that in case of a company deemed licensed under regulation 3, the Commission may, upon a request made by the applicant, grant additional time for compliance with the requirements of clauses (c), (d) and (i), on a case to case basis.

Explanation:- For the purpose of this regulation, where the sponsor of applicant is a company, the requirements applicable to the sponsors shall be applied to such extent as may be practical upon the majority shareholder, sponsors and directors of such sponsor company and the sponsoring company and the applicant shall give an undertaking to the Commission that they will inform the Commission in case of any change in the sponsors of the sponsoring company and the required documents.

**5. Application and procedure for granting a licence.-** (1) Subject to regulation (4), application for a licence as a securities broker shall be made to the Commission in Form A along with all the documents specified in Annexure A and receipt evidencing payment of non-refundable fee of such amount as specified in Schedule I.

(2) The application for licence under these regulations may be made for any one of the following categories of securities brokers-

- (a) **“Trading Only”** category shall mean that a securities broker can only execute its proprietary trades and trades on behalf of its customers but cannot settle executed trades or keep custody of securities.
- (b) **“Trading and Self-Clearing”** category shall mean that a securities broker can execute as well as settle its proprietary trades and trades executed on behalf of its customers and can keep custody of

securities owned by it and its customers subject to such conditions as may be imposed by the Commission.

- (c) **“Trading and Clearing”** category shall mean that a securities broker can execute as well as settle its proprietary trades and trades executed on behalf of its customers and can keep custody of securities owned by it and its customers subject to such conditions as imposed by the Commission and, in addition, such securities broker can settle trades of other securities brokers and their customers and keep custody of the securities owned by such other securities brokers and their customers:

Provided that a securities broker deemed licenced under regulation 3 above and applying for fresh licence in accordance with the requirement of sub-section (3) of section 177 of the Act under the “Trading Only” category shall be required to transfer its clearing, settlement and custody functions within a transition period of six months or an extended time period as may be allowed by the Commission. Such securities broker, during the transition period, shall comply with the requirements applicable to the “Trading and Self-Clearing” category.

(3) A company applying for licence under sub-regulation (1) above shall submit its application along-with supporting documents through the securities exchange to the Commission.

(4) The securities exchange shall scrutinize the application for grant of licence and the documents submitted by the applicant prior to submission of the same for consideration of the Commission along-with a letter of recommendation inter alia covering the following-

- (a) the contents of the application for licence and supporting documents are in conformity with these regulations;
- (b) the applicant meets the requirements of the Act and these regulations for the purposes of licence under these regulations;
- (c) the applicant, its sponsors, directors and senior management officers are fit and proper persons as per the criteria specified in these regulations;
- (d) the applicant has arrangements for putting in place such trading, clearing and settlement, accounting and recording systems as are necessary for the purposes of the applicant's existing and anticipated operations of business; and

(e) the applicant has written policies, procedures, systems and controls to resolve customer complaints, handle conflict management, monitor unethical conduct and market abuse, prevent money laundering and combat terrorist financing.

(5) The Commission, while considering the application for licence, may require the applicant to furnish such further information or clarification as it deems appropriate.

(6) The applicant shall, if so required, appear before the Commission for a representation through a person duly authorized for this purpose in writing by the board of directors of the applicant.

(7) Any subsequent change in the information provided to the Commission at the time of filing of application under sub-regulation (1) shall be communicated to the Commission within five working days from the date of such change.

**6. Financial Resources Requirement.-** (1) An applicant for a licence as a securities broker shall comply with and ensure ongoing compliance with the following specified levels of minimum paid-up capital, net worth and net capital balance-

Category of securities broker	Paid up Capital -PKR million-	Net worth -PKR million-	Minimum Net Capital Balance -----PKR million-----
Trading Only	15	15	2.5
Trading and Self Clearing	35	35	5
Trading and Clearing	100	100	10

(2) A securities broker deemed licensed under regulation 3 and which obtains a licence under Trading Only or Trading and Self Clearing category but does not fulfill the requirements of minimum paid up capital and/or net worth for its category shall be required to meet the minimum paid up capital and/or net worth requirements in the following manner-

Category of securities broker	Minimum paid-up capital/net-worth requirement	Within year 1 from obtaining fresh licence	Within year 2 from obtaining fresh licence
Trading Only	Rs15 million	Securities broker to meet at	Securities broker to meet

		least 50% of the amount less than the minimum specified requirement	remaining amount less than the minimum specified requirement
<b>Trading and Self-Clearing</b>	Rs35 million	Securities broker to meet at least 50% of the amount less than the minimum specified requirement	Securities broker to meet remaining amount less than the minimum specified requirement

(3) In case a securities broker fails to meet the minimum paid-up capital and/or net-worth requirements as specified in sub-regulations (1) and (2), the securities exchange shall immediately restrict the trading facility of such securities broker and its licence shall be suspended by the Commission without prejudice to any other disciplinary action under the Act and these regulations.

(4) A securities broker shall file monthly statements of net capital balance and liquid capital with the Commission and the securities exchange computed in a manner specified in Schedule II and III respectively, immediately after coming into force of these regulations, and shall also submit an audited statement of net capital balance on half yearly basis. The securities broker shall start maintaining minimum liquid capital as per such amounts and/or ratios and after such period of time as may be specified by the Commission through notification. Upon such notification by the Commission, the securities broker shall be required to submit audited statement of liquid capital on half yearly basis, and the requirement to maintain net capital balance, the requirement to submit monthly statements of net capital balance and the requirement to submit half yearly audited statements of net capital balance shall be discontinued.

(5) A securities broker shall immediately notify the Commission and the securities exchange if the net capital balance and/or the liquid capital fall below the specified threshold and shall immediately submit the revised net capital balance and/or liquid capital calculations.

(6) In case of any shortfall in the net capital balance and/or liquid capital, either reported by the securities broker or identified by the securities exchange or the Commission, the securities exchange shall immediately restrict the trading facility of such securities broker and shall only allow it to close out the open position in a controlled environment.

(7) The net worth of a securities broker shall be calculated as total assets less total liabilities less surplus on revaluation, if any, created upon revaluation of fixed assets:

Provided that the Commission may issue clarification in respect of treatment of any item of assets and/or liabilities for the purpose of calculating the net worth of a securities broker.

#### **7. Additional requirements for licence under Trading and Self-Clearing and Trading and Clearing**

**categories.-** Licence for Trading and Self-Clearing or Trading and Clearing categories shall only be granted to an applicant which fulfills the following additional conditions-

- (a) It has been admitted as a clearing member by the clearing house and a participant by the central depository; and
- (b) In case of a company applying for licence under the Trading and Clearing category, it is a public company and at least one director on its board meets the criteria of independent director.

Explanation: "Independent director" in relation to the securities broker means such director who is not connected or does not have any other relationship, whether pecuniary or otherwise, with the securities broker, its associated companies, subsidiaries, holding company, sponsors or directors. The test of independence principally emanates from the fact whether such person can be reasonably perceived as being able to exercise independent business judgment without being subservient to any form of conflict of interest:

Provided that without prejudice to the generality of this explanation, no director shall be considered independent if one or more of the following circumstances exist:

- (a) he/she has been an employee of the securities broker, any of its subsidiaries or holding company within the last three years;
- (b) he/she is or has been the chief executive officer of subsidiaries, associated company, associated undertaking or holding company of the securities broker in the last three years;
- (c) he/she has, or has had within the last three years, a material business relationship with the securities broker either directly, or indirectly as a partner, substantial shareholder or director of a body that has such a relationship with the securities broker;
- (d) he/she has received remuneration in the three years preceding his/her appointment as a director or receives additional remuneration, excluding retirement benefits from the securities broker apart from a director's fee or has participated in the securities broker's share option or a performance-related pay scheme;
- (e) he/she is a close relative of the securities broker's promoters, directors or substantial shareholders:

Explanation: close relative means spouse(s), lineal ascendants and descendants and siblings;



- (f) he/she holds cross-directorships or has significant links with other directors through involvement in other companies or bodies; or
- (g) he/she has served on the board for more than three consecutive terms from the date of his first appointment provided that such person shall be deemed "independent director" after a lapse of one term:

Provided that any person nominated as a director under sections 182 and 183 of the Ordinance shall not be taken to be an "independent director" for the above-mentioned purposes:

Provided further that in case of any ambiguity in determining independence of a person for the purposes of these regulations, the decision of the Commission shall be final and binding upon the securities broker.

**8. Grant of licence.-** (1) The Commission, while considering the application for granting a licence, shall inter-alia take into account the following matters,-

- (a) that the applicant meets the requirements of the Act and these regulations;
  - (b) that the applicant has the ability to efficiently handle its functions as a securities broker and its obligations under the Act and these regulations;
  - (c) that the applicant has the necessary infrastructure including but not limited to financial resources, policies, procedures, systems and controls to effectively and efficiently discharge its responsibilities as a securities broker;
  - (d) that the applicant satisfies the Commission that the reasons for an earlier refusal for grant or renewal of licence, if any, as a securities broker are no longer applicable;
  - (e) involvement of the applicant, its sponsors, directors or senior management officers in an offence involving fraud or breach of trust; and
  - (f) history of past regulatory compliance and any pending penal action against the applicant, its sponsors, directors or senior management officers for an offence under the Act, the Securities and Exchange Ordinance, 1969 or the Ordinance.
- (2) The Commission, upon being satisfied after conducting such inquiries and obtaining such further information as it deems appropriate that,-

- (a) the applicant is eligible for a licence;
- (b) the applicant is in compliance with the provisions of the Act, these regulations and any directives/guidelines/codes issued thereunder; and
- (c) it is in the public interest and interest of capital market;

may grant a licence to the applicant in Form B for a period of one year under the provisions of the Act and communicate this to the securities exchange, clearing house and central depository:

Provided that while deciding to grant licence to a securities broker, the Commission may seek additional information from other Government agencies/regulatory bodies including obtaining credit information bureau (CIB) reports from the State Bank of Pakistan and may also conduct a pre-licence assessment or a visit of the premises of the applicant to verify the genuineness of information submitted.

(3) Nothing in these regulations shall affect the power of the Commission to restrict, suspend or cancel the licence of a securities broker under the Act if any or all of the events as mentioned therein have occurred or the securities broker fails to comply with any of the requirements of these regulations.

(4) Within three months of the grant of licence, the securities exchange, prior to allowing commencement of business to a securities broker, shall confirm through a visit of such securities broker's premises that the securities broker has put in place-

- (a) adequate professional management including branch heads, system operators and compliance officer, as is necessary to allow the securities broker to carry out its obligations in accordance with the applicable laws, circulars, directives, etc.;
- (b) necessary technology, systems and internal procedures;
- (c) organizational structure with clear lines of responsibility and authority; and
- (d) risk management, supervisory system, infrastructure including but not limited to adequate office space, equipment and technical aspects including appropriate arrangement for clearing, settlement and custodian services, where allowed, to effectively and efficiently discharge its responsibilities as a securities broker with capacity for ongoing maintenance of the same.

**9. Renewal of licence.-** (1) Subject to the provisions of the Act and these regulations, a securities broker

shall, one month prior to the date of expiry of its licence, apply to the Commission in Form C along with all the documents as specified in Annexure C and receipt evidencing payment of renewal fee of such amount as specified in Schedule I, for renewal of its licence.

(2) A securities broker applying for renewal of licence under sub-regulation (1), shall submit its application along-with supporting documents through the securities exchange to the Commission.

(3) The securities exchange shall scrutinize the application for renewal of licence and the documents submitted by the securities broker prior to submission of the same for consideration of the Commission, along-with a letter of recommendation stating that it has reviewed the contents of the application and the supporting documents and has found the same to be in conformity with the Act and these regulations:

Provided that while submitting the letter of recommendation to the Commission, the securities exchange shall also take into account the securities broker's outstanding investor complaints and its track record with respect to its compliance with the applicable regulatory requirements:

Provided further that along-with the recommendation letter, the securities exchange shall submit a confirmation to the Commission that it has visited the premises of the securities broker and is satisfied with the infrastructure and human resources deployed by the securities broker to ensure ongoing compliance with these regulations.

(4) The Commission upon being satisfied that the applicant continues to meet the requirements for licensing, is in compliance with the provisions of the Act, rules, regulations and any directives/guidelines/codes issued thereunder and it is in the public interest and interest of the capital market, shall renew the licence for one year and issue a certificate of renewal of licence to the applicant in the Form D.

(5) Where the application for renewal of licence is made within the provided time but has not been decided by the Commission, the licence of the securities broker shall continue to be valid until the application for renewal is decided by the Commission.

(6) While renewing the licence of a securities broker the Commission may, in addition to the criteria laid down for grant of licence, also take into account the past track record and history of regulatory compliance of the securities broker, its sponsors, directors and senior management officers.

(7) The Commission shall send an intimation of renewal of licence of the securities broker to the securities exchange, clearing house and central depository.

**10. Procedure where licence is not granted or renewed.-** (1) The Commission, after giving a reasonable opportunity of hearing to the applicant, may refuse to grant or renew a licence if in the opinion of the

Commission such applicant does not fulfill the requirements specified under the Act and these regulations and where the Commission after taking into account the facts, is of the view that it is not in the public interest or in the interest of the capital market to grant or renew a licence.

(2) The applicant, if aggrieved by the decision of the Commission under sub-regulation (1), may, within a period of thirty days from the date of receipt of such refusal, prefer an appeal to the appellate bench of the Commission under section 33 of the Securities and Exchange Commission of Pakistan Act, 1997.

(3) A securities broker whose application for renewal of licence is refused shall immediately inform all its existing customers, settle all dues of the customers within fifteen days and shall remain responsible for clearing and settlement of all its obligations up to the date on which it has been working as a securities broker, in the manner specified by the securities exchange with the approval of the Commission.

(4) The Commission shall communicate its decision of refusal to grant or renew the licence to the applicant or securities broker, as the case may be, the securities exchange, central depository and clearing house forthwith and in the case of refusal to renew the licence may also publish such fact in a newspaper of wide circulation in Pakistan.

**11. Cancellation of licence.-** (1) A securities broker may apply to the Commission for cancellation of its licence along-with a confirmation from the securities exchange that such securities broker has informed all its existing customers, settled all dues and pending claims of the customers and has completed all formalities for closure of business.

(2) The Commission may, after being satisfied that all formalities for closure of business including settlement of customer claims have been completed, cancel the licence of such securities broker:

Provided that the Commission may impose such conditions as it deems appropriate at the time of such cancellation of licence.

(3) The Commission may cancel the licence granted to a securities broker in accordance with the provisions of the Act and/or where-

- (a) the TRE certificate of such securities broker is cancelled by the securities exchange; or
- (b) the securities broker is declared defaulter by a securities exchange and the reason for such declaration is not removed within a period of six months from such declaration; or
- (c) the securities broker surrenders the TRE certificate and the securities exchange cancels such TRE certificate subject to the requirements of regulations of the securities exchange; or

- (d) the securities broker is declared insolvent by a Court; or
- (e) the securities broker fails to apply for renewal of licence within the specified time; or
- (f) the licence is suspended by the Commission and such suspension has not been revoked till the time of expiry of licence issued to the securities broker

(4) A securities broker whose licence is cancelled under sub-regulation (3), shall inform all its existing customers, settle all dues of the customers within fifteen days and shall remain responsible for clearing and settlement of all its obligations up to the date on which it has been working as a securities broker.

(5) The Commission shall send an intimation of cancellation of licence of a securities broker to the securities exchange, clearing house and central depository and may also publish the order of cancellation in a newspaper of wide circulation in Pakistan.

### Chapter III

#### CONDUCT OF A SECURITIES BROKER

**12. Invitations and Advertisements.-** (1) A securities broker shall not publish, circulate or distribute any advertisement or any information which is false, misleading or deceptive.

(2) A securities broker shall not publish, circulate or distribute any advertisement which:

- (a) refers, directly or indirectly, to any past specific recommendations of the securities broker which were or would have been profitable to any person; or
- (b) contains any statement that any report, analysis or other service will be furnished free or without charge, unless such report, analysis or service is in fact or will in fact be furnished in its entirety and without any condition or obligation.

(3) The advertisement shall not promise or guarantee any return or make any exaggerated statement or presentation to exploit an individual's lack of experience and knowledge and should not include any other thing which otherwise is prohibited.

(4) The advertisement shall be legible, written in clear language, and should not be such which may prejudice interest of the investors in general.

(5) In the event of suspension of any TRE certificate holder, the TRE certificate holder so suspended shall not make any advertisement either singly or jointly with any other TRE certificate holder during the period of suspension.

(6) The advertisement shall not have any adverse reference regarding the reputation of any other securities brokers or a participant of the securities market.

(7) A securities broker shall not advertise its business publicly unless it obtains prior clearance from the securities exchange.

**13. Disclosure of financial risks.-** (1) A securities broker shall not commence business with a customer unless such securities broker provides the customer with a risk disclosure document in accordance with the specimen provided by the securities exchange, inter alia containing the basic risks involved in trading in securities including explanation of the following:

- (a) the risk of higher volatility which may affect the complete or partial execution of an order and the price at which it may be executed;
- (b) risk of lower liquidity;
- (c) speculative trading;
- (d) risk of wider spread;
- (e) price fluctuations due to corporate announcements;
- (f) systemic risk; and
- (g) specific risks of trading on leverage markets etc.

(2) The securities broker shall obtain a written acknowledgment duly signed and dated by the customer confirming that such customer has understood the nature and contents of the risk disclosure document.

**14. Conflict of interest.-** (1) The securities broker shall take all reasonable steps including the framing of appropriate policies and procedures to minimize conflict of interest between such securities broker and its customers.

(2) Subject to the provision of sub-regulation (1), where any conflict of interest arises between the securities broker and its customer, the securities broker shall immediately inform the customer through verifiable means and not gain any direct or indirect advantage from the situation and shall act in the best interests of the customer.

(3) The securities broker must take reasonable steps to ensure that neither such securities broker nor any of its employees or accredited representatives either offers or gives, or solicits or accepts, any inducement that is likely to conflict with any duties owed to the customers.

(4) The securities broker shall put in place a mechanism and take steps to avoid and eliminate the misalignment of incentives due to conflict of interest between the compensation of senior management officers, employees and accredited representatives of the securities broker and interest of the customers.

(5) The securities broker shall disclose the names of such persons to its customers who are working as its accredited representatives.

(6) The securities broker shall put in place a mechanism to resolve any conflict of interest that may arise in the conduct of business and take all reasonable steps to resolve all conflict of interests in an equitable manner.

(7) Where a securities broker has a material interest in a transaction to be entered into with or for a customer, or a relationship which gives rise to a conflict of interest in relation to such a transaction, the securities broker shall not knowingly either advise, or deal in the exercise of discretion, in relation to that transaction unless the securities broker has, –

(a) disclosed that material interest or relationship, as the case may be, to the customer; or

(b) taken reasonable steps to ensure that neither the material interest nor the relationship adversely affects the interests of the customer.

(8) The securities broker shall make appropriate disclosure to customers of possible source or potential areas of conflict of interest which could impair its ability to render fair, objective and unbiased service.

(9) In case of any breach of policies by its employees and accredited representatives, the securities broker shall promptly investigate, and take appropriate action against the persons responsible.

**15. Confidentiality.-** (1) The securities broker must have in place proper systems and controls along with clearly documented policies and procedures reasonably designed, for ensuring confidentiality of information in relation to its business as a securities broker.

(2) The securities broker must establish 'Chinese walls' including policies and physical apparatus designed to prevent the improper or unintended dissemination of market sensitive information from one division or department to another.

(3) The securities broker must establish policies and procedures, reasonable under the circumstances, to ensure that individuals making proprietary investment decisions are not trading on the basis of material non-public information obtained from another departments or units of the securities broker.

(4) The securities broker and its employees and accredited representatives shall neither profit nor seek to profit from confidential information, nor provide such information to anyone with the objective of making profit for itself or for its customers.

(5) The securities broker and its employees and accredited representatives shall refrain from trading on the basis of confidential information, and its employees and accredited representatives shall not reveal such information outside the company.

(6) The securities broker and its employees and accredited representatives shall not disclose or discuss with any other person other than normal course of business or make improper use of the details of investments of customers and other information of confidential nature of a customer.

**16. Duties and obligations of a securities broker.-** (1) In addition to the requirements provided under the Act and any other rules or regulations made thereunder, a securities broker shall:

- (a) ensure fair treatment of its customers, not discriminate amongst them, and treat customers instructions and orders in due turn;
- (b) prominently display the licence granted by the Commission;
- (c) exercise due care and diligence while handling unsubstantiated market information or non-public price sensitive information;
- (d) take reasonable steps to ensure that any agreement, written communication, notification or information that such securities broker gives or sends to customers to whom the services are to be provided or are being provided is presented fairly and clearly and adequate details regarding the services to be provided by the securities broker are covered therein;
- (e) ensure that it has adequate infrastructural systems with reliable back up procedures;
- (f) abide by the Corporate Governance Code provided in Annexure D;
- (g) ensure compliance with all legal and regulatory requirements applicable to the conduct of its business activities so as to promote the best interests of customers and the integrity of the securities market;



- (h) remain in compliance with the licensing requirements at all times and inform the Commission immediately when it is non-compliant with any of the said requirements;
  - (i) establish an internal code of practice, aimed at ensuring that members of the board, directors, employees and accredited representatives act in accordance with the best interests of its customers, the integrity of the market and are in compliance of the Act, these regulations and any other applicable laws, guidelines, directives, circulars etc.;
  - (j) frame policies and procedures to ensure compliance with the regulatory requirements governing prohibition of insider dealing and market abuse;
  - (k) ensure that Know Your Customer and Customer Due Diligence is being conducted properly in accordance with the relevant regulations/guidelines/circulars etc. issued by the Commission and/or the securities exchange from time to time;
  - (l) ensure that the credit worthiness of its customers is evaluated through a proper credit risk assessment methodology and trading limits are assigned to each customer beyond which the customer shall not be allowed to take a position;
  - (m) ensure that its sponsors, directors, accredited representatives and employees exercise due care and responsibility while interacting with the media, and making any statement regarding any regulatory authority, the securities market or any participant thereof on any forum/channel;
  - (n) maintain membership of an association of securities brokers which is approved by the Commission and abide by the code of conduct specified by such association at all times;
  - (o) inculcate a culture of compliance of the regulatory requirements through ongoing education and training of its directors, employees and accredited representatives; specify and enforce any appropriate sanctions for breach by its directors, employees and accredited representatives of any policies and procedures regarding market conduct to deter such practices; and
  - (p) ensure accuracy and completeness of the information shared or submitted by it to the clearing house, central depository, securities exchange, Commission and any other forum.
- (2) A securities broker shall not:
- (a) in any way contribute to manipulating the demand for or supply of securities in the market or to influence prices of securities, or indulge in any action that can detract from transparent

and standard pricing on the securities markets;

- (b) encourage sale or purchase of securities on account of a customer with the sole objective of generating commission or any other financial benefit;
- (c) have an incentive structure that encourages dealing in securities not suiting the risk profile of its customers;
- (d) maintain anonymous accounts or accounts that are opened or maintained in the name of fictitious persons;
- (e) deal in securities while in possession of material non-public information;
- (f) deal or transact business directly or indirectly or execute an order for a customer where the name of such customer is appearing on the list of delinquent customers maintained by the securities exchange;
- (g) operate and have any branch without registration of the same with the securities exchange and after fulfilling all other applicable requirements;
- (h) engage in manipulative or deceptive conduct or any other form of misconduct which would give other users of the securities market a false or misleading impression as to the prevailing market conditions, including but not limited to price, supply or demand;
- (i) spread rumors or disseminate false or misleading information;
- (j) engage in any investment transactions and activities that would result in manipulation of prices;
- (k) accept any money from a customer on a promise of predetermined or guaranteed return; and
- (l) appoint an auditor who is an associate of its director or a senior management officer.

(3) A securities broker shall put in place, appropriate policies and procedures which govern trading or investment in securities by its employees, accredited representatives, their spouses and dependent children, and such policies shall at the minimum cover following requirements/principles:

- (a) disclosure by its employee and accredited representative of any securities held by him/her, his/her spouse and /or dependent children along with details of their accounts with a

securities broker and such information shall be reported to the compliance officer of the securities broker;

- (b) prior written approval for trading by its employees and accredited representatives for their own personal accounts or on behalf of their spouses and/or dependent children;
  - (c) approval or rejection of an application seeking trading or investment in securities by its employees and accredited representatives;
  - (d) periodic disclosure of securities held by its employees and accredited representatives and their spouses and dependent children, and reporting of actual transactions, including volume, date and price, in a timely manner;
  - (e) restriction on employees and accredited representatives from deriving any benefit or personal advantage from information which is generally not available and which is obtained by reason of or in the course of their employment with the securities broker;
  - (f) prescribing a minimum holding period and discouraging frequent short-term trading or trading for speculative purposes;
  - (g) prescribing trading windows and blackout periods to restrict the misuse of confidential information; and
  - (h) compliance of employees and accredited representatives with the requirements specified by the securities exchange and the code of conduct specified by the securities exchange in relation to the trading by employees and accredited representatives of a securities broker.
- (4) A securities broker shall not trade through another securities broker of the same securities exchange on its own account or on account of its customers.
- (5) Chief executive of the securities broker and his/her immediate family members can only trade through the securities broker which the chief executive is associated with in the said capacity.
- (6) A securities broker shall formulate policies and take reasonable measures to restrict its employees and accredited representatives, including employees serving as directors on its board, from trading through another securities broker of the same securities exchange.
- (7) Shareholders and other directors of a securities broker shall be allowed to trade through another securities broker of the same securities exchange subject to the condition that the substantial shareholders

and the directors fulfill the following requirements-

- (a) a one-time prior written approval is obtained from the securities broker of which such person is a director or substantial shareholder and the said approval shall also be submitted to the securities exchange; and
  - (b) where any such director or substantial shareholder buys or sells securities through another securities broker of the same securities exchange, he/she shall notify in writing on the same day the following information to the company secretary of the securities broker of which he/she is a director or a substantial shareholder-
    - (i) name of the securities broker through which the transaction is carried out;
    - (ii) reason(s) for trading through another securities broker;
    - (iii) following details of the transaction-
      - (A) the date of transaction;
      - (B) the price at which the transaction is executed;
      - (C) type of security traded
      - (D) number of securities/contracts/units traded;
      - (E) form of security i.e., physical or book-entry form in the central depository system;
      - (F) nature of transaction i.e., on-exchange or off-exchange transaction;
    - (iv) such director or the substantial shareholder shall also deliver a written record, along with a copy of the contract note issued by another securities broker, of the details mentioned under sub-clause (iii) to the company secretary within two days of effecting the transaction; and
    - (v) the company secretary shall immediately forward the above information to the securities exchange.
- (8) A securities broker shall ensure that it has properly designed internal control policies and framework which are duly approved and periodically reviewed by its board of directors and the same shall be widely disseminated for compliance by all employees and accredited representatives.
- (9) The internal control policies and framework to be designed under sub-regulation (8), shall inter alia stipulate the following:
- (a) ensure that clear lines of responsibility, authority and tasks are adequately assigned to its employees and accredited representatives;

- (b) ensure appropriate segregation of duties and information barriers between own account or proprietary trading and customer dealing functions;
- (c) ensure employment of sufficient human resource which is adequately trained to efficiently perform its functions;
- (d) ensure that channels of communications are properly documented and monitored regularly and effectively, including documentation of logs of e-mails and other inter-office communications;
- (e) put in place effective and operationally independent internal audit and compliance functions having appropriately trained and competent staff;
- (f) ensure that a periodic or annual review of the internal control system and assessment of overall level of compliance of the securities broker is carried out by the internal audit function, which reports directly to the board of directors or its audit committee;
- (g) ensure implementation of a trade review procedure, reasonably designed to identify trades that may violate the provisions of the Act and any rules and regulations made thereunder; and
- (h) provide for periodic inspections of branch offices of the securities broker and supervision of business activities of such branches.

(10) A securities broker shall establish and implement a contingency plan to ensure continuity of its operations in the event of a disaster or crisis. Such contingency plan shall at the minimum cover the following requirements/principles-

- (a) offsite backup of key records, systems and information and mechanism for recovery;
- (b) alternate ways of communications with customers, employees, accredited representatives and regulators;
- (c) details of alternate service providers in case of disaster;
- (d) details of availability of necessary redundancies - including infrastructural redundancies as well as operational and human capital; and
- (e) testing of the contingency plan on regular basis.

(11) A securities broker shall not, unless it complies with the applicable framework for research analysts and securities adviser, as the case may be, make a recommendation regarding purchase or sale of any particular security of any company, or publish, circulate or distribute any advertisement which represents, directly or indirectly, that any graph, chart, formula or other device set out or referred to in the advertisement:

- (a) can be used to determine which securities to buy or sell, or when to buy or sell them; or
- (b) can be used to determine what transaction to enter; or
- (c) will assist any person in deciding which securities to buy or sell, or when to buy or sell them.

(12) A securities broker licensed under the Trading and Self-Clearing category or Trading and Clearing category shall ensure:

- (a) compliance with customers' assets segregation requirements as specified by the securities exchange or the Commission from time to time;
- (b) submission of returns and statements in relation to segregation of customers' assets including reconciliations of customer assets on such frequency and on such formats as may be required by the securities exchange and/or the Commission from time to time;
- (c) periodic audit of the statements, returns and reconciliations of customer assets as per the requirements of securities exchange or in the manner specified by the Commission from time to time;
- (d) that necessary steps are taken to keep its total assets under custody within the threshold specified by the central depository or the Commission from time to time;
- (e) that the compliance officer appointed or designated by the securities broker regularly monitors the customer assets, movements therein, and prepares reconciliations as required in clauses (b) and (c). In case any discrepancy is observed or any instance of unauthorized use of customer assets or any violation of law with respect to segregation and safekeeping of customer assets is observed the same must be reported to the securities broker for taking immediate remedial action. In case the securities broker fails to rectify the position within three business days, the matter should be reported to the Commission and the securities exchange by the compliance officer;
- (f) that in case where the allowed quantum of assets under custody exceeds such threshold as may be specified by the Commission from time to time, the securities broker shall appoint a whole-time compliance officer;

- (g) establishment of systems and controls for maintaining accurate and up-to-date records of customers' asset holdings including information specifying the amount, location, and ownership status of customer assets. The records should be maintained in a way that appropriately distinguishes the customer assets account of one customer of the securities broker from the customer assets account of another customer of the securities broker and from the assets of the securities broker itself;
- (h) its systems and controls should provide for reconciliations on a regular basis, consistent with the volume of activity in the accounts, between internal accounts and records in relation to the customer assets and those of any third party with whom such customer assets are held; and
- (i) that an internal audit function, headed by a dedicated or designated head of internal audit possessing relevant qualification and experience, is put in place.

(13) In addition to meeting the conditions in these regulations, the securities broker licensed under the Trading and Clearing category shall comply with such other conditions as may be imposed by the Commission.

**17. Establishment of relationship with customer.-** (1) A securities broker shall not commence business with a customer unless it has entered into an agreement with the customer, obtained acknowledgment of risk disclosure document, opened an account in the customer's name and completed all other requirements as may be specified by the securities exchange, clearing house or a central depository.

(2) A securities broker shall take reasonable steps to ensure that the identity, address and contact details of its customers are known and verified.

(3) A securities broker shall ensure that the information contained in the account opening form is updated, complete and correct and shall ensure that the mobile number and/or the email address of the customer is registered in the central depository's and clearing company's record as per the regulations of the central depository and the clearing company.

(4) A securities broker shall ensure maintenance of only true and correct information/particulars of its customers in the system and its records, and shall not change any detail provided by the customer in the official documents/records without prior approval of the customer and shall keep the record of such changes along with necessary documentary evidence.

(5) A securities broker shall hold in possession copies of documentation regarding the identity of customer and the identity of any representative of the customer.

(6) A securities broker must take reasonable care in evaluating that the customer has sufficient financial resources to settle the transactions the customer wishes to enter into.

**18. Customers' rights.-** (1) A securities broker shall not, in any written communication or agreement, seek to exclude or restrict:

- (a) any duty or liability to a customer which such customer has under any law or under any regulations made by the Commission;
- (b) any other duty to act with skill, care and diligence that is owed to a customer in connection with the provision of service as a securities broker; and
- (c) any liability owed to a customer for failure to exercise the degree of skill, care and diligence that may reasonably be expected of the securities broker in the provision of the service of a regulated securities activity.

(2) A purported exclusion or restriction prohibited by this regulation shall be void and of no effect.

**19. Execution of customer orders.-** (1) A securities broker shall not deal in securities on account of a customer without instructions of such customer.

(2) A securities broker shall take reasonable measures to execute the orders placed by the customers on the most advantageous terms as expeditiously as practical in the prevailing market conditions and a securities broker shall ensure that the use of negotiated deals market is properly justified.

(3) A securities broker shall always give priority to outstanding customer orders.

(4) All orders to buy or sell securities which a securities broker may receive shall be entered, in the chronological order, in a register to be maintained in a form which shows the name, trading code and UIN of the person who placed the order, the name and number of the securities to be bought or sold, the nature of the transaction and the limitation, if any, as to the price of the securities or the period for which the order is to be valid.

(5) The chronological register to be maintained under sub-regulation (4) may be maintained in electronic form including the logs generated from the system and telephone recording.

**20. Order recording.-** (1) A securities broker shall ensure that all orders placed by customers through telephone are recorded over dedicated telephone lines and ensure that:



(a) all telephone lines to be used by its employees and accredited representatives who are responsible for taking and confirming orders, executing contracts, transferring funds, or carrying out instructions incidental thereto, shall be routed through a centralized call recording system; and

(b) all lines of communication are regularly tested to ensure ongoing proper functioning.

(2) A securities broker shall ensure that all orders received in-person from visiting customers are adequately recorded and acknowledgement is obtained from the customers.

(3) A securities broker shall ensure that it has preserved all records pertaining to all orders received from customers in writing or through any other document, fax, email, or through any other means.

**21. Contract notes.-** (1) A securities broker shall, in respect of every contract for the purchase, sale or exchange of securities entered into by such securities broker, not later than the start of the next trading day after the contract was entered into, make out a contract note in accordance with sub-regulations (2) and (3) and deliver it to the customer through a verifiable mode of communication and such securities broker shall retain proof of sending the contract notes to the customers.

(2) The contract notes shall be numbered with unique running serial numbers.

(3) The contract note shall state the nature of the transaction and shall include:

(a) the name and licence number of the securities broker and the address of the principal place at which it carries on its business;

(b) the name and address of the customer along with customer's account number;

(c) the name of the securities exchange on which the transaction is made;

(d) the date on which the transaction is executed, the settlement date, the date the contract note is made out and unique number of the contract note;

(e) the quantity and description of the securities transacted;

(f) the unit price and total consideration;

(g) type and market of the transaction;

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- (h) the amount of consideration payable under the contract or, in the case of exchange of securities, sufficient particulars of the securities exchanged to identify them;
  - (i) the rate or amount of the commission, ancillary charges, statutory and regulatory levies charged or payable for the transaction;
  - (j) a statement stating that the transaction in the contract note shall be subject to the regulations of the securities exchange and/or the clearing house;
  - (k) name of the authorized person of the securities broker, his/her telephone number and email address.; and
  - (l) such other information as may be specified by the Commission from time to time.

(4) A contract note may contain the particulars of more than one transaction which have been transacted during one market day in relation to a customer.

**22. Electronic contract notes.-** (1) A contract note that is issued by the securities broker may be in electronic form subject to authorization by the customer in writing.

(2) The electronic contract note shall be issued to the customer on the email address provided by such customer in writing and any change in the email address must be communicated by the customer to the securities broker in writing under signature and such securities broker must retain record of the same.

(3) The acknowledgment of the email sent to the customer shall be retained by the securities broker in soft and non-alterable form.

(4) The proof of delivery i.e., log report generated by the system at the time of sending the contract notes shall be maintained by the securities broker.

(5) The log report shall also provide the details of the contract notes that are not delivered to the customer's e-mails or are rejected or bounced back.

(6) Wherever the electronic contract notes have not been delivered to the customer or have been rejected (bouncing of mails), the securities broker shall send a physical contract note to the customer within the timeline specified under regulation 21.

**23. Segregation of customer money.-** (1) Customer money shall not form part of the assets of the securities broker for any purpose and shall not be available in any circumstances for payment of any debt or

liability of the securities broker.

(2) A securities broker shall not use customer money for any purpose other than as allowed under the Act or any rules or regulations made thereunder.

(3) A securities broker who receives or holds customer money shall open one or more designated bank accounts with a scheduled bank in Pakistan for such purpose and the title of the account shall reflect the same.

(4) A designated customer bank account shall be kept segregated from any account holding money belonging to the securities broker.

(5) A securities broker shall forthwith deposit into a designated bank account for the customers all customer money coming into the securities broker's hands from a customer.

(6) A securities broker shall keep records of:

(a) all amounts deposited into the designated bank account(s), specifying the customers on whose behalf the amounts are held and the dates on which the amounts were received;

(b) all payments from the designated bank account(s), the dates of those payments, and the names of the customers on whose behalf the payments are made; and

(c) such other particulars as may be specified by the Commission.

(7) No amount from customer bank account(s) shall be withdrawn in cash and all payments shall be made through cross cheques or other banking channels and where payment is made through cross cheques, the securities broker shall keep copy of the cheques issued for the purposes of record.

**24. Accounting for and use of customer money.-** (1) A securities broker shall properly account for customer money and ensure that, –

(a) customer money is not mixed with other money;

(b) a securities broker can at all times calculate how much customer money stands to the credit of each customer; and

(c) money belonging to one customer is not used for another customer.

(2) A securities broker shall not withdraw money received and deposited in the designated bank account otherwise than for the purpose of, –

- (a) making a payment to a person entitled to the money;
- (b) meeting obligations emanating from dealing in securities effected by the securities broker on the instructions of a customer;
- (c) defraying brokerage and other charges or levies incurred in respect of dealing in securities effected by the securities broker on the instructions of a customer; or
- (d) making a payment that is otherwise authorized by law.

**25. Segregation of other customer assets.-** (1) All customer assets (other than customer money) held or received by a securities broker on account of a customer in connection with any trading in securities shall be segregated and separately accounted for.

(2) A securities broker shall at all times keep such books as is necessary:

- (a) to show all handling of a customer's assets including relevant dates; and
- (b) to distinguish such customer assets held or received by it on account of each separate customer and to distinguish such customer assets from its own assets and other assets held or received by the securities broker.

(3) A securities broker licensed under the Trading and Self Clearing category or Trading and Clearing category shall maintain a separate sub-account under its participant account in the CDS for each of its customers to maintain the custody of all securities belonging to the customer including margins deposited by the customer.

(4) A complete audit trail of the transactions pertaining to customer's assets is to be maintained by the securities broker.

**26. Periodic reporting to the customer.-** (1) A securities broker shall, on quarterly basis or on any other periodic basis as may be specified by the securities exchange and/or the Commission, furnish to the customer reports containing information regarding handling of securities, receipts and payments and the holding balances of customer's assets.

(2) A securities broker shall promptly provide to a customer any report or information pertaining to the

account of such customer as and when requested by the customer.

**27. Customer Complaints.-** (1) A securities broker shall have internal procedures to ensure the proper handling of complaints received from customers and to ensure that appropriate remedial action on those complaints is promptly taken.

(2) A securities broker shall take all reasonable measures to redress customers' grievances promptly but not later than thirty days of receipt thereof and when called upon by the Commission or the securities exchange or any other regulatory body to do so it shall redress the grievances of customers within the time specified.

(3) A securities broker shall maintain records regarding customers' grievances received by it and redressal of such grievances.

(4) A securities broker shall at the end of each quarter submit information about the number of customer grievances received, redressed and those remaining unresolved beyond three months of the receipt to the securities exchange along with the reasons thereof for delay.

**28. Proprietary trading.-** (1) The proprietary trades of a securities broker shall be executed through designated terminals and by designated system operator(s).

(2) A securities broker shall formulate procedures and controls for execution of proprietary trades in terms of secrecy and preventing trading ahead of outstanding orders of customers, and shall identify the persons who are authorized to operate the proprietary trading account.

**29. Appointment and functions of Compliance Officer.-** (1) A securities broker shall, as applicable, either designate or appoint a whole-time compliance officer, fulfilling the fit and proper criteria specified in these regulations and responsible for monitoring compliance of the securities broker with the applicable regulatory regime.

(2) In case of a securities broker licensed under the Trading and Self-Clearing or Trading and Clearing categories, the compliance officer shall also be responsible for ensuring compliance with and performing functions pertaining to the segregation and safekeeping of customer assets as specified in clause (e) of sub-regulation (12) of regulation 16.

(3) The compliance officer shall immediately report any non-compliance with any requirement to the securities broker and the securities broker shall immediately take steps to ensure compliance with the regulatory regime.

(4) Where the securities broker fails to take steps as required under sub-regulation (3) the compliance officer shall immediately inform the securities exchange and the Commission of the non-compliance by the securities broker.

(5) The compliance officer shall prepare monthly compliance reports which shall be submitted to the board of directors of the securities broker.

**30. Short selling by a securities broker.-** (1) A securities broker may short sell securities for its own account or for the customers' accounts, in accordance with these regulations and the conditions specified by the securities exchange.

(2) A securities broker engaging in short selling transaction on account of a customer shall ensure that such customer is aware of the risks involved and has the financial capacity to assume such risks.

(3) A securities broker shall establish internal guidelines for short selling prior to conducting short selling transactions providing therein procedures for the supervision and monitoring of short selling activities by the securities broker, to ensure compliance with these regulations and conditions specified by the securities exchange.

(4) Short sale will only be permissible on uptick or zero-plus tick:

Provided that short sale may be allowed without up-tick or zero-plus tick up to the following extent:

- (a) a UIN will be allowed to make short sale to the maximum extent of 2% of average daily turnover of the respective security of previous one month;
- (b) a securities broker for all its proprietary and customer positions will be allowed to make short sale to the maximum extent of 4% of average daily turnover of the respective security in the previous one month;
- (c) all securities brokers on cumulative basis will be allowed to make short sale to the maximum extent of 40% of average daily turnover of the respective security in the previous one month:

Provided that the provisions of the first proviso shall not be available in the following cases:

- (i) when the price of a security declines up to 2.5% from the closing price of the previous day, the exemptions shall not be available for the remainder of the day;

(ii) when lower circuit breaker, becomes applicable on the closing price of a security, the exemptions shall not be available for the next two working days;

(iii) when lower circuit breaker, becomes applicable on the closing price of a security consecutively for five working days, the exemptions shall not be available for next fifteen working days after the fifth working day.

(5) No securities broker shall make a blank sale either for its own account or for the customers' accounts.

**31. Restrictions on Short Selling.-** (1) Where the price of a security on a trading platform has fallen significantly during a single trading day in relation to the closing price of that security on that trading platform on the previous trading day, the Commission may prohibit or restrict securities brokers from engaging in short selling in that security.

(2) A securities broker must declare short sales while placing the order in the trading system in the manner and procedure as may be specified by the securities exchange from time to time. The securities exchange, shall disclose the cumulative figures of short sales for public consumption at the close of market every day in accordance with its procedures.

#### Chapter IV

#### ACCOUNTING AND AUDIT

**32. General.-** (1) The obligations and duties of a securities broker under these regulations with respect to audit and accounts are in addition to the requirements of the Ordinance, the rules and regulations made thereunder and any directives issued thereunder.

(2) A securities broker may prepare financial statements on trade date or settlement date basis and accordingly account for income, assets and liabilities:

Provided that the securities broker shall disclose the said basis in its financial statements and shall not change the said basis during a financial year.

**33. Maintenance of books of accounts and other records.-** (1) A securities broker shall keep accounting and other records which shall sufficiently explain its business and transactions entered into (whether effected on its own behalf or on behalf of customers) and the financial position of the securities broker, and shall be such as to:

- (a) disclose with accuracy the financial position at that time;
  - (b) enable the securities broker to prepare financial statements at any time and which comply with the requirements of law; and
  - (c) demonstrate whether the securities broker is maintaining in its regulated securities activity adequate financial resources to meet its business commitments.
- (2) A securities broker shall ensure that all books and records with respect to accounting and audit under these regulations are updated in a timely manner.
- (3) A securities broker shall ensure that information which is required to be recorded under the Act and these regulations shall be recorded in such a way as to enable a particular transaction to be identified at any time and traced from initiation of the order to final settlement.
- (4) All records required to be maintained under the Act and these regulations including records maintained in electronic form shall be recorded, arranged, filed, indexed and cross-referenced so as to permit prompt access to any particular record.
- (5) A securities broker shall prepare and maintain books of accounts and other documents in a manner that will disclose a true, accurate and up-to-date position of business, including but not limited to:-
- (a) record of all assets and liabilities of the securities broker including any commitments or contingent liabilities;
  - (b) journal (or other comparable record), cash book and any other books of original entry, forming the basis of entries into any ledger, the books of original entry which contain a daily record of all orders for purchase or sale of securities, all purchases and sales of securities, all receipts and deliveries of securities and all other debits and credits;
  - (c) ledgers (or other comparable records) reflecting asset, liability, reserve, capital, income and expense accounts;
  - (d) ledgers (or other comparable records) reflecting securities in transfer, securities borrowed and securities loaned and securities bought or sold;
  - (e) record of all balance of all ledger accounts in the form of trial balances;



- (f) daily entries of all customer money which is deposited into or out of a designated bank account, where applicable;
- (g) record of transactions with the banks and the aggregate balances on designated bank accounts;
- (h) contract books showing details of all contracts entered into by the securities broker;
- (i) documents relating to opening of trading account of a customer with the securities broker;
- (j) documents relating to opening of the sub-account of the customers with the central depository, where applicable;
- (k) documents of sub-account holders as per requirements of the central depository, where applicable;
- (l) record of individual customers balances stating the name of each customer and the amount held or received for that customer;
- (m) record of the time, date and complete particulars of instructions received from and trades executed for customers;
- (n) counterfoils or copies of the contract notes issued to the customers;
- (o) margin deposit book;
- (p) registers of accounts of accredited representatives;
- (q) an agreement with an accredited representative specifying the scope of authority and responsibilities of the securities broker and accredited representative;
- (r) record of pledging or arranging for the pledging of any security carried for the account of any customer, where applicable;
- (s) record of extension or maintenance of credit or arranging for the extension or maintenance of credit to the customers for the purpose of purchasing or carrying any securities;
- (t) record of borrowings on any securities or lending or arranging for the lending of any securities carried for the account of the customer;

(u) daily record of all purchases and sales of securities by the securities broker distinguishing those which are made by the securities broker on his own account and those which are made by him on behalf of others;

(v) record of establishment of branch offices within or outside the premises of the securities exchange with the following information, namely:-

- i. location of the branch offices;
- ii. intimation to the securities exchange of such offices;
- iii. details of trading terminals installed at the branch offices;
- iv. status of the person authorized to manage the branch office;
- v. proof of business being done at the branch office in the name of the securities broker;
- vi. authority given to the accredited representative to perform all acts on behalf of the securities broker;
- vii. proof of maintenance of the branch offices' bank accounts in the name of the securities broker;
- viii. proof of proper maintenance of accounts of the customers at the branch offices; and
- ix. any other documents and records required to be maintained under regulations made by the securities exchange; and

(w) all customer related record.

(6) A securities broker shall intimate to the securities exchange and the Commission the place where the books of accounts, records and documents are maintained.

(7) A securities broker shall maintain separate books of accounts for:

- (i) money received from or on account of and money paid to or on account of each of its customer; and
- (ii) the money received and the money paid on a securities broker, accredited representative or an associated person's own account.

**34. Preparation and submission of financial statements.-** (1) A securities broker shall prepare financial statements for each quarter, half year and for each financial year. The financial statements of the securities broker shall be prepared in compliance with the requirements of the Ordinance including conformity with the accounting standards as directed by the Commission.

(2) A securities broker must also disclose in its financial statements the following-

- (a) customer assets held in the designated bank account or in the central depository system;
- (b) total value of pledged securities with financial institutions indicating separately securities belonging to customers;
- (c) turnover during the period, separately showing turnover from proprietary trades, retail customers and institutional customers;
- (d) income from dividends;
- (e) pattern of shareholding, giving names of persons holding more than 5% shares;
- (f) all changes in shareholding above 5%;
- (g) treatment of amount receivable from customers;
- (h) aging analysis of amount due from customers;
  - (i) in the case of amount receivable for more than five (5) days provision should be made to the extent by which the amount receivable exceeds the collateral held from such customer after applying haircuts;
  - (ii) in the case of collateral in the form of listed shares, haircuts shall be applied on the basis of VAR as notified by the securities exchange or clearing house;
  - (iii) in the case of collateral in the form of other securities, guidelines issued by the Commission or the securities exchange from time to time shall be followed.

(3) A securities broker shall submit, within four months after the end of each financial year, its annual financial statements to the Commission along with its audit report.

**35. Appointment of auditor and related matters.-** (1) A securities broker shall ensure that the auditor appointed has inter-alia the powers and duties specified under sub-regulation 3 and-

- (a) those powers and duties are set out in an engagement letter;
- (b) the engagement letter is signed by the securities broker and the auditor; and
- (c) the securities broker retains a copy of the engagement letter.

(2) A securities broker shall, within seven days, give written notice to the Commission of the

appointment, removal or resignation of an auditor.

- (3) The auditor appointed by a securities broker shall have the right to, –
  - (a) access the accounting and other records of the securities broker and all other documents relating to its business including the documents the securities broker is required to maintain under the Act and these regulations; and
  - (b) require from the securities broker such information and explanations as the auditor considers necessary for the performance of duties.
- (4) In preparing an audit report, the auditor shall carry out such investigations as will enable him to form an opinion as to the matters required by sub-regulation 5 to be stated in the auditor's report.
- (5) The audit report shall state all the matters as are required to be stated in accordance with the requirements of the Ordinance and where applicable, must state additionally whether in the opinion of the auditor:
  - (a) the securities broker has maintained throughout the financial year systems adequate to enable the auditor to identify with reasonable accuracy the assets held on behalf of customer and distinguish such assets from the proprietary assets of the securities broker;
  - (b) the securities broker was in compliance with the requirements of section 78 of the Act and the relevant requirement of these regulations as at the date on which the balance sheet was prepared;
  - (c) an adequate internal control system and compliance function commensurate with the size and nature of services performed by the securities broker was implemented during the period; and
  - (d) the compliance officer performed its functions with efficiency during the year.
- (6) If the auditor is of the opinion that one or more of the requirements of sub-regulation 5 have not been met, such opinion shall be stated in the report and the relevant requirements which they have not been met shall be specified.
- (7) Where an auditor resigns or is removed by the securities broker, a notice to that effect shall be sent to the Commission containing a statement signed by the auditor to the effect that there are no circumstances connected with his resignation or removal which the auditor considers should be brought to the attention of the Commission.

**36. Submission of information and returns.**- (1) The Commission may by written notice require a

securities broker to submit to the Commission such information or periodic returns as it may require.

(2) In addition to any periodic returns required under sub-regulation (1), the Commission may by written notice require securities broker, either generally or in a particular case or class of cases, to submit to the Commission such other information or exceptional returns as it may require.

**37. Management rating.-** The securities brokers licenced under the Trading and Self Clearing and Trading and Clearing categories are encouraged to 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. In case such rating is above the level specified by the Commission for the purpose, the Commission may consider reducing the frequency of applicable reporting or disclosure requirements such as reporting requirements pertaining to customer asset segregation etc. or reducing the frequency of periodic inspections for such securities broker under the applicable regulations.

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**FORM OF APPLICATION FOR LICENCE AS A SECURITIES BROKER**  
**[see regulation 5(1)]**

To  
The Securities and Exchange Commission of Pakistan,  
Islamabad.

Dear Sir,

1. We ....(Name of the company)..... hereby apply for licence of securities broker under the ...Trading Only/Trading and Self-Clearing/Trading and Clearing.... category under section 68 of the Securities Act, 2015.
2. Certified true copies of all the documents specified in Annexure A of the Securities Brokers (Licensing and Operations) Regulations, 2016 are enclosed.
3. Original receipt of the bank for the fee of Rs.....being the licensing fee is enclosed.

Yours faithfully,

Signature of the Chief Executive

## Annexure A

### Information and Documents to be provided along-with application for licence as a securities broker

#### **1. General and business information:**

1.1. Brief history of the applicant containing at least name of the applicant, date and place of its incorporation, date of commencement of business, names and contact details of sponsors, directors and senior management officers including group structure, if any, and length of experience as securities broker, if any.

1.2. Address of the registered office of the applicant (postal address, postal code and telephone, fax numbers.)

1.3. Mailing address of the applicant (postal address, postal code, telephone number, fax numbers and e-mail address of the concerned officer of the applicant.)

1.4. Percentage of capital, each sponsor proposes to contribute in the company.

1.5. Name of the securities exchange of which the applicant is a TRE certificate holder, along-with the TRE Certificate number.

1.6 Details of outstanding legal proceedings, if any, initiated against the applicant, its directors or senior management officers by the Commission or any other regulatory authority.

1.7 Details in case the applicant, its sponsors, directors, major shareholders or senior management officers have been declared insolvent or bankrupt, or declared defaulter by any authority.

1.8 Details of penal actions, if any, taken against the applicant, its sponsors, directors, major shareholders or senior management officers during the last three years by the Commission or any other regulatory authority.

1.9 In case any associated company of the applicant is already licensed under the Securities Act, 2015, the following details shall be provided, namely:-

(i) name of such associated company;

(ii) details of warning notices, if any, issued to such associated company by the Commission;

(iii) details of legal proceedings, if any, initiated against such associated company by the Commission or any other regulatory authority; and

(iv) penal action, if any, taken against such associated company by the Commission during the last three years.

**2. Details of infrastructural facilities** (to be used for performing the functions of a securities broker):

2.1 Computer systems installed:

- (a) hardware configurations; and
- (b) software used

2.2 Data processing capacity:

- (a) available infrastructure (computers and other electronic equipment used for data processing and communication);
- (b) available manpower; and
- (c) office space (mention extent of area in square feet available)

**3. Other information:**

3.1 Details as per following format of all pending disputes in which the applicant is a party:

- a) Name of the party
- b) Name and place of court/tribunal where dispute is pending
- c) Amount involved
- d) Pending since
- e) Date of last hearing
- f) Decision at last hearing

3.2 List of civil and criminal offenses in which the applicant or any of its sponsors, directors or senior management officer has remained involved during the last three years.

3.3 Any other information considered relevant to the business of the securities brokers.

3.4 Any significant awards or recognition, collective grievances against the applicant.

**4. List of documents to be provided along with application:**

4.1 Copy of memorandum and articles of association of the applicant duly certified from the concerned company registration office (CRO) containing copy of the certificate of incorporation and that of the certificate of commencement of business, duly certified from the CRO concerned.

4.2 Copy of Forms 3, 27, 28 and 29 of the applicant duly certified from the CRO concerned.

4.3 Audited accounts for the last three years and latest half yearly and quarterly accounts, where applicable.



4.4 Copies of documents evidencing compliance with the financial resource requirements specified in the Securities Brokers (Licensing and Operations) Regulations, 2016.

4.5 Profile/Fit and Proper related documents pertaining to the applicant, its sponsors, senior management officers and directors along-with details such as name, qualification, experience and date of appointment, directorship in other companies, names of such other companies and date of appointment as director in such other companies.

4.6 An undertaking from the sponsors of the applicant that they will not sell or transfer their shares without prior written approval of the securities exchange and the Commission.

4.7 An undertaking from the directors of sponsoring company and the applicant that they will inform the Commission in case of any change in the sponsors/majority shareholders of the sponsoring company.

4.8 An undertaking that the securities broker, its directors, sponsors, senior management officers are in compliance with all the requirements for grant of a licence under the Securities Brokers (Licensing and Operations) Regulations, 2016.

4.9 Names and addresses of and particulars of any business carried on by each person holding an interest of 10% or more in the issued share capital of the securities broker.

4.10 The pattern of shareholding, identifying separately the sponsors and shares held by the sponsors

4.11 Bank details of the securities broker.

4.12 Details of the affiliation and outsourcing contracts, if any.

4.13 Any other information/document as required by the Commission.

**Note:** In case any of the above documents/information has already been submitted to the Commission, the applicant may only provide an undertaking that there is no change in the earlier submitted document/information.

**Schedule I**

[see regulations 5(1) and 9(1)]

**SCHEDULE OF FEES\***

<b>Description of fee</b>	<b>Amount of fee in PKR</b>
<b>Fee to be paid at the time of applying for licence as a securities broker</b>	
a) In case of a securities broker deemed licensed under regulation 3	Rs50,000
b) In all other cases	Rs100,000
<b>Fee to be paid at the time of applying for renewal of licence as a securities broker</b>	Rs50,000

\* The above fees shall be deposited into the designated bank account of the Commission, along-with applicable collection charges.

**Annexure B**  
**FIT AND PROPER CRITERIA**  
**[see regulation 4]**

**FIT AND PROPER CRITERIA FOR APPLICANT, SPONSORS, DIRECTORS AND SENIOR  
MANAGEMENT OFFICERS OF SECURITIES BROKERS**

This Fit and Proper Criteria is perpetual in nature and its compliance is mandatory.

All persons subject to Fit and Proper Criteria must submit any change in the submitted information, including financial soundness to the company secretary of the securities broker within three business days and the securities broker shall within a period of seven business days report the same to the securities exchange and the Commission.

In addition to the applicant and the sponsors of the applicant, eligibility of any person desiring to act as a director on the board of directors or senior management officer of a securities broker shall be judged on the basis of following criteria, which in the case of directors, shall be in addition to meeting requirements of the Companies Ordinance, 1984 relating to eligibility of a director:

**(a) Financial Soundness and Integrity**

(i) The person should not have been adjudged as an insolvent or he should not have suspended payment of debts or compounded liabilities with its/his creditors.

(ii) The person should not have been convicted by a court of competent jurisdiction as a defaulter in payment of any loan to a financial institution including banking company, a Development Financial Institution or a Non-Banking Financial Company.

(iii) The person and companies, firms, sole proprietorship etc. where the person is a chief executive, director (other than nominee director), owner or partner etc., has/have no overdue payment to any customer, financial institution, securities exchange, futures exchange, clearing house, central depository and / or defaulted in payment of any taxes in the individual capacity or as a proprietary concern or any partnership firm or as director in any private unlisted and listed company.

*Explanation:* In case of overdue payment to any financial institution, CIB reports from the State Bank of Pakistan shall be examined and if there is any overdue/past due payment to a financial institution, irrespective of amount, in overdue column of latest CIB report of the person and of the companies, firms, sole proprietorship etc. where such person is a chief executive, director (other than nominee director), owner or partner etc., such person shall not be considered fit and proper person except:

- (a) in case where such overdue amount is under litigation and the same is also appearing as amount under litigation in CIB report; or
- (b) No overdue payment is appearing in the overdue column in the subsequent latest CIB report.

In case of overdue amount in CIB report, no rejection shall be made unless the person has been provided an opportunity of making a representation before the Commission.

(iv) The person should not have been a director and/or chief executive of any company or body corporate which has defaulted in payment of Government duties/taxes/cess or has misused customer securities.

(v) The person should be a tax payer and his name should be borne on the Active Tax Payers List regularly published by Federal Board of Revenue.

Provided that this requirement shall not be applicable in the case of foreign nationals.

**(b) Educational or other Qualification or Experience**

(1) In case of directors, at least one director should have:

- i) membership of a recognized body of professional accountants; or a CFA degree; or a graduate degree in finance, accountancy, business management, commerce, economics, law, capital market, financial services or related disciplines from a university recognized by the Higher Education Commission of Pakistan, or equivalent; and
- ii) have an experience of at least five years in activities relating to capital market, specifically securities brokerage business.

(2) In case of chief executive officer, the person should:

- a) be a member of a recognized body of professional accountants or possess a post-graduate degree in finance, accountancy, business management, commerce, economics, law, capital market, financial services or related disciplines from a university recognized by the Higher Education Commission of Pakistan, or equivalent; and
- b) have a minimum experience of seven years in a senior management position, preferably in the regulated financial services sector.

(3) In case of compliance officer, the person shall

- a) be a member of a recognized body of professional accountants, or possess a graduate degree in finance, accountancy, business management, commerce, economics, capital market, financial

services or related disciplines from a university recognized by the Higher Education Commission of Pakistan, or equivalent; and

- b) have a minimum experience of three years in audit, finance or compliance functions or any other managerial position in a company in the financial sector.

Provided that for all of the above persons, where a person possesses seven years of relevant experience of the capital markets, the minimum qualification requirement shall be relaxed.

(4) The directors and senior management officers must be fully conversant with the duties of director or senior management officer, as the case may be, as specified under the statutes, rules and regulations, memorandum and articles of association and the Corporate Governance Code.

### **(c) Competency**

(i) Membership or licence of the person or any company in which the person was a director during the last three years has not been suspended/cancelled by the Commission, any other regulatory authority, any professional body, association or relevant entity e.g. the securities or futures exchange, central depository or clearing house.

Provided that eligibility of a person may be considered on the basis of prior clearance obtained from any such organization that suspended/ cancelled the membership or licence.

(ii) No proceedings are pending with respect to the applicant's winding up, insolvency or analogous relief.

(iii) The person should not have been disqualified/ removed from the post of a key executive position of a company by the Commission or any other regulatory authority.

### **(d) Integrity, Honesty and Reputation**

(i) The person should not have been convicted in any criminal offence or directly involved in any settlement in civil/ criminal proceedings in a court of law, particularly with regard to moral turpitude, investments, financial/business misconduct, fraud/ forgery, breach of trust, financial crime etc. and/ or it has not been concluded by any regulatory authority that the person has been associated with any unauthorized financial activity including illegal brokerage business.

(ii) The person is not a party in litigation against the Commission in respect of any criminal offence or a matter relating to non-payment of customer claims or in any other manner prejudicial to the interest of customers and general public.

(iii) No investigation/enquiry/inspection, conducted under Section 139 of the Securities Act, 2015, Section 29 of the Securities and Exchange Commission of Pakistan Act, 1997, Section 21 of the Securities and Exchange Ordinance, 1969, Section 263 or Section 265 of the Companies Ordinance, 1984, has been concluded against the person by the Commission with material adverse findings.

(iv) The person has not defaulted on settlement of a customer complaint where such complaint has been adjudicated by the Commission or the securities exchange.

(v) An order restraining, prohibiting or debarring the person from dealing in securities in the capital market or from accessing the capital market has not been passed; or penalty of Rs.500,000/- or more has not been imposed on it/him/her by the Commission in the last three years, in respect of any laws administered by the Commission.

Provided that a person may be considered eligible in case a period of at least three years from the date of expiry of the period specified in the order for which such person has been restrained/prohibited/debarred has elapsed.

(vi) The person should not have provided false or misleading information either to the Commission or to any of the regulatory body, securities exchange, central depository or a clearing house.

(vii) The person should not have been actively involved in the management of a company whose registration or licence has been revoked or cancelled or which has gone into liquidation or other similar proceedings due to financial irregularities or malpractices.

(viii) The person must not be ineligible, under the Companies Ordinance, 1984 or any other legislation from acting as a director.

(ix) The person should not have entered into a plea bargain arrangement with the National Accountability Bureau.

#### **(c) Additional Criteria for Independent Directors**

(i) The person has no relationship with the securities broker that would interfere with him exercising independent professional judgment as a director and he can be reasonably perceived as being able to exercise independent business judgment without being subservient to any apparent form of interference.

(ii) The person should not be a director, officer, sponsor or shareholder of a company holding TRE certificate or any holding or subsidiary company of such company.

(iii) The person's immediate family member is also not a director, officer, sponsor or shareholder of a company holding TRE certificate and/or the combined shareholding of the immediate family members in any company licensed as a securities broker does not exceed twenty percent.

(iv) It shall be mandatory to disclose any shareholding in a listed company in such person's name or in the name of his/her immediate family member or in the name of an entity being managed or controlled by him/her or his/her immediate family member to the securities broker and the securities exchange;

- a. at the time of submission of initial information; and
- b. on quarterly basis for the respective period.

(v) The person shall not simultaneously be serving as a director on the board of more than seven listed companies.

Note:

- In case of any ambiguity in determination of fitness and propriety of a person in terms of this criteria, the decision of the Commission shall be final and binding upon the securities broker.
- Along-with the application for licence for a securities broker:
  - a) the applicant's individual sponsors, directors and senior management officers shall submit the following duly filled Form and the Affidavit; and
  - b) the authorized person on behalf of the applicant and authorized person on behalf of the sponsors where the sponsor is a company, shall submit the following duly filled Affidavit.

**Information to be provided by individual sponsors, directors and senior management officers of the**  
 \_\_\_(name of securities broker)\_\_\_

1.	Curriculum Vitae/Resume containing:
(a)	Name:
(b)	Father's or Husband Name:
(c)	C.N.I.C # (attach copy)
(d)	Latest photograph
(e)	Nationality:
(f)	Age:
(g)	Contact details:
	i) Residential address:
	ii) Business address:
	iii) Tel:
	iv) Mobile:
	v) Fax:
	vi) E-mail:

(h)	National Tax Number:		
(i)	Present occupation:		
(j)	Qualification(s):		
	i) Academic:		
	ii) Professional:		
(k)	Experience: (Positions held during the last 10 years along with name and address of company/ institution) Information to be provided on the following sample format*:		
	Sr#	Name of Organization	Designation Period
	1	Company A	DD/MM/YY - DD/MM/YY
	2	Company B	DD/MM/YY - DD/MM/YY

2.	1. Nature of directorship:		
	a) Executive    b) Non-executive		
	2. Status of directorship:		
	a) Nominee director    b) Elected director    c) Independent director		
	Number of shares subscribed or held _____		
	Nominated by (name of shareholder/ nominating entity)		
3.	Names of companies, firms and other organizations of which the person is presently a director, partner, office holder or major shareholder (Information to be provided on the following sample format*)		
	Sr. #	Name of Organization	Designation Period
	1	Company A	DD/MM/YY - DD/MM/YY
	2	Company B	DD/MM/YY - DD/MM/YY
	4. Names of any persons on the board of the (name of securities broker) who are related to the applicant.		

Signature \_\_\_\_\_

\*use additional sheets if required



**Affidavit to be provided by the applicant, sponsors, directors and senior management officers of the applicant**

(On Stamp Paper of Appropriate Value)

**AFFIDAVIT**

**A. In case of an individual in his/her own capacity:**

I, \_\_\_\_\_ son/daughter/wife of \_\_\_\_\_ adult, resident of \_\_\_\_\_ and holding CNIC/ Passport No. \_\_\_\_\_ do hereby state on solemn affirmation as under:-

1. That I am eligible for .....the position of director/senior management officer....(OR) being sponsor..... of the (name of applicant)..... according to the Fit and Proper Criteria specified as per the Securities Brokers (Licensing and Operations) Regulations, 2016.
2. That I and the companies, firms, sole proprietorship etc. where I am a chief executive, director (other than nominee director), owner or partner etc. have no overdue payment to any financial institution.
3. That I hereby confirm that the statements made and the information given by me are correct and that there are no facts which have been concealed.
4. That I have no objection if the ..(name of applicant/)..., securities exchange or the SECP requests or obtains information about me from any third party.
5. That I undertake to bring to the attention of the ... (name of applicant).... any matter which may potentially affect my status as sponsor/director/senior management officer as per the fit and proper criteria specified in the Securities Brokers (Licensing and Operations) Regulations, 2016.
6. That all the documents provided to ....(name of applicant)...., are true copies of the originals and I have compared the copies with their respective originals and certify them to be true copies thereof.
7. That I will comply with any other condition as may be specified by the Commission.

**B. In case of an individual as authorized person on behalf of sponsors:**

I, \_\_\_\_\_ son/daughter/wife of \_\_\_\_\_ adult, resident of \_\_\_\_\_ and holding CNIC/ Passport No. \_\_\_\_\_

\_\_\_\_\_, on behalf of .....(name of institution)..... being sponsor of the ...( name of applicant)..... do hereby state on solemn affirmation as under:-

1. That ....(name of the institution)..... is eligible for being sponsor of the ....(name of applicant)..... according to the Fit and Proper Criteria specified as per the Securities Brokers (Licensing and Operations) Regulations, 2016.
2. That .....(name of the institution)....., and the companies, firms, sole proprietorship etc. associated with .....(name of the institution)....., have no overdue payment to any financial institution.
3. That I hereby confirm that the statements made and the information given by me are correct and that there are no facts which have been concealed.
4. That .....(name of the institution)..... has no objection if the ..(name of applicant)..... securities exchange or the SECP requests or obtains information about .....(name of the institution)..... from any third party.
5. That I undertake, on behalf of .....(name of the institution)..... that .....(name of the institution)..... will bring to the attention of the ... (name of applicant).... any matter which may potentially affect its status as sponsor of the ... (name of applicant).... as per the fit and proper criteria specified in the Securities Brokers (Licensing and Operations) Regulations, 2016.
6. That all the documents provided to ....(name of applicant).... are true copies of the originals and I have compared the copies with their respective originals and certify them to be true copies thereof.

**C. In case of an individual as authorized person on behalf of applicant:**

I, \_\_\_\_\_ son/daughter/wife of \_\_\_\_\_ adult, resident of \_\_\_\_\_ and holding CNIC/ Passport No. \_\_\_\_\_, on behalf of .....(name of the applicant)..... do hereby state on solemn affirmation as under:-

1. That ....(name of the applicant)..... is eligible for applying for licence as a securities broker as per the Securities Brokers (Licensing and Operations) Regulations, 2016.
2. That .....(name of the applicant)....., and the companies, firms, sole proprietorship etc. associated with .....(name of the applicant)....., have no overdue payment to any financial institution.
3. That I hereby confirm that the statements made and the information given by me are correct and that there are no facts which have been concealed.

4. That .....(name of the applicant)..... has no objection if the securities exchange or the SECP requests or obtains information about .....(name of the applicant)..... from any third party.

5. That I undertake, on behalf of .....(name of the applicant)..... that .....(name of the applicant)..... will bring to the attention of the securities exchange any matter which may potentially affect its status as a securities broker as per the licencing conditions and fit and proper criteria specified in the Securities Brokers (Licensing and Operations) Regulations, 2016.

6. That all the documents provided by ....(name of applicant).... are true copies of the originals and I have compared the copies with their respective originals and certify them to be true copies thereof.

7. That the applicant will comply with any other condition as may be specified by the Commission.

\_\_\_\_\_  
DEPONENT

The Deponent is identified by me

Signature \_\_\_\_\_  
ADVOCATE  
(Name and Seal)

Solemnly affirmed before me on this \_\_\_\_\_ day of \_\_\_\_\_ at \_\_\_\_\_ by the Deponent above named who is identified to me by \_\_\_\_\_, Advocate, who is known to me personally.

Signature \_\_\_\_\_  
OATH COMMISSIONER FOR TAKING AFFIDAVIT

**Schedule II**  
[see regulation 6(4)]

**COMPUTATION OF NET CAPITAL BALANCE**

**Current assets and current liabilities in relation to a securities broker for the purpose of net capital shall be determined by accounting for the current assets and liabilities in the following manner:**

<b>A-Description of Current Assets</b>	<b>Valuation basis</b>
1. Cash in hand or in bank	As per book value
2. Trade Receivables	Book Value less those overdue for more than fourteen days
3. Investment in listed securities in the name of broker	Securities on the exposure list marked to market less 15% discount
4. Securities purchased for customers	Securities purchased for the customer and held by the broker where the payment has not been received within fourteen days
5. Listed TFCs/ Corporate Bonds of not less than BBB grade assigned by a credit rating company in Pakistan	Marked to Market less 10% discount
6. FIBs	Marked to Market less 5% discount
7. Treasury Bill	At market value
8. Any other current asset specified by the Commission	As per the valuation basis determined by the Commission
<b>B-Description of Current liabilities</b>	<b>Valuation basis</b>
1. Trade payables	Book Value less those overdue for more than 30 days
2. Other liabilities	As classified under the generally accepted accounting principles

Guidelines issued by the Commission from time to time shall also be followed while calculating the Net Capital Balance

**Schedule III**  
[see regulation 6(4)]

**Monthly statements of liquid capital with the Commission and the securities exchange**

**NAME OF THE SECURITIES BROKER**

**Computation of Liquid Capital**

*As on dd.mm.yyyy*

#	Head of Account	Value in Pak Rupees	Hair Cut / Adjustments	Net Adjusted Value
<b>1. Assets</b>				
1.1	Property & Equipment	Balance Sheet Value net of depreciation	100% of net value	Nil
1.2	Intangible Assets	Balance Sheet Value net of amortization	100% of net value	Nil
1.3	Investment in Govt. securities	Balance Sheet Value	Sale value on the date on the basis of PKRV published by NIFT	Net sale value
1.4	Investment in debt securities	Balance Sheet Value net of any provision	<p>If listed than</p> <ul style="list-style-type: none"> <li>i. 5% of the balance sheet value in the case of tenure upto 1 year</li> <li>ii. 7.5% of the balance sheet value, in the case of tenure from 1-3 years</li> <li>iii. 10% of the balance sheet value, in the case of tenure of more than 3 years.</li> </ul> <p>If unlisted than</p> <ul style="list-style-type: none"> <li>i. 10% of the balance sheet value in the case of tenure upto 1 year</li> <li>ii. 12.5% of the balance sheet value, in the case of tenure from 1-3 years</li> </ul>	Net amount after deducting provisions and haircuts

			iii. 15% of the balance sheet value, in the case of tenure of more than 3 years.	
1.5	Investment in equity securities	Balance Sheet Value net of any provision	<p>i. If listed 15% or VaR of each securities on the cutoff date as computed by the Securities Exchange for respective securities whichever is higher</p> <p>ii. If unlisted, 100% of carrying value</p>	Net amount after deducting provisions and haircuts
1.6	Investment in subsidiaries	Balance Sheet Value net of any provision	100% of net value	Nil
1.7	Investment in associated companies/undertaking	Balance Sheet Value net of any provision	<p>i. If listed 20% or VaR of each securities as computed by the Securities Exchange for respective securities whichever is higher</p> <p>ii. If unlisted, 100% of net value</p>	Net amount after deducting provisions and haircuts
1.8	Statutory or regulatory deposits/ basic deposits with exchanges, clearing house or central depository or any other entity	Balance Sheet Value	100% of net value	Nil
1.9	Margin deposits with exchange and clearing house	Balance Sheet Value	Nil	Balance Sheet Value
1.10	Deposit with authorized intermediary against borrowed securities under SLB	Balance Sheet Value	Nil	Balance Sheet Value
1.11	Other deposits and	Balance Sheet Value	100% of carrying value	Nil

	prepayments			
1.12	Accrued interest, profit or mark-up on amounts placed with financial institutions or debt securities etc.	Balance Sheet Value	Nil 100% in respect of markup accrued on loans to directors, subsidiaries and other related parties	Balance Sheet Value
1.13	Dividends receivables	Balance Sheet Value	Nil	Balance Sheet Value
1.14	Amount receivable against Repo financing	Balance Sheet Value	Amount paid as purchaser under the REPO agreement. Securities purchased under repo arrangement shall not be included in the investments	Balance Sheet Value
1.15	Receivables other than trade receivables	Balance Sheet Value	100% of net value	Nil
1.16	Receivables from clearing house or securities exchange(s)	Balance Sheet Value	100% value of claims other than those on account of entitlements against trading of securities in all markets including MtM gains	Lower of net balance sheet value or value determined through adjustments
1.17	Receivables from customers	Balance Sheet Value net of provisions	<p>i. In case receivables are against margin financing, the aggregate of (i) value of securities held in the blocked account after applying VAR based Haircut, (ii) cash deposited as collateral by the financee (iii) market value of any securities deposited as collateral after applying VaR based haircut</p> <p>ii. In case receivables are against margin trading, 5% of the net balance sheet value</p> <p>iii. In case receivables are</p>	<p>i. Lower of net balance sheet value or value determined through adjustments</p> <p>ii. Net amount after deducting haircut</p> <p>iii. Net amount after deducting haircut</p> <p>iv. Balance sheet value</p>

			<p>against securities borrowings under SLB, the amount paid to NCCPL as collateral upon entering into contract,</p> <p>iv. In case of other trade receivables not more than 5 days overdue, 0% of the net balance sheet value</p> <p>v. In case of other trade receivables are overdue, or 5 days or more, the aggregate of (i) the market value of securities purchased for customers and held in sub-accounts after applying VAR based haircuts, (ii) cash deposited as collateral by the respective customer and (iii) the market value of securities held as collateral after applying VaR based haircuts</p> <p>vi. 100% haircut in the case of amount receivable from related parties</p>	v. Lower of net balance sheet value or value determined through adjustments
1.18	Cash and bank Balances	<p>i. Bank balance – Proprietary accounts</p> <p>ii. Bank balance – Customer accounts</p> <p>iii. Cash in hand</p>	Nil	Balance sheet value
1.19	<b>Total Assets</b>	<b>Balance Sheet Value</b>		<b>Adjusted Value</b>
<b>2. Liabilities</b>				



2.1	Trade payables	<ul style="list-style-type: none"> <li>i. Payable to exchanges and clearing house</li> <li>ii. Payable against leveraged market products</li> <li>iii. Payable to customers</li> </ul>	Nil	Balance sheet value
2.2	Current Liabilities	<ul style="list-style-type: none"> <li>i. Statutory and regulatory dues</li> <li>ii. Accruals and other payables</li> <li>iii. Short-term borrowings</li> <li>iv. current portion of subordinated loans</li> <li>v. Current portion of long-term liabilities</li> <li>vi. Deferred liabilities</li> <li>vii. Provision for bad debts</li> <li>viii. Provision for Taxation</li> <li>ix. other liabilities as per accounting principles and included in the financial statements</li> </ul>	Nil	Balance sheet value
2.3	Non-current liabilities	<ul style="list-style-type: none"> <li>i. Long-term financing</li> <li>ii. Staff retirement benefits</li> <li>iii. other liabilities as per accounting principles and</li> </ul>	Nil	Balance sheet value

		included in the financial statements		
2.4	Subordinated Loans	Balance Sheet Value	100% of Subordinated loans which fulfill the conditions specified by SECP are allowed to be deducted	Net value after deducting adjustments
2.5	<b>Total Liabilities</b>	<b>Balance Sheet Value</b>		<b>Adjusted Value</b>
<b>3. Ranking Liabilities relating to</b>				
3.1	Concentration in margin financing	Nil	The amount calculated client-to-client basis by which any amount receivable from any of the financees exceed 10% of the aggregate of amounts receivable from total financees	Amount as determined through adjustment
3.2	Concentration in securities lending and borrowing	Nil	The amount by which the aggregate of (i) amount deposited by the borrower with NCCPL, (ii) cash margins paid and (iii) the market value of securities pledged as margins exceed the 110% of the market value of shares borrowed	Amount as determined through adjustment
3.3	Net underwriting Commitments	Nil	<b>(a) in the case of rights issue:</b> if the market value of securities is less than or equal to the subscription price, the aggregate of (i) the 50% of Haircut multiplied by the underwriting commitments and (ii) the value by which the underwriting commitment exceeds the market price of the securities. In the case of rights issue where the market price of securities is greater than the subscription price, 5% of the Haircut multiplied by the net underwriting commitment <b>(b) in any other case:</b> 12.5% of	Amount as determined through adjustment

			the net underwriting commitments	
3.4	Negative equity of subsidiary	Nil	The amount by which the total assets of the subsidiary (excluding any amount due from the subsidiary) exceed the total liabilities of the subsidiary	Amount as determined through adjustment
3.5	Foreign exchange agreements and foreign currency positions	Nil	5% of the net position in foreign currency. Net position in foreign currency means the difference of total assets denominated in foreign currency less total liabilities denominated in foreign currency	Amount as determined through adjustment
3.6	Amount payable under REPO	Balance sheet value	Carrying value	Carrying value
3.7	Repo adjustment	Nil	In the case of financier/ purchaser the total amount receivable under Repo less the 110% of the market value of underlying securities. In the case of financee/ seller the market value of underlying securities after applying haircut less the total amount received, less value of any securities deposited as collateral by the purchaser after applying haircut less any cash deposited by the purchaser	Amount as determined through adjustment
3.8	Concentrated proprietary positions	Nil	If the market value of any security is between 25% and 51% of the total proprietary positions then 5% of the value of such security. If the market value of a security exceeds 51% of the proprietary position, then 10% of the value of such security	Amount as determined through adjustment
3.9	Opening Positions in futures and options	Nil	i. In case of customer positions, the total margin	Amount as determined

			<p>requirements in respect of open positions less the amount of cash deposited by the customer and the value of securities held as collateral/pledged with securities exchange after applying VaR haircuts</p> <p>ii. In case of proprietary positions, the total margin requirements in respect of open positions to the extent not already met</p>	through adjustment
3.10	Short sell positions	Nil	<p>i. In case of customer positions, The market value of shares sold short in ready market on behalf of customers after increasing the same with the VaR based haircuts less the cash deposited by the customer as collateral and the value of securities held as collateral after applying VAR based Haircuts</p> <p>ii. In case of proprietary positions, the market value of shares sold short in ready market and not yet settled increased by the amount of VAR based haircut less the value of securities pledged as collateral after applying haircuts</p>	Amount as determined through adjustment
3.11	<b>Total Ranking Liabilities</b>			<b>Total determined amount</b>

### **Calculations Summary of Liquid Capital**

- (i) Adjusted value of Assets (serial number 1.19)
- (ii) Less: Adjusted value of liabilities (serial number 2.5)
- (iii) Less: Total ranking liabilities (serial number 3.11)

**Note:** Commission may issue guidelines and clarifications in respect of the treatment of any component of Liquid Capital including any modification, deletion and inclusion in the calculation of Adjusted value of assets and liabilities to address any practical difficulty.

**Form B**  
**[see regulation 8(2)]**

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
**LICENCE AS SECURITIES BROKER**

No. ....

Islamabad, ...(date)....

The Securities and Exchange Commission of Pakistan having considered the application for licence by..... (Name of the company).... for ...Trading Only/Trading and Self-Clearing/Trading and Clearing.... category of securities broker under section 68 of the Securities Act, 2015 and being satisfied that the said company is eligible for a licence under the said category, and that it would be in public interest and in the interest of the capital market so to do, hereby grants licence, in exercise of the powers conferred by section 69 of the Securities Act, 2015 to .....(name of the company).... subject to the provisions of the Securities Act, 2015 and the rules and regulations made thereunder, as amended from time to time.

2. This licence is valid up to one year from the date of issuance.

Signature of the Officer

**Form C**  
**[see regulation 9(1)]**

**FORM OF APPLICATION FOR RENEWAL OF LICENCE AS A SECURITIES BROKER**

To  
The Securities and Exchange Commission of Pakistan,  
Islamabad.

Dear Sir,

1. We, .....(Name of the securities broker).... hereby apply for the renewal of the licence of securities broker under the .....Trading Only/Trading and Self-Clearing/Trading and Clearing.... category under section 69 of the Securities Act, 2015.
2. The existing licence is due to expire on .....
3. Original receipt of the bank for the fee of Rs.....being the renewal fee is enclosed.
4. Certified true copies of all the documents specified in Annexure C of the Securities Brokers (Licensing and Operations) Regulations, 2016 are enclosed.
5. It is requested that the licence be renewed for a period of one year.

Yours faithfully,  
Signature of the Chief Executive

## Annexure C

### Information and Documents to be provided along-with application for renewal of licence as a securities broker

The following details shall be provided along-with application for renewal of licence by a securities broker along with the relevant supporting documents for the last one year:

1. Details of the non-compliance by it, if any, with any provision of the applicable laws including the Act and rules or regulations made thereunder.
2. Details of the non-compliance by it, if any, with any of the licensing conditions.
3. Details of any penal or disciplinary action initiated or taken against the applicant, its sponsors, directors, major shareholders or senior management officers by any regulatory authority or government agency/department.
4. Details of legal proceedings, if any, initiated against it and penal actions taken against it and penalty imposed by the Commission or any other regulatory authority.
5. Details of changes made, if any, in the object clause of its memorandum of association or other constitutive documents.
6. Number and details of customer complaints received, if any and their redressal status.
7. Number and details of arbitration awards announced and implemented.
8. Declaration that it is in compliance with the post licence requirements as specified in the Securities Brokers (Licensing and Operations) Regulations, 2016.
9. Copy of the last annual audited financial statements along-with latest quarterly or half yearly financial statements.
10. The pattern of shareholding, identifying separately the sponsors and shares held by the sponsors.
11. Copies of documents evidencing continuous compliance with the requirements of financial resource requirements specified in the Securities Brokers (Licensing and Operations) Regulations, 2016.
12. An undertaking on a stamp paper specifying that the securities broker, its directors, sponsors, senior



management officers are in compliance with all the requirements for grant of renewal of licence under the Securities Brokers (Licensing and Operations) Regulations, 2016.

13. Details of the affiliation and outsourcing contracts, if any.

14. Any other information and document as may be required by the Commission from time to time.

**Form D**  
[see regulation 9(4)]

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
**RENEWAL OF LICENCE AS SECURITIES BROKER**

No. ....

Islamabad, ....(date)....

The Securities and Exchange Commission of Pakistan having considered the application for renewal of licence by .....(Name of the securities broker).... for .....Trading Only/Trading and Self-Clearing/Trading and Clearing.... category of the securities broker, and being satisfied that the said securities broker is eligible for renewal of licence under the said category and that it would be in public interest and in the interest of the capital market so to do, hereby grants renewal of licence to .....(Name of the securities broker)...., in exercise of the powers conferred by section 69 of the Securities Act, 2015, for one year subject to the provisions of the Securities Act, 2015 and the rules and regulations made thereunder, as amended from time to time.

Signature of the Officer

**Annexure D**  
**[see regulation 16(1)(f)]**

**CORPORATE GOVERNANCE CODE FOR SECURITIES BROKER**

All securities brokers shall ensure compliance with the following Corporate Governance Code. The listed securities brokers shall ensure compliance with this Code in addition to the Code of Corporate Governance (CCG) applicable on listed companies as specified in the regulations of the securities exchange. In case where there is any inconsistency with the CCG, the provisions of the CCG shall prevail.

**1. Board of Directors**

- a) A securities broker shall establish an effective board of directors (board), responsible for ensuring long-term success and for monitoring and evaluating the management's performance. The size and composition of the board should reflect the scale and complexity of the securities brokers' business.
- b) The board is encouraged to have a balance of executive and non-executive directors, with the requisite skills, competence, knowledge and experience.

**2. Responsibilities, powers and functions of board of directors**

- a) The board should set the strategic objectives and ensure that necessary financial and human resources are in place for meeting those objectives. The board shall further ensure that significant policies have been formulated on the following issues, among others:
  - i) governance, risk management and compliance issues;
  - ii) customer relations including customer awareness and a mechanism and timeline for handling/resolving their complaints/grievances; and
  - iii) segregation of customer assets from securities brokers' assets.
- b) The board shall formulate and ensure adoption of a code of conduct/code of ethics to promote integrity of its business, its board, its employees and its accredited representatives, with special emphasis on measures for curbing any market manipulative activities such as front running, insider trading and other market abuse.
- c) The board shall devise an effective whistle-blower mechanism enabling all stakeholders, including employees and accredited representatives, to freely communicate their concerns about any illegal or unethical practices. The board would ensure that the interest of a whistle-blower is not prejudicially affected.

- d) The board shall appoint a Chief Executive Officer (CEO) to lead the management team, and exercise executive authority over operations of the company.
- e) Any casual vacancy occurring on the board shall be intimated immediately to the securities exchange. The board shall strive to fill such vacancy on the board as soon as possible.
- f) The board is encouraged to obtain fidelity insurance against risk of misconduct, negligence, or frauds committed by the officials of securities brokers.

### **3. Meetings of the board**

- a) The board shall meet at least once in every six months and be provided with appropriate and timely information.

Provided that a securities broker licensed under the Trading Only category may comply with the above requirement on a voluntary basis.

- b) The board shall ensure that the minutes of meetings of the board are appropriately recorded.

### **4. Committees of the board**

- a) The board may establish appropriate board committees in order to allow a more effective discharge of its duties.

- b) The board may define in writing the terms of reference of the various committees, explaining their role and the advisory authority delegated to them by the board. These terms of reference may be reviewed by the board on a periodic basis.

- c) The board is encouraged to form an audit committee which should preferably be constituted of independent/non-executive directors. At least one member of the audit committee, where formed, should have relevant financial/accountancy qualification/experience.

- d) The main responsibilities of the audit committee may include the following:

- To monitor the integrity of the financial statements of the company;
- To review the company's internal controls and risk management systems;
- To make recommendations to the board in relation to appointment or removal of the auditor;
- To approve the remuneration and terms of engagement of the auditor;
- To review and monitor the auditor's independence and effectiveness;
- To develop and implement policy on engagement of the auditor to supply non-audit services;
- To monitor and review the effectiveness of the company's internal audit function.

## **5. Appointment of senior management officers**

Securities brokers shall have an appropriate and suitably qualified management team commensurate with the size and complexity of its business.

## **6. Awareness Programs for Directors**

a) Securities brokers are encouraged to make efforts to familiarize their directors with this Code, other applicable laws, and their duties and responsibilities.

b) Securities brokers shall ensure compliance of its directors with any mandatory certification requirements as may be specified by the Commission from time to time.

## **7. Auditors**

A securities broker shall have its statutory audit conducted from an auditor enlisted within Category "A" or "B" of the State Bank of Pakistan's Panel of Auditors.

## **8. Related party transactions**

The details of all related party transactions shall be placed before the board for review and approval.

## **9. Corporate and financial reporting framework**

a) Not later than four months from the close of the financial year, all securities brokers shall prepare and circulate an Annual Report to the Commission and the securities exchange. The Annual Report shall contain the following:

- i) Annual audited financial statements;
- ii) Directors' Report;
- iii) A statement by the CEO that there are no transactions entered into by the broker during the year, which are fraudulent, illegal or in violation of any securities market laws.

Provided that a securities broker licensed under the Trading Only category may comply with the requirement of inclusion of Directors' Report in its Annual Report on a voluntary basis.

b) The quarterly and annual financial statements shall be approved by the board and the CEO.

Provided that a securities broker licensed under the Trading Only category may comply with the above requirement in respect of quarterly financial statements on a voluntary basis.

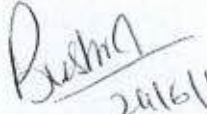
c) The directors may annex statements to the following effect with the Directors' Report, prepared under Section 236 of the Ordinance:

- The financial statements, prepared by the management of the company, present its state of affairs fairly, the result of its operations, cash flows and changes in equity;
- Proper books of accounts of the company have been maintained;
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departures therefrom have been adequately disclosed and explained;
- The system of internal control is sound in design and has been effectively implemented and monitored.
- If the brokerage house is not considered to be a going concern, the fact along with the reasons shall be disclosed
- The directors' report shall cover, loans, TFCs, Sukuks or any other debt instruments in which the company is in default or likely to default. There shall be a clear presentation with details as to the aggregate amount of the debt overdue or likely to become overdue and the reasons for the default/emerging default situation and the measures taken by the company to address and settle such default situation.

#### **10. Statement of Compliance with the Code**

All securities brokers, except listed securities brokers, shall publish a statement of compliance with this Code in their Annual Reports.

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24/6/16  
(Bushra Aslam)  
Secretary to the Commission