



PAKISTAN STOCK BROKERS ASSOCIATION

(A company setup under section 42 of the Companies Act 2017)

Regd Office: Mezzanine Floor, Trading Hall, Stock Exchange Building, Stock Exchange Road,
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PSBA/Notice-098

May 31, 2023

NOTICE FOR MEMBERS

PROPOSED AMENDMENTS TO PAKISTAN STOCK EXCHANGE LIMITED (PSX) REGULATIONS IN RELATION TO VARIOUS MATTERS

This is in reference to the notification PSX/N-532 dated May 30, 2023 (**attached**), whereby the comments have been invited by the PSX:

1. Linking the securities brokers' statutory audit requirement with the list of approved auditors recently notified by the securities & Exchange Commission of Pakistan (SECP):
2. Criteria for selection of auditors for the system audit of securities brokers:
3. Changes in the composition of default Committee required to be constituted under chapter 21[Default Management in respect of TRE Certificate Holders/Brokers Regulations] of PSX Regulations:

In this regard, the members are hereby requested to kindly submit your comments, if any, at psamail024@gmail.com latest by **June 4, 2023**, so that a consolidated response is submitted to the authorities for their consideration.

_____sd
AKBER ALI
Officer - Secretariat

Copy to:

1. PSBA Website

INVITATION OF PUBLIC COMMENTS

PROPOSED AMENDMENTS TO PAKISTAN STOCK EXCHANGE LIMITED (PSX)
REGULATIONS IN RELATION TO VARIOUS MATTERS

This is to inform the public that the PSX, in exercise of power conferred upon it u/s 7 of the Securities Act, 2015, is proposing amendments to PSX Regulations in relation to the following matters:

1. Linking the securities brokers' statutory audit requirement with the list of approved auditors recently notified by the Securities and Exchange Commission of Pakistan (SECP):

SECP vide Circular No. 4 dated April 03, 2023 has notified the list of approved auditors for audits of various regulated entities which include different categories of securities brokers. SECP also consequentially amended the Securities Exchanges (Licensing and Operations) Regulations, 2016 and Securities Brokers (Licensing and Operations) Regulations, 2016 to align the audit related requirements with the said Circular. The said Circular was also notified by PSX vide Notice No. PSX/N-344 dated April 06, 2023 for the information and necessary compliance by securities brokers.

Consequent to the above, PSX is proposing consequential amendments to PSX Regulation 4.22, which are attached herewith as **Annexure A**, to link the statutory audit requirement of securities brokers with the approved list of auditors as notified by the SECP vide aforesaid Circular.

2. Criteria for selection of auditors for the system audit of securities brokers:

The securities brokers are required to undergo system audit under Chapter 23 of PSX Regulations, through the audit firm selected from the panel of auditors formed on the basis of "Criteria for Selection of Auditors for the System Audit of Securities Brokers (Criteria)" notified by PSX on its website.

PSX is proposing certain editorial changes in PSX Regulation 23.2.1 and 23.7.1 to remove redundancy and add clarity. Further, PSX is also proposing editorial changes in the Criteria to add clarity and consequential changes to replace the term Net Capital Balance with Liquid Capital. The proposed amendments to Chapter 23 of PSX Regulations and Criteria are attached herewith as **Annexure B**.

3. Changes in the composition of Default Committee required to be constituted under Chapter 21 [Default Management in respect of TRE Certificate Holders/Brokers Regulations] of PSX Regulations:

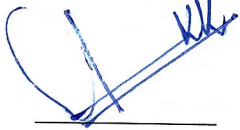
Under PSX Regulation 21.6, PSX constitutes a Default Committee, which manages and supervises proceedings relating to the collection and realization of the assets of defaulter securities broker in accordance with PSX Regulations. Currently, the regulations relating to composition of Default Committee is structured in such a way that minimum six members are required to be appointed in the event of a broker default. It is pertinent to mention that the Default Committee can effectively function even with a fewer number of members, which can save time and cost. Therefore, amendments are being proposed to PSX Regulation 21.6, which are attached herewith as **Annexure C**, whereby PSX may have power to appoint minimum three members or more depending upon the total number and magnitude of the claims received.

INVITATION OF PUBLIC COMMENTS:

In terms of Section 7(3) of the Securities Act, 2015, all interested parties are invited to provide written comments on the proposed regulatory amendments to PSX Rulebook in relation to the above matters, which are attached herewith as **Annexure A, B and C**, respectively.

The comments can be submitted through any of the following modes latest by **June 06, 2023** in the manner as suggested in the 'Guidelines for Submission of Comments' which are attached herewith as **Exhibit A:**

Email	comments.rad@psx.com.pk
Mail	The Chief Regulatory Officer, Regulatory Affairs Division, 2 nd Floor, Administration Building, Pakistan Stock Exchange Building, Pakistan Stock Exchange Road, Karachi – 74000.



AJEET KUMAR

Chief Regulatory Officer

Cc:

1. The Executive Director/HOD (PRDD), SMD, SECP
2. Pakistan Stock Brokers Association
3. The Chief Executive Officer, PSX
4. The Chief Executive Officer, CDC
5. The Chief Executive Officer, NCCPL
6. The Chief Executive Officer, PMEX
7. The Chief Executive Officer, E-Clear
8. The Chief Executive Officer, IFMP

“ANNEXURE A”

PROPOSED AMENDMENTS TO PSX REGULATIONS IN RELATION TO LINKING THE SECURITIES BROKERS’ STATUTORY AUDIT REQUIREMENT WITH THE LIST OF APPROVED AUDITORS RECENTLY NOTIFIED BY THE SECP

Chapter 4: TRADING RIGHTS ENTITLEMENT (TRE) CERTIFICATE		
EXISTING PSX REGULATIONS	PROPOSED AMENDMENTS	RATIONALE
<p>4.22. STATUTORY AUDIT OF THE SECURITIES BROKERS:</p> <p>All Securities Brokers shall have their statutory audit conducted by an auditor enlisted within Category ‘A’ or ‘B’ of the SBP’s Panel of Auditors.</p> <p>Provided that the requirement of Category ‘A’ or ‘B’ auditor under this clause shall not apply to a Trading Only Securities Broker which has transferred its custody and clearing functions completely including proprietary.</p>	<p>4.22. STATUTORY AUDIT OF THE SECURITIES BROKERS:</p> <p>All The Securities Brokers shall have their statutory audit conducted by an auditor enlisted within Category ‘A’ or ‘B’ of the SBP’s Panel of Auditors appointed from the list of approved auditors of the respective category of Securities Broker as notified by the Commission.</p> <p>Provided that the requirement of Category ‘A’ or ‘B’ auditor under this clause shall not apply to a Trading Only Securities Broker which has transferred its custody and clearing functions completely including proprietary.</p>	<p>SECP vide Circular No. 4 of 2023 dated April 03, 2023 has notified a “List of Approved Auditors for SECP’s Regulated Entities”, whereby, the securities brokers, among other regulated entities, are required to select auditors from the list given in Annexure A of said Circular.</p> <p>All categories of securities brokers shall have their statutory audit conducted by an auditor from such list, therefore, necessary changes in first para have been proposed and proviso is proposed to be deleted.</p>

“ANNEXURE B”

PROPOSED AMENDMENTS TO PSX REGULATIONS IN RELATION TO CRITERIA FOR SELECTION OF AUDITORS FOR THE SYSTEM AUDIT OF SECURITIES BROKERS

Chapter 23: SYSTEM AUDIT [REGULATORY COMPLIANCE] REGULATIONS		
EXISTING PSX REGULATIONS	PROPOSED AMENDMENTS	RATIONALE
<p>PANEL OF AUDITORS:</p> <p>23.2.1. The RAD shall declare from time to time the Panel of Auditors who shall be eligible to conduct Audit of the Securities Brokers. The panel would consist of at least 10 Auditors and would fulfill the following prerequisites:</p> <p>(a) The Auditors shall be a Chartered Accountants firm within the meaning of the Chartered Accountants Ordinance, 1961; and</p> <p>(b) The Auditors must have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan;</p> <p>(c) The Auditors shall satisfy the criteria devised by the RAC from time to time.</p>	<p>PANEL OF AUDITORS:</p> <p>23.2.1. The RAD shall declare from time to time the Panel of Auditors who shall be eligible to conduct Audit of the Securities Brokers <u>in accordance with the criteria devised by RAC</u>. The panel would consist of at least 10 Auditors. and would fulfill the following prerequisites:</p> <p>(a) The Auditors shall be a Chartered Accountants firm within the meaning of the Chartered Accountants Ordinance, 1961; and</p> <p>(b) The Auditors must have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan;</p> <p>(c) The Auditors shall satisfy the criteria devised by the RAC from time to time.</p>	<p>Since clauses 23.21 (a) and (b) themselves are part of the Criteria prescribed under clause 23.21 (c), the clauses 23.21 (a) and (b) are proposed to be deleted to remove duplication. Further, clause 23.21 (c) is also deleted and merged with clause 23.2.1.</p>
<p>23.7.1. The RAD shall intimate the selected eligible Securities Brokers whose Audit is to be conducted in accordance with these Regulations by 31st January and 31st July of each year of their selection for Audit.</p> <p>Within 30 days of intimation thereof, such Securities Broker shall appoint an Auditor from the approved panel and submit the Auditor’s declaration to the Exchange on the format prescribed by the Exchange from time to time.</p>	<p>23.7.1. The RAD shall intimate the selected eligible Securities Brokers whose Audit is to be conducted in accordance with these Regulations by 31st January and 31st July of each year of their selection for Audit.</p> <p>Within 30 days of intimation thereof, such Securities Broker shall appoint an Auditor from the approved panel, <u>in such manner as prescribed in the criteria mentioned under Clause 23.2.1</u>, and submit the Auditor’s declaration to the Exchange on the format prescribed by the Exchange from time to time.</p>	<p>Since, there are certain requirements relating to selection of auditor from the approved panel of auditors, it is considered appropriate to mention this for clarity.</p>

CRITERIA FOR SELECTION OF AUDITORS FOR THE SYSTEM AUDIT OF BROKERS

(SECP APPROVED CRITERIA)

Criteria for Auditors

1. The criteria for the Auditor to be eligible for inclusion in the Panel of Auditors for System Audit of securities brokers shall be as follows:
 - 1.1 The Auditors shall be a Chartered Accountants firm within the meaning of the Chartered Accountants Ordinance, 1961;
 - 1.2 The Auditors Firm must have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP);
 - 1.3 The Audit Firms shall have their office in Karachi, Lahore or Islamabad as per the ICAP members' directory applicable on the ballot date;
 - 1.4 The Audit Firm must have experience of conducting statutory/system audits and/or comprehensive investigations of ~~brokerage houses~~ securities Brokers;
 - 1.5 In case the Audit Firm does not have prior experience of performing audits/investigations as stated in ~~clause 5~~ point 1.4 above, the engagement partner of such Audit Firm must have prior audit experience of ~~brokerage houses~~ securities brokers;
 - 1.6 The Audit Firm shall be on Category A and B of the State Bank of Pakistan's Panel of Auditors on the ballot date.
2. ~~Further,~~ The ~~brokerage houses~~ securities brokers ~~are to~~ must select Audit Firms from the category as under:

Brokerage House <u>Securities Brokers</u>	liquid capital as at		Liquid Capital Threshold	Allowed Category of Audit Firm	
	For JAN Ballot	For JULY Ballot		A	B
Listed Brokerage House <u>Securities Brokers</u>	31-DEC N/A	30-JUN N/A	- N/A	✓	✗
Net Capital Balance for Unlisted Brokerage House <u>Liquid Capital for Unlisted Securities Brokers</u>	30 JUNE	31 DECEMBER	PKR 500 million and above	✓	✗
			Less than PKR 500 million	✓	✓

Note: The Exchange ~~shall~~ may invite applications from Audit Firms who are desirous to list on the panel of Auditors for System Audit, on the form prescribed by the Exchange and amended from time to time.

“ANNEXURE C”

PROPOSED AMENDMENTS TO PSX REGULATIONS IN RELATION TO CHANGES IN THE COMPOSITION OF DEFAULT COMMITTEE REQUIRED TO BE CONSTITUTED UNDER CHAPTER 21 [DEFAULT MANAGEMENT IN RESPECT OF TRE CERTIFICATE HOLDERS/BROKERS REGULATIONS] OF PSX REGULATIONS

EXISTING REGULATIONS	PROPOSED REGULATIONS	RATIONALE
<p>21.6. COMPOSITION AND FUNCTIONS OF THE DEFAULT COMMITTEE:</p> <p>The Default Committee shall comprise TRE Certificate Holders, relevant management personnel of the Exchange and industry experts and the number of TRE Certificate Holders in the Default Committee shall not exceed one-third of its total number.</p>	<p>21.6. COMPOSITION AND FUNCTIONS OF THE DEFAULT COMMITTEE:</p> <p>The Default Committee shall comprise TRE Certificate Holder(s), relevant management official(s) personnel of the Exchange, and industry expert(s). and—The number of TRE Certificate Holders in the Default Committee shall not exceed one-third of its total number.</p>	<p>It is pertinent to mention that the Default Committee can effectively function even with a fewer number of members, which can save time and cost. Therefore, amendments are being proposed to PSX Regulation 21.6, whereby, PSX may have power to appoint minimum three members or more depending upon the total number and magnitude of the claims received.</p>

*****End of Proposed Amendments*****

“EXHIBIT A”

GUIDELINES FOR SUBMISSION OF COMMENTS

1. PSX invites the interested parties to provide their comments and views with specific reference to the subject matter of the proposed amendments to PSX Regulations notified in this Notice.
2. The comments can be submitted through any of the following modes:

Email	comments.rad@psx.com.pk
Mail	The Chief Regulatory Officer, Regulatory Affairs Division, 2 nd Floor, Administration Building, Pakistan Stock Exchange Building, Pakistan Stock Exchange Road, Karachi – 74000.

3. At the time of submission of comments, respondent is advised to provide the information, as per **Table-A** below, so that PSX may contact him/her for clarification or deliberation on the comments, if needed. Anonymous responses may be disregarded by PSX.

Table-A

TO BE FILED BY THE RESPONDENT	
Name of respondent	
Name of company (if applicable)	
Designation (if applicable)	
Contact Number	
Email Address	

4. The respondent may request confidential treatment for his/ her identity and all or any part of comments due to their proprietary, confidential or commercial nature, by clearly marking the information in **Table-B** below:

Table-B

DISCLOSURE OF IDENTITY AND COMMENTS
Please check the box(es) if you wish to remain confidential:
<input type="checkbox"/> I wish to have my identity remain confidential.
<input type="checkbox"/> I wish to keep all or any part of my comments confidential.

If respondent wishes to keep any part(s) of comments confidential, then he/she is required to clearly specify such part(s) of comments.

5. To ensure quality and promote transparency, PSX will publish the relevant comments of respondents and its management’s response thereon in the form of a **Response Paper** on its website, within a reasonable timeframe, after close of public consultation session, unless the respondent has made a confidentiality request.
6. Any policy or rule amendment may be subject to regulatory concurrence. For this purpose, respondents should note that notwithstanding any confidentiality request, PSX will share all their response(s) with the Securities and Exchange Commission of Pakistan (Apex Regulator).
7. By submitting comments, respondents are deemed to have consented to the collection, use and disclosure of data that is provided to PSX, unless respondents wish to have their identity or comments remain confidential.