

Government of Pakistan  
Securities and Exchange Commission of Pakistan

Islamabad, 22<sup>nd</sup> June, 2017

**NOTIFICATION**

S. R.O. 547 (I)/2017. - In exercise of the powers conferred by sub-section (1) of section 114 read with sections 4, 5, 18, 20, and 95 of the Futures Market Act, 2016, the Securities and Exchange Commission of Pakistan is pleased to make the following regulations, the same having been previously published in the Official Gazette vide SRO 239(I)/2017 dated April 5, 2017, and also placed on its website as required under sub-section (4) of section 114 of the said Act, namely:-

**CHAPTER I**

**PRELIMINARY**

**1. Short title and commencement.**- (1) These regulations shall be called the Futures Exchanges (Licensing and Operations) Regulations, 2017.

(2) They shall come into force at once.

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

- (a) "Act" means the Futures Market Act, 2016 (XIV of 2016);
- (b) "Ordinance" means the Companies Ordinance, 1984 (XLVII of 1984); and
- (c) "Securities Act" means the Securities Act, 2015 (III of 2015); and
- (d) "senior management officer" shall have the same meaning as assigned to it in clause (47) of section (2) of the Act, and also includes the following,-
  - (i) company secretary;
  - (ii) chief financial officer;
  - (iii) head of internal audit;
  - (iv) head of Information Technology (IT);
  - (v) head of Operations; and
  - (vi) chief risk officer

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

## CHAPTER II

### LICENSING OF FUTURES EXCHANGE

**3. Application for grant of licence.-** (1) Subject to compliance with the requirements of sections 3 and 4 of the Act and these regulations, an application for grant of licence as a futures exchange shall be submitted to the Commission in Form A along with receipt evidencing payment of fee of rupees five million and the following documents,-

- (a) copies of memorandum of association and articles of association;
- (b) regulations made or proposed to be made under section 7 of the Act; and
- (c) copies of agreements entered into by the applicant with clearing house(s) and technology partner(s), where required.

Provided that where the applicant holds licence as a securities exchange, it shall only be required to submit its regulations and list of futures contracts for approval of the Commission.

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

(3) 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.

(4) Any subsequent change in the information provided to the Commission at the time of filing of application under this regulation or any new agreement entered into by the futures exchange in respect of matter(s) referred in clause (c) of sub-regulation (1) shall immediately be intimated to the Commission but not later than five working days from the date of such change or agreement, as the case may be.

(5) No application for grant of licence made under sub-regulation (1) above shall be refused except after giving the applicant an opportunity of being heard.

**4. Grant of Licence.-** (1) The Commission, while considering the application made under regulation 3, shall inter-alia take into account the following matters, -

- (a) any licence granted or any certificate of registration issued to the applicant under any administered legislation by the Commission;
- (b) the eligibility requirements under the Act and these regulations;
- (c) the applicant has demonstrated its ability to perform its duties in accordance with the provisions of the Act and any rules and regulations made or codes, guidelines, directions and circulars issued thereunder;
- (d) the applicant has shareholding and governance structure as provided in these regulations; and
- (e) the applicant has the necessary infrastructure including but not limited to adequate office space, equipment, experienced human resources and technical capabilities, financial resources, policies, procedures, systems and controls to effectively and efficiently discharge its responsibilities as a futures exchange.

(2) The Commission may inspect the premises of the applicant to determine whether it fulfills the eligibility criteria and may also require the applicant to submit reports from experts at the expense of the applicant in the manner specified by the Commission to confirm compliance with the Act and these regulations including the existence of adequate infrastructure, technical capacity, financial standing and other requisite benchmarks.

(3) The Commission, after conducting such inquiries and obtaining such further information as it deems appropriate, and upon being satisfied that, -

- (a) the applicant is eligible for a licence;
- (b) the applicant is in compliance with the provisions of the Act and these regulations;
- (c) its memorandum of association specifically allows it to act as a futures exchange; and
- (d) it is in the interest of the futures market and public interest,

may grant a licence to the applicant in Form " B " under sub-section (4) of section 5 of the Act subject to the conditions as provided in regulation 5.

(4) A futures exchange shall pay an annual renewal fee of rupees one million and five hundred thousand.

**5. Conditions of licensing.-** (1) In case of a securities exchange applying for licence of a futures exchange, such securities exchange shall comply with the requirements of the Act and any conditions specified by the Commission from time to time:

Provided that in case of a securities exchange applying for licence of a futures exchange, the licensing conditions provided in the Securities Act and the regulations made thereunder shall also be applicable on it to the extent applicable on futures contracts based on securities.

(2) A futures exchange other than that mentioned in sub-clause (1) above shall, in addition to the requirements of the Act, comply with the following conditions on an ongoing basis or within such time as the Commission may direct while granting licence under these regulations,-

- (a) ensure availability and maintenance of necessary infrastructure for trading of futures contracts;
- (b) ensure availability and maintenance of necessary infrastructure for timely clearing and settlement of trades and risk management;
- (c) put in place adequate trading procedures and necessary capacity to have a wide network of futures brokers;
- (d) put in place robust risk management system, efficient settlement procedures and necessary capabilities to have a network of clearing members;
- (e) put in place adequate monitoring, inspection and enforcement mechanism in respect of futures brokers and clearing members;
- (f) establish and maintain connectivity with futures brokers and enter into service level agreements with technology partners;
- (g) have documented business continuity plan including a disaster recovery site;
- (h) continuously improve the quality and efficiency of its systems and procedures;
- (i) put in place necessary controls and safeguards to ensure cyber security, access to confidential information and alteration, destruction, disclosure or dissemination of records and data;
- (j) put in place necessary arrangements including appropriate arbitration mechanism for resolving disputes and redressal of grievances arising out of dealing in futures contracts at the futures exchange and clearing and settlement of trades;
- (k) comply with the code of corporate governance for listed companies to the extent consistent with the provisions of the Act and the rules or regulations made thereunder;
- (l) ensure establishment, maintenance and operations of settlement guarantee fund in accordance with the provisions of the Act and any rules and regulations made thereunder, for guaranteeing to its clearing members the performance of market contracts;

- (m) ensure establishment, maintenance and operations of investor protection fund in accordance with the provisions of the Act and any rules and regulations made thereunder;
- (n) ensure that its memorandum and articles of association contain no provision inconsistent with the provisions of the Act and these regulations and that no change is made in its memorandum and articles of association except with the prior written approval of the Commission;
- (o) submit a comprehensive three years business development plan inter alia including therein financial projections, organizational development plans, product development plans with specific reference to agricultural commodities, market development initiatives particularly with reference to promotion offutures contracts and their trading activity at thefutures exchange, expansion of market outreach, education and training of market participants, development of futures market particularly agricultural commodities and the annual reports including progress made in respect of the plans shall be provided to the Commission;
- (p) employ and retain sufficient number of people with appropriate qualification, experience and expertise to enable the futures exchange to provide an orderly and fair market in relation to futures contracts and to discharge functions assigned to it under the Act and the rules and regulations made thereunder;
- (q) enter into an agreement with a clearing house, if the exchange is not performing the said function itself, capable of functioning as a central counterparty for clearing and settlement of trades executed on its trading platform;
- (r) enter into an agreement or arrangement with an international futures exchange or a technology firm of international repute, having relevant expertise for technology partnership, collaboration, transfer of technical know-how and competence, within such period as may be specified by the Commission;
- (s) deploy adequate infrastructure including modern technologies to enable it to provide trading platforms in accordance with international standards which inter alia include the following,-
  - (i) infrastructure for orderly accepting, matching and execution of trades including online screen-based trading systems;
  - (ii) facility to disseminate information about trades, quantities and quotes on real time basis; and
  - (iii) effective surveillance capability to inter alia monitor positions, prices and volumes in a timely manner;

- (t) develop and implement a detailed investor outreach and education program;
- (u) endeavor to promote *Shariah* compliant products and transactions with approval of the Commission;
- (v) submit a plan for segregation of commercial and regulatory functions of the futures exchange for approval of the Commission, if such plan is not already approved by the Commission, and ensure compliance with such approved plan which may be further amended only with prior approval of the Commission;
- (w) constitute a nomination committee, chaired by an independent director to *inter alia* recommend names of persons for appointment of independent directors on the board of the futures exchange;
- (x) prescribe a code of conduct for its employees and ensure compliance with the same;
- (y) not undertake any business other than the business of establishing or operating a futures market except with the prior approval of the Commission; and
- (z) comply with such other conditions as may be imposed by the Commission from time to time.

**6. Financial resource requirements.**- (1) A securities exchange applying for license of a futures exchange under regulation 3 shall have an initial paid-up capital and net-worth of not less than rupees one billion provided that the Commission may require the applicant to achieve and maintain, as a licensing condition, a higher paid-up capital and net-worth in a progressive manner.

Provided that such securities exchange shall maintain such paid-up capital in addition to the paid-up capital specified under the Securities Exchanges (Licensing and Operations) Regulations, 2016.

(2) An applicant seeking licence under regulation 3, other than that mentioned in sub-clause (1) above, including an existing futures exchange, offering contracts based on commodities and financial instruments, shall have a minimum net worth of rupees 500 million.

Provided that an existing futures exchange shall have three years to comply with this requirement.

Explanation.- For the purpose of these regulations, net-worth shall be calculated as total assets less total liabilities less surplus on revaluation, if any, created upon revaluation of fixed assets.

### CHAPTER III

#### REQUIREMENTS FOR FUTURES EXCHANGE HOLDING LICENCE AS A SECURITIES EXCHANGE

**7. Applicability of Securities Exchanges (Licensing and Operations) Regulations, 2016.-** A futures exchange also holding licence as a securities exchange shall comply with the provisions of the Securities Act and Securities Exchanges (Licensing and Operations) Regulations, 2016 pertaining to shareholding requirements, fit and proper criteria, board of directors, appointment of senior management officers, constitution of regulatory affairs committee, manner of outsourcing of important functions and audit and accounts:

Provided that a futures exchange holding licence as a securities exchange shall also comply with all such requirements of the Securities Exchanges (Licensing and Operations) Regulations, 2016 which are applicable to the extent of offering of futures contracts.

### CHAPTER IV

#### REQUIREMENTS FOR FUTURES EXCHANGE OTHER THAN THAT HOLDING LICENCE AS A SECURITIES EXCHANGE

**8. Application of fit and proper criteria.-** The applicant, and its promoters, substantial shareholders, directors and senior management officers shall at all times be fit and proper persons as per the criteria specified in Annexure-I. The fit and proper criteria is perpetual in nature and a futures exchange shall ensure compliance with the provisions of such criteria.

Provided that a futures exchange, while evaluating fit and proper criteria in respect of promoters or substantial shareholders of the applicant, shall ensure that the fit and proper criteria is applied to the extent practical on the promoters and directors of such entities.

**9. Shareholding requirements.** No person shall acquire or sell shares of a futures exchange without prior written approval of the Commission.

**10. Composition of board of directors and related matters.-** (1) The board of a futures exchange shall comprise of a minimum of seven directors as per the following categories:

- (a) independent directors;
- (b) shareholder directors; and
- (c) Chief executive officer.

Explanation:- For the purpose of this clause the expression "independent director" means a director who is not connected or does not have any other relationship, whether pecuniary or

otherwise, with the futures exchange, its associated companies, subsidiaries, holding company 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 judgement 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 futures exchange, 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 futures exchange in the last three years;
- (c) he/she has or has had, within the last three years, a material business relationship with the futures exchange either directly, or indirectly as a partner, substantial shareholder or director of a body that has such relationship with the futures exchange;
- (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 applicant apart from a director's fee
- (e) he/she is a close relative of the directors or promoters, or directors of the futures exchange:

Explanation: The expression '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;
- (g) he/she has served on the board for more than three consecutive terms from the date of his/her 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 futures exchange.



(2) The board of directors of a futures exchange shall comprise at least one-third independent directors.

(3) An independent director shall be appointed by the board of directors of the futures exchange with prior written approval of the Commission in the following manner:

- (a) a futures exchange shall submit the name of the person suitable for appointment as an independent director to the Commission for each vacancy, for its approval;
- (b) the Commission may, if satisfied that a person is suitable for appointment as independent director grant its approval for appointment of the selected person by the board of directors of the futures exchange provided that where the Commission is not satisfied about the suitability of the proposed person for appointment as a director, it may refer the matter back to the futures exchange for proposing other name after following the due process;
- (c) unless provided otherwise, the term of the independent director so appointed shall be the same as that of the shareholder directors;
- (d) an independent director may be removed by the board of directors of the futures exchange with prior written approval of the Commission if such person fails to comply with the fit and proper criteria; and
- (e) any vacant position of an independent director shall be filled in the similar manner as provided for initial appointment of an independent director.

(4) The quorum for the meeting of board of directors of a futures exchange shall not be less than one-half of their number or four, whichever is greater.

(5) At least one-third of independent directors must be present in a meeting of the board of directors of the futures exchange to constitute a quorum.

(6) The chairman of the board of directors of a futures exchange shall be from amongst the independent directors.

(7) The Board of directors of a futures exchange shall meet at least once in each quarter of a year.

(8) Every director and senior management officer of the futures exchange shall abide by the code of conduct specified in Annexure II.

(9) In case of a new futures exchange, no person shall be appointed as director on the board of directors of such futures exchange who is, directly or indirectly, a substantial

shareholder, director or an employee of a futures broker/ TRE certificate holder or substantial shareholder, director or an employee of any holding or subsidiary company of a futures broker/TRE certificate holder.

**11. Appointment of chief executive officer.-** (1) The appointment, renewal of appointment and termination of services of the chief executive officer of a futures exchange shall be subject to prior approval of the Commission and for this purpose the term "termination" shall include "non-renewal" of his contract.

(2) The board of directors of a futures exchange shall determine the manner of appointment, terms and conditions of appointment and other procedural formalities associated with the selection/ appointment of the chief executive officer.

(3) A chief executive officer shall be appointed by the futures exchange through the following process.-

- (a) a futures exchange shall shortlist the most suitable person meeting the fit and proper criteria provided in these regulations and shall submit its recommendation for approval of the Commission;
- (b) the Commission may, if satisfied that such person is suitable for appointment by the futures exchange as chief executive officer of the futures exchange, grant its approval for the same;

Provided that, if the Commission is not satisfied with the suitability of the proposed person for appointment as chief executive officer, it may refer the matter back to the futures exchange for proposing another name for consideration of the Commission,

(4) The appointment of the chief executive officer shall be made for a period of three years subject to renewal with the prior approval of the Commission.

**12. Appointment and functions of chief regulatory officer.-** (1) The appointment and termination of services of the chief regulatory officer of a futures exchange shall be subject to prior approval of the Commission.

(2) A chief regulatory officer shall be appointed by the futures exchange through the following process,-

- (a) a futures exchange shall shortlist the most suitable person meeting the fit and proper criteria provided in these regulations and shall submit its recommendation for approval of the Commission;

- (b) The Commission may, if satisfied that such person is suitable for appointment by the futures exchange as chief regulatory officer of the futures exchange, grant its approval for the same:

Provided that, if the Commission is not satisfied with the suitability of the proposed person as chief regulatory officer, it may refer the matter back to the futures exchange for proposing another name for consideration of the Commission.

(3) The chief regulatory officer, being head of the regulatory affairs division of the futures exchange, shall be a dedicated position and must not have any other responsibilities except ensuring the efficient functioning of the regulatory affairs division, which may inter alia include the following, namely,-

- (a) manage, lead and control the compliance and regulatory functions of the futures exchange;
- (b) develop, implement and monitor compliance policies, processes and procedures to cover all aspects relating to regulatory, operational and statutory obligations of the futures exchange;
- (c) handle matters relating to the regulations of the futures exchange, including regular review of the same to ensure their suitability, and finalizing proposals for making new regulations or carrying out amendments in the existing regulations for approval of the regulatory affairs committee and board of directors of the futures exchange;
- (d) monitor compliance of the futures exchange, futures brokers and their accredited representatives with applicable legal and regulatory framework, policies and procedures and take enforcement action(s) under the applicable regulatory framework;
- (e) supervise or conduct any investigation, inspection or enquiry required to be conducted by a futures exchange;
- (f) monitor the redressal of disputes, complaints or grievances arising out of trading of futures contracts at the futures exchange in a timely manner;
- (g) assist regulatory affairs committee of the board of directors to perform its functions;
- (h) ensure efficiency of the process for redressal of investor grievances, dispute resolution and arbitration;
- (i) ensure efficiency of surveillance mechanism of the futures exchange;

- (j) maintain effective liaison with the Commission in respect of the matters in clauses (a) to (i); and
- (k) perform any other related function as may be assigned by the futures exchange or the Commission.

(4) The chief regulatory officer shall functionally report to the board of directors of the futures exchange through its regulatory affairs committee.

(5) In case of any non-compliance, the chief regulatory officer shall take necessary action under the applicable regulatory framework and where the matter requires attention of the board of directors of the futures exchange, the same shall be reported immediately:

Provided further that where a chief regulatory officer is convinced that the matter also needs immediate attention of the Commission, he shall simultaneously report the same to the Commission stating the reasons thereof.

(6) In case no action is taken by the board of directors within a maximum period of 7 days or the chief regulatory officer is of the view that the action taken by the board of directors is insufficient, he shall forthwith report the matter to the Commission.

(7) The chief regulatory officer shall, submit a comprehensive report on quarterly basis to the board of directors regarding matters reported during the respective quarter, corrective actions taken and their status.

(8) The board of directors of the futures exchange shall put in place necessary mechanism to ensure that the chief regulatory officer performs his functions in a transparent, equitable and timely manner.

**13. Constitution of risk committee** – (1) A futures exchange shall, with approval of its board of directors, constitute a risk committee for assisting it to develop risk management system and policies.

(2) The risk committee shall comprise of independent directors, chief executive officer, chief regulatory officer, and industry experts. The chairman of the risk committee shall be an independent director.

(3) The board of directors of a futures exchange shall determine the manner of appointment of members of risk committee including the selection criteria.

(4) The risk committee shall be responsible for the following:

- a) framing of risk management policies and procedures for the clearinghouse function performed by the exchange in line with international standards and best practices;
- b) ensuring that the risk management system has the tools to identify and manage all relevant risks including legal, credit, liquidity, general business, and operational risks including control measures and safeguards with respect to large exposures by clearing members and matters connected thereto;
- c) ensuring that margin requirements are commensurate with the risks, address procyclicality, avoid concentration, and provide adequate coverage in conformity with international benchmarks;
- d) ensuring that the risk management function has the capacity to obtain timely information necessary to apply risk management policies and procedures which allow for the accurate and timely measurement and aggregation of risk exposures;
- e) conducting or arranging to conduct studies, research, or analyses with respect to any or all of the components of risk management system of the clearing function;
- f) formulating policies and procedures to ensure continuous adequacy of the risk management model and its adherence to international standards including the policies for regular back testing, stress testing, reverse back testing and sensitivity analysis;
- g) formulating policies for ensuring that a full validation of risk management model is performed at least annually;
- h) to meet at least once in each quarter to review adequacy of risk management system, policies and procedures and matter connected thereto; and
- i) to submit its recommendation(s) to the board of directors together with explanation of their purposes and likely effect, including their effect on the clearing function, clearing members, and investors in sufficient details.

**14. Chief Risk Officer-** (1) The Exchange shall appoint a chief risk officer to perform the following functions:

- (a) to lead risk management of the Exchange;
- (b) to ensure implementation of risk management policies and procedures in an effective manner;
- (c) to assist risk committee in performing its functions including submission of periodic reports and information;

- (d) to timely bring to the information of the risk committee any exceptional or urgent matter concerning or affecting the risk management system; and
- (e) perform any other related function as may be assigned by the Exchange or the Commission.

(2) The appointment and termination of services of the chief risk officer shall be made by the board of directors of the Exchange in consultation with the risk committee.

(3) The chief risk officer shall report directly to the chief executive officer of the Exchange and shall additionally report to the chairman of the risk committee.

**15. Constitution of regulatory affairs committee.**- (1) A futures exchange shall, with approval of its board of directors, constitute a regulatory affairs committee comprising of independent directors.

- (2) The regulatory affairs committee shall be responsible for the following functions,-
  - (a) formulate policies relating to regulatory affairs of the futures exchange in line with international best practices with approval of the board of directors;
  - (b) ensure that the regulatory affairs division functions effectively and take measures necessary to implement an effective regulatory regime and improve investor confidence and market integrity;
  - (c) develop an overall regulatory plan and roles and responsibilities of each unit of the regulatory affairs division together with a roadmap for effective regulatory role, for the approval of board of directors of the futures exchange;
  - (d) ensure adequacy and effectiveness of the futures exchange's regulatory plan and approve annual plans/targets for the regulatory affairs division on continuous basis;
  - (e) consider and recommend all regulatory amendments for approval of the board of directors of the futures exchange;
  - (f) assess performance of the regulatory affairs division in light of the regulatory plan and annual targets and take measures and, where necessary, make recommendations to the board of directors for improvements;
  - (g) provide recommendations for appointments and removal of services of persons serving in the regulatory affairs division;

- (h) establish criteria for evaluating candidates for senior management of the regulatory affairs division;
- (i) formulate and recommend the budget and staff allocation for the regulatory affairs division for approval of the board of directors of the futures exchange;
- (j) conduct hearings of any appeals against enforcement actions of the regulatory affairs division;
- (k) identify and manage potential conflicts of interest in commercial and regulatory functions regularly;
- (l) train and educate personnel of the regulatory affairs division in respect of conflict of interest management and also develop the manual on conflict of interest management and circulate to all employees of the regulatory affairs division;
- (m) prepare a summarized annual report of the regulatory affairs division on the activities, conclusions, recommendations of the last year with special focus on the identification and mitigation of conflicts of interest and identify the targets for next year along with any other matters, for the board of directors of the futures exchange and the Commission;
- (n) form sub-committee, where required, to perform any of its functions in accordance with the applicable regulatory framework ; and
- (o) carry out any other function that may be mutually agreed upon by the regulatory affairs committee and the board of directors of the futures exchange or as may be assigned by the Commission.

**16. Manner of outsourcing important functions.-** (1) A futures exchange shall not outsource any of its functions without prior written approval of the Commission.

(2) The board of directors of a futures exchange shall be responsible for formulation and approval of outsourcing policy describing activities or the nature of activities that can be outsourced, the authorities who can approve outsourcing of such activities, and the selection criteria of third party to whom it can be outsourced.

(3) The records relating to all activities outsourced shall be preserved centrally by the futures exchange so that the same is readily accessible for review by the board of directors, the Commission or any other authorized person,

(4) The futures exchange shall be fully liable and accountable for the activities that are being outsourced to the same extent as if the service were provided in-house. The facilities,

premises or data involved in carrying out the outsourced activity by the service provider shall be deemed to be those of the futures exchange.

(5) The futures exchange shall be fully liable and must take appropriate steps to require that third parties protect confidential information of both the futures exchange, its customers and other parties involved from intentional or inadvertent disclosure to unauthorized persons.

(6) The futures exchange desirous of outsourcing its activities shall not, however, outsource its core business activities including risk and compliance functions.

**17. Obligations pertaining to Audit and Accounts.-** The obligations and duties of a futures exchange 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.

**18. Maintenance of accounting and other records.-** (1) A futures exchange shall keep accounting and other records which shall sufficiently explain its business and transactions entered into and shall be such as to, -

- (a) disclose with accuracy the financial position at that time ;
- (b) enable the futures exchange to prepare financial statements at any time and which comply with the requirements of law;
- (c) demonstrate whether the futures exchange is maintaining adequate financial resources to meet its business commitments;
- (d) demonstrate capacity of the futures exchange with respect to its duties, functions and operations under the Act and these regulations; and
- (e) demonstrate its preparedness to manage any risk arising out of its duties, functions and operations.

(2) The futures exchange shall ensure that all requirements with respect to accounting and audit under these regulations are updated in a timely manner.

(3) The futures exchange 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 anytime and traced from initiation to conclusion.

(4) All records required to be maintained under the Act and these regulations shall be properly arranged and filed so as to permit prompt access to any particular record.



(5) The futures exchange shall preserve the records required under these regulations for a period of ten years from the date on which they are made and should seek clearance from the Commission before destruction of any of its records.

**19. Appointment of auditor and related matters.**- (1) A futures exchange shall ensure that it has appointed an auditor who inter-alia has the powers and duties prescribed 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 futures exchange and the auditor; and
- (c) the futures exchange retains a copy of the engagement letter.

(2) A futures exchange 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 futures exchange shall have a right to,-

- (a) access its accounting and other records and all other documents relating to its business including the documents required to be maintained under the Act and these regulations; and
- (b) require from it such information and explanations as the auditor considers necessary for the performance of duties.

(4) in preparing an auditor's report of a futures exchange, the auditor shall carry out such relevant audit procedures as will enable him to form an opinion as to the matters required to be stated in the audit report.

(5) The auditor's report shall state all the matters as are required to be stated in accordance with the requirements of the Ordinance and additionally must state whether in the opinion of the auditor,

- (a) an adequate internal control system commensurate with the size and nature of services performed by the futures exchange was implemented during the period; and
- (b) the regulatory function had appropriate resources including the human resource and had implemented effective procedures and reporting mechanism which can be reasonably expected to detect and report any non-compliance in a timely manner.

(6) Where an auditor resigns or is removed by the futures exchange, 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.

(7) A futures exchange shall undergo a mandatory annual audit of its operations, regulatory functions, IT systems and any other systems or functions as specified by the Commission from time to time.

(8) For the purposes of the audit specified in (7) above, the futures exchange shall, with prior approval of the Commission, appoint an auditor with relevant expertise who shall conduct such audit in accordance with the terms of reference specified in **Annexure III**.

(9) The Commission may appoint an auditor to carry out a special audit of the futures exchange at the expense of the futures exchange, in respect of all or any specific matter as specified in **Annexure III** or any matter specified by the Commission at the time of appointment of the auditor. The audit shall be carried out for such period as the Commission may direct at the time of appointing the auditor.

**20. Submission of annual report.**- (1) A futures exchange shall submit an annual report to the Commission within four months of the close of financial year, inter alia containing the following information in addition to the requirements of section 20 of the Act;

- (a) audited financial statements containing information as required under the Act and these regulations;
- (b) report of directors to shareholders;
- (c) names and brief profiles of members of the board of directors and senior management officers;
- (d) statement of compliance with the code of corporate governance;
- (e) month-wise trade volume and value in each market segment;
- (f) total number of TRE certificate holders/futures brokers, along-with information with respect to addition or reduction during the period;
- (g) total number of commodity futures, along-with information with respect to addition or reduction during the period;
- (h) names of TRE certificate holders/futures brokers defaulted during the year along with nature and amount of default and subsequent action(s) taken by the futures exchange;

- (i) summary of customer compensation/investor protection fund status showing opening balance, contributions made and amounts utilized during the period and closing balance;
- (j) details of disciplinary actions taken, fines and penalties imposed and recovered;
- (k) pattern of shareholding; and
- (l) any other information that may be deemed material by the futures exchange for disclosure in the annual report.

(2) In addition to the submission of annual report to the Commission, the futures exchange shall also place the annual report on its official website no later than one week from the date of its publication.

**21. Submission of information and returns.** - (1) The futures exchange, with approval of its board of directors, shall submit to the Commission, within two months of the close of its financial year, a yearly performance report of the futures exchange against the approved targets and plans, highlighting, in particular, performance of the board of directors, chief executive officer and chief regulatory officer of the futures exchange.

(2) The Commission may by written notice require a futures exchange to submit to the Commission such periodic returns as it may direct.

(3) In addition to any periodic returns required under sub-regulation (1) and (2), the Commission may by written notice require a futures exchange, 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 direct.

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**FORM A**

**Form of Application for Licence as a Futures Exchange under Regulation 3**

The Securities and Exchange Commission of Pakistan,

Islamabad.

**Subject: Application for grant of licence under regulation 3 of the Futures Exchanges (Licensing and Operations) Regulations, 2017**

Dear Sir,

1. I/We , on behalf of (name and address of the applicant)..... hereby apply for grant of licence of a futures exchange for the purposes of the Futures Market Act, 2016 and the Futures Exchanges (Licensing and Operations) Regulations, 2017.
2. All the necessary information required under the laws is enclosed. Any additional will be furnished as and when called for by the Commission.
3. I/We, on behalf of the applicant, hereby undertake to comply with the requirements of the laws and such other conditions and terms as may be communicated while granting the licence or imposed subsequently.
4. Bank Challan No dated..... evidencing payment of licence fee of rupees five million and collection charges into the designated bank account of the Securities and Exchange Commission of Pakistan is also enclosed.

Yours faithfully, .....

Authorized signatory

**FORM B**

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

**Licence of a Futures Exchange under Section 5 of the Futures Market Act, 2016**

The Securities and Exchange Commission of Pakistan having considered the application for grant of licence under regulation 3 of the Futures Exchanges (Licensing and Operations) Regulations, 2017 by.....(name and address of the futures exchange).... and being satisfied that it would be in the interest of the futures market and also in the public interest to do so, hereby grants licence, in exercise of the powers conferred by section 5 of the Futures Market Act, 2016 to the said futures exchange subject to the condition of payment of annual renewal fee of rupees one million and five hundred thousand and any other conditions as stated in the attached letter or as may be imposed hereafter.

Seal of the Commission

Signature of the Officer

Islamabad

Dated:

## Fit and Proper Criteria

### APPLICATION AND SCOPE

- (1) The Fit and Proper Criteria in relation to a futures exchange is applicable to the following persons:
  - a) Promoters and majority shareholders;
  - b) Directors;
  - c) Chief Executive Officer and Chief Regulatory Officer; and
  - d) Senior Management Officers
- (2) This Fit and Proper Criteria is perpetual in nature and its compliance is mandatory.
- (3) The fitness and propriety of any person shall be assessed by taking into account all the relevant factors including but not limited to the following:
  - a) Financial soundness and track record;
  - b) Educational qualification and experience; and
  - c) Integrity, honesty and reputation.

Provided that 3(a) may not be considered while assessing fitness and propriety of senior management officers.
- (4) All persons subject to Fit and Proper Criteria must submit any change in the submitted information, including the financial soundness to the company secretary of the futures exchange within three business days and the futures exchange shall within a period of seven business days report the same to the Commission.
- (5) Eligibility of any person desiring to act as director on the board of directors, including the CEO, or senior management officer of a futures exchange shall be judged on the basis of following criteria, which in case of directors shall be in addition to meeting requirements of the Ordinance relating to eligibility of a director:

#### **(a) Financial Soundness and Track Record**

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

(iii) The person should not have availed write-off from any financial institution including banking company, a Development Financial Institution or Non-Banking Financial Company.

(iv) The person and companies, firms, sole proprietorship etc. where the person is a chief executive, director (other than nominee director), owner or partner etc., have no overdue payment to any investor, financial institution, securities exchange, futures exchange, clearing company, 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, unlisted and listed company.

Explanation: For the purposes of clause (iii & iv) above, the futures exchange shall obtain CIB reports to determine any overdue/past due payment of the person to a financial institution. In case of any amount appearing in the overdue or write-off column of the latest CIB report, such person shall not be considered fit and proper person except:

- (a) 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 in CIB report, no rejection shall be made unless the person has been provided with 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/investor securities.

(v) Membership or registration of the person or any company in which he was a director during the last five years has not been suspended/ cancelled on disciplinary ground(s) by the Commission, any other regulatory authority, any professional body, association or relevant entity:

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 registration.

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

(vii) The person should be a tax payer and his/its name should be borne on the Active Tax Payers List regularly published by FBR. Provided that this requirement shall not be applicable in the case of non-resident foreign nationals.

#### **(b) Educational Qualification and Experience**

(i) In case of director, the person should:

- (a) be a member of a recognized body of professional accountants or possess a postgraduate degree in finance, accountancy, law, business management, commerce, economics, capital market, information technology and financial services or related disciplines from a university recognized by the Higher Education Commission of Pakistan, or equivalent; and
- (b) have a management or business experience including directorships, of at least seven years

at a senior level preferably in the regulated financial services sector and other fields such as law, information technology etc.

Provided that where a person possesses more than 15 years of experience and knowledge of the capital markets, clearing houses, central depositories, commodities market, or in the areas relating to finance, corporate governance, audit, information technology etc. the minimum qualification requirement may be relaxed on case to case basis by the futures exchange, with prior approval of the Commission.

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

- a) be a member of a recognized body of professional accountants or possess a postgraduate degree in finance, accountancy, business management, commerce, economics, capital market and financial services or other 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 level managerial position at a securities or futures exchange or has served at a senior management position preferably as chief executive officer for a period of five years in any other company of substantial size in the regulated financial services sector; and
- c) have demonstrated, through his qualification and experience, the capacity to successfully undertake the cognate responsibilities of the position.

(iii) In case of chief regulatory officer, the person should:

- a) be a member of a recognized body of professional accountants or a recognized body of corporate or chartered secretaries; or be a law graduate or possess a postgraduate degree in finance, accountancy, business management, commerce, economics, capital market and financial services or related disciplines from a university recognized by the Higher Education Commission of Pakistan, or equivalent or a Certified Internal Auditor, or a Certified Fraud Examiner; and
- b) have preferably served as chief regulatory officer for a period of three years in any other company, or have:
  - i) a minimum experience of five years in related functions at a securities or futures exchange; or
  - ii) served as head of finance, audit, compliance or other corporate functions for a period of four years in any other company.

(iv) In case of chief operating officer, the person should:



- a) be a member of a recognized body of professional accountants or possess a postgraduate degree in finance, accountancy, business management, commerce, economics, capital market and financial services or other 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 level managerial position at a securities or futures exchange or has served at a senior management position preferably as chief operating officer for a period of five years, in any other company of substantial size in the regulated financial services sector; and
- c) have demonstrated, through his qualification and experience, the capacity to successfully undertake the cognate responsibilities of the position.

(v) In case of chief financial officer, the person should:

- a) be a member of a recognized body of professional accountants or possess a postgraduate degree in finance, accountancy, business management, commerce, economics, capital market and financial services or related disciplines from a university recognized by the Higher Education Commission of Pakistan, or equivalent; and
- b) have preferably served as chief financial officer for a period of three years in any other company, or have:
  - i) a minimum experience of five years in related functions at a securities or futures exchange; or
  - ii) served as head of audit, compliance or other corporate functions for a period of four years in any other company.

(vi) In case of head of internal audit, the person should:

- a) be a member of a recognized body of professional accountants, or a Certified Internal Auditor, or a Certified Fraud Examiner; and
- b) have preferably served as head of internal audit for a period of three years in any other company, or have:
  - i) a minimum experience of five years in related functions at a securities or futures exchange; or
  - ii) served as head of finance, compliance or other corporate functions for a period of four years in any other company.

(vii) In case of company secretary the person should:

- a) be a member of a recognized body of professional accountants or a recognized body of corporate or chartered secretaries; or be a law graduate or possess a post-graduate degree in finance, accountancy, business management, commerce, economics, capital market and financial services or related disciplines from a university recognized by the Higher Education Commission of Pakistan, or equivalent; and
- b) have preferably served as company secretary and/or compliance officer for a period of three years in any other company, or have:
  - i) a minimum experience of five years in related functions at a securities or futures exchange; or
  - ii) served as head of finance, audit, or other corporate functions for a period of four

years in any other company.

- (vii) In case of head of Information Technology (IT) or head of IT security, the person should:
- a) possess a post-graduate degree in information technology or computer sciences or related disciplines from a university recognized by the Higher Education Commission of Pakistan, or equivalent; and
  - b) have a minimum relevant experience of five years in IT related functions at a securities or futures exchange or has served as head of IT related services for a period of three years in any other company.

Provided that the futures exchange shall not appoint or retain any person as senior management officer who was in service of a TRE certificate holder/futures broker or an associated company of such TRE certificate holder/futures broker during the last three years or who is above sixty years of age.

Provided further that in exceptional circumstances and reasons to be recorded in writing a futures exchange may extend the age limit of sixty years to sixty-two years.

Provided further that upon request of a futures exchange supported by cogent reasons, the Commission may consider allowing continuation of service of an existing senior management officer who does not fulfil the requirements prescribed above, on a case to case basis.

(viii) In case of promoters of a futures exchange, such person should have an established and proven track record of successfully running a business enterprise for 3 to 5 years.

(ix) In case of director and senior management officer, the person 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 code of corporate governance.

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

- (i) The person has not been convicted of an offence involving moral turpitude;
- (ii) The person has not been involved in the mismanagement of investments, financial or business misconduct, fraud, etc.;
- (iii) has been the subject to adverse findings, after conducting an inquiry, by the Commission or any other regulatory or professional body or government agency;
- (iv) The person should not have provided false or misleading information either to the Commission or to any of the regulatory bodies, a securities or futures exchange, a central depository or a clearing house.

(v) The person must not be ineligible, under the Ordinance or any other legislation from acting as a director or senior management officer.

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

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

(viii) The person has not been placed on Exit Control List

The following does not apply to senior management officers:

(viii) 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 he has been associated with any unauthorized financial activity including illegal brokerage business.

(ix) 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.

(x) No investigation/ enquiry, conducted under Section 139 of the Securities Act, 2015, Section 83 of the Futures Market Act, 2016, 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, is underway or has been concluded against him by the Commission with material adverse findings.

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

(xii) An order restraining, prohibiting or debarring him from dealing in the capital market or from accessing the capital market has not been passed; or penalty of rupees five hundred thousand or more has not been imposed on him 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.

(xiii) 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.

**(d) Additional Criteria for Independent Directors /Directors Appointed by the Commission**

(i) The person has no relationship with the futures exchange 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 or sponsor of a company holding TRE certificate and/ or the combined shareholding of the immediate family members in such companies 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 family member or in the name of an entity being managed or controlled by him or his family member, to the futures exchange and the Commission;

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

Further, the futures exchange shall, during the tenure of independent director, disseminate the information relating to trading of such independent director for public disclosure.

(v) The person shall have no personal services contract(s) and shall not be currently serving as an employee and has not been employed at any position of the futures exchange within the past three years.

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

**Notes**

- All directors must inform the futures exchange of any change in the submitted information that may potentially affect their status of directorship, within 48 hours of knowledge of such change.
- 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 futures exchange.
- Along-with the application for licence as a futures exchange and on subsequent appointment;
  - o the applicant's directors and senior management officers shall submit the following duly filled

- form and affidavit; and
- the authorized person on behalf of the applicant and authorized person on behalf of promoters and substantial shareholders of the applicant shall submit the following duly filled affidavit.

**Form of information to be provided by persons desiring prospective directorship on the board or a senior management officer of the futures exchange**

|     |   |                      |             |                      |
|-----|---|----------------------|-------------|----------------------|
| 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<br>DD/MM/YY |
|     | 2   | Company B            |             | DD/MM/YY<br>DD/MM/YY |
| 2.  | 1. Nature of directorship:<br>Executive      Non-executive  |                      |             |                      |
|     | 2. Status of directorship:<br>Independent director      Shareholder director  |                      |             |                      |
|     | Number of shares subscribed or held _____   |                      |             |                      |
|     | Nominated by (name of shareholder/ nominating entity)   |                      |             |                      |
|     | In case of proposed director:   |                      |             |                      |

|    |  |                      |                                  |
|----|--|----------------------|----------------------------------|
| 3. | Names of companies, firms and other organizations of which the proposed person is presently a director, partner, office holder or promoter (Information to be provided on the following sample format*)                          |                      |                                  |
|    | Sr#  | Name of Organization | Designation                      |
|    | 1  | Company A            | Period<br>DD/MM/YY -<br>DD/MM/YY |
|    | 2  | Company B            | DD/MM/YY -<br>DD/MM/YY           |
| 4. | In the case of nomination of director by a shareholder the date of board of directors' meeting in which the nomination of proposed director was approved. (Attach copy of the minutes of the meeting of the board of directors.) |                      |                                  |
| 5. | Names of any persons on the board of the futures exchange who are related to the applicant.  |                      |                                  |

Signature \_\_\_\_\_

\*use additional sheets if required

**Affidavit to be provided by persons subject to fit and proper criteria**

(On Stamp Paper of Appropriate Value)

**AFFIDAVIT**

(name of futures exchange)

**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 of the ... (name of futures exchange)....according to the fit and proper criteria specified for the position of directors/senior management officers of a futures exchange, as per the Futures Exchanges (Licensing and Operations) Regulations, 2017.
2. That I and the companies, firms, sole proprietorship etc. where I am a chief executive officer, director (other than nominee director), owner or partner etc. has no overdue payment of 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 ....(name of the futures exchange).... or the Commission requests or obtains information about me from any third party.
5. That I undertake to bring to the attention of ....(name of the futures exchange).... any matter which may potentially affect my status for the position of director/senior management officer as per the fit and proper criteria specified in the Futures Exchanges (Licensing and Operations) Regulations, 2017.
6. That all the documents provided to ...(name of the futures exchange)...., 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 promoters and substantial shareholders of the applicant:**

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



1. That ....(name of the institution)..... is eligible for being promoter/substantial shareholder of the ...( name of futures exchange)..... according to the fit and proper criteria specified as per the Futures Exchanges (Licensing and Operations) Regulations, 2017.
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 futures exchange).. or the Commission 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 futures exchange).... any matter which may potentially affect its status as promoter or substantial shareholder of the ... (name of futures exchange).... as per the fit and proper criteria specified in the Futures Exchanges (Licensing and Operations) Regulations, 2017.
6. That all the documents provided to ....(name of futures exchange).... 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 futures exchange as per the Futures Exchanges (Licensing and Operations) Regulations, 2017.
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 Commission 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 Commission any matter which may potentially affect its status as a futures exchange as per the licencing conditions and fit and proper criteria specified in the Futures Exchanges (Licensing and Operations) Regulations, 2017.
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 .....(name of 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

## GUIDELINES FOR FORMULATION OF CODE OF CONDUCT FOR DIRECTORS AND SENIOR MANAGEMENT OFFICERS OF A FUTURES EXCHANGE

While formulating the code of conduct as required under the code of corporate governance, the board of directors of the futures exchange shall ensure that the following areas are covered and duties and responsibilities of directors and senior management officers are accordingly defined in the said code of conduct:

### 1. Duties and Responsibilities of Directors and Senior Management Officers:

Every director and senior management officer shall,-

- a) participate in the formulation and execution of strategies in the best interest of the futures exchange and contribute towards pro-active decision making;
- b) give the futures exchange benefit of their experience and expertise and provide assistance in strategic planning and execution of decisions;
- c) endeavor to ensure that the futures exchange abides by all the provisions of the Act, the Ordinance, these regulations and other applicable rules, regulations, codes, guidelines, circulars and directions issued by the Commission from time to time;
- d) endeavor to ensure that the futures exchange takes steps commensurate to honor the time limit stipulated by the Commission for corrective action;
- e) not support any decision in the meeting of the board which may adversely affect the interest of investors and shall report forthwith any such decision to the Commission;
- f) place priority for redressing investor grievances and encouraging fair business practice so that the futures exchange becomes an engine for the growth of the futures market;
- g) endeavor to analyze and administer the futures exchange issues with professional competence, fairness, impartiality, efficiency and effectiveness;
- h) submit the necessary disclosures/statement of holdings/ dealings in securities as required by the futures exchange or the Commission from time to time as per their regulations or Articles of Association or any directives of the Commission;
- i) unless otherwise required by law, maintain confidentiality and shall not divulge/disclose any information obtained in discharge of their duty and no such information shall be used for personal gains;
- j) maintain the highest standards of personal integrity, truthfulness, honesty and fortitude in discharge of their duties in order to inspire public confidence and shall not engage in acts discreditable to their responsibilities;
- k) perform their duties in an independent and objective manner and avoid activities that may impair, or may appear to impair, their independence or objectivity or official duties;
- l) not engage in any act involving moral turpitude, dishonesty, fraud, deceit, or misrepresentation or any other act prejudicial to the administration of the futures exchange; and
- m) not disclose confidential information, including commercial secrets, technologies, advertising and sales promotion plans, unpublished price sensitive information, unless such disclosure is

expressly approved by the board of directors or required by law.

## **2. Meetings of the Board**

Every director of the futures exchange shall endeavor to,-

- a) ensure that in case all the items of the agenda of a meeting were not covered for want of time, the next meeting is held within reasonable timeframe as the board of directors may determine for considering the remaining items;
- b) have the date of next meeting fixed at each board meeting in consultation with other members of the board; and
- c) attend all the board meetings and they shall be liable to vacate office if they do not attend fifty percent of the total meetings of the board of directors in a calendar year.

## **3. Guidelines for conduct of independent directors**

In addition to the conditions stated above, the independent directors shall,-

- a) participate constructively and actively in the committees of the board in which they are chairpersons or members;
- b) strive to attend the general meetings of the futures exchange;
- c) where they have concerns about the running of the futures exchange or a proposed action, ensure that these are addressed by the board and, to the extent that they are not resolved, insist that their concerns are recorded in the minutes of the board meeting;
- d) keep themselves well informed about the affairs and matters of the futures exchange and the external environment in which it operates;
- e) pay sufficient attention and ensure that adequate deliberations are held before approving related party transactions and assure themselves that the same are in the interest of the futures exchange;
- f) ascertain and ensure that the futures exchange has an adequate and functional grievance resolution mechanism and to ensure that the interests of a person who uses such mechanism are not prejudicially affected on account of such use;
- g) report concerns about unethical behavior, actual or suspected fraud or violation of the code of conduct of the futures exchange; and
- h) acting within their authority, assist in protecting the legitimate interests of the futures exchange, shareholders and its employees.

**TERMS OF REFERENCE OF OPERATIONAL, REGULATORY AND SYSTEM AUDIT OF FUTURES EXCHANGE UNDER REGULATION 17(8) AND SPECIAL AUDIT UNDER REGULATION 17(9)**


(1) A futures exchange shall require an independent auditor to conduct operational and system audit in accordance with any or all of the following:

- (i) reviewing appropriateness of controls and safeguards mentioned in regulation 5(g);
- (ii) reviewing the information processing facilities of the futures exchange and the integrity of its systems including:
  - (a) maintenance of security and confidentiality over the data of its elements;
  - (b) security over the physical operation of the systems;
  - (c) backup and disaster control and recovery procedures for the systems; and
  - (d) access controls for the systems;
- (iii) assessing the integrity and accuracy of information generated by the futures exchange systems including, without limitation:
  - (a) internal controls over data input by the futures exchange; and
  - (b) processing and reporting of transaction data;
- (iv) performing any other function or conducting audit of any other area as may be assigned by the Commission or futures exchange at the time of appointment of such auditor.

(2) A futures exchange shall require an independent auditor to conduct regulatory audit in accordance with any or all of the following:

- (i) ensure compliance with the relevant regulatory framework, including but not limited to:
  - (a) Futures Market Act, 2016;
  - (b) Central Depositories Act, 1997;
  - (c) The Companies Ordinance, 1984;
  - (d) The Futures Exchanges (Licensing and Operations) Regulations, 2017;
  - (e) The regulations of the futures exchange as approved by the Commission under the Futures Market Act, 2016; and
  - (f) The policies, procedures, directives, guidelines, circulars issued/approved by the Commission or the board of directors of a futures exchange.
- (ii) ensure compliance with the Memorandum of Association and Articles of Association of the futures exchange;
- (iii) ensure existence of and compliance with Standard Operating Procedures relating to all major operational processes;
- (iv) ensure that policies and procedures are formulated, to identify and prevent conflict of interest of directors with the interest of capital market, investors and futures exchange, and are complied with;
- (v) ensure that the futures exchange's system and related functionalities operate in compliance with the requirements of approved regulations and procedures of the futures exchange; and
- (vi) evaluate any other aspect of futures exchange functions that may be required by the Commission.

[No.SY/SECP/8/13]



( Usman Hayat )

Secretary to the Commission

