



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,
Off I.I Chundrigar Road, Karachi.

Tel: 021-32401278, E-mail: secretariat@psba.pk, Web: www.psba.pk, Fax: 021-32401279

PRESS RELEASE

May 5, 2025

“REPRESENTATION OF PAKISTAN STOCK BROKERS ASSOCIATION AT THE MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE & REVENUE”

Islamabad, May 5, 2025: The Pakistan Stock Brokers Association (PSBA) was invited by the Senate Standing Committee on Finance and Revenue to participate in a crucial meeting scheduled for today at Parliament House - Islamabad. The purpose of the meeting was to discuss and present proposals & recommendations for the Pre-Budget Consultation before the Honorable Chairman, Senator Saleem Mandviwalla, and esteemed Committee Members. Also present at the meeting were the:

1. The Chairman of the Federal Board of Revenue;
2. Member IR/Operations FBR; and
3. Other senior government and tax officials.

The PSBA attended the meeting through its representatives, Mr. Munir Khanani – Chairman, Mr. Ghulam Mujtaba Sakarwala – Director/EC Member, and Mr. Bilal Farooq Zardi – Chief Executive & Secretary General.

During the meeting, the Committee received a comprehensive overview from Mr. Khanani of the PSBA and PSX's strategic initiatives aimed at unlocking the potential of Pakistan's Capital Market. While thanking the officials, he added that our presence here today is the source of great comfort to us all, as it demonstrates the GoP's interest and support for Pakistan's Capital Market and its development.

Mr. Sakarwala emphasized that, despite challenges, Pakistan's Capital Market possesses immense potential. He expressed confidence that through a well-formulated strategy, the market could realize this potential and significantly contribute to the economy. He added that we look towards the GoP's support for our efforts and provide us the opportunity to actualise our joint vision of making the Capital Market a real engine of corporate growth and a viable vehicle for investors to deploy their capital.

Mr. Zardi gave a detailed presentation on PSBA's proposals & recommendations. He added that in the past year, we have witnessed a positive economic environment that has contributed significantly and led the market to record levels. From July to December, there was an increase of 61,862 Unique Investor Numbers (UINs), with December alone accounting for a remarkable addition of 15,130 UINs. With the historically high 8.5x price-to-earnings multiple as compared to the current one, and given the current market outlook, attractive dividend yields, and positive economic indicators, there are promising opportunities for investors. However, there are several areas that we would like to bring to the attention of participants for further growth in the market.

A country's stock market is the economic window for the world. It showcases the investment climate in the country. As we also see globally, all governments and regulators take necessary policy and tax measures to encourage the development and growth of the stock market, the most documented sector of the economy. It not only attracts portfolio investment but also helps in attracting direct investment and channelizes the investment towards the most productive sector of the economy. The measures at the government front need to be well-balanced, regionally competitive, and provide long-term certainty to the investment environment. It is imperative for the growth of Pakistan's economy to create a conducive environment that will help attract more companies and investors to the market. A broad-based market helps to achieve important economic and social objectives. It improves savings, investment rates, and documentation of the economy, increases the number of taxpayers, and develops the capital market, which we believe is fully aligned with the government's objectives, Mr. Zardi added.



We look forward to working in close coordination with the government officials to achieve the objective of market development. It is critical that we all work together to improve the brand Pakistan and increase the size of our market on a war footing. As a fully documented sector, we expect that we will be encouraged and rewarded for leading the field in documentation and transparency, regrettably, it is often the opposite. We don't ask for subsidies or compensation; we only ask for a level playing field, so please give us some support, and also, we would request you to use the market as much as possible for all purposes, the PSBA added.

The key proposals included:

1. Removal of distortion/anomaly regarding definition of the term "security" & start of its holding period with reference to section 37A of the Income Tax Ordinance 2001;
2. Rationalization of tax rates for companies listed on the stock exchange;
3. Simplification of KYC, and AML/CFT Regulatory Requirements;
4. Charging of Sindh Sales Tax – jurisdiction issues to be settled in the Council of Common Interest;
5. Consistent and long-term tax policies; and
6. Introduction of investment savings account (ISA)

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PAKISTAN STOCK BROKERS ASSOCIATION PROPOSALS

INTRODUCTION

The Pakistan Stock Brokers Association (PSBA) is the national representative body of TREC Holders and stock brokers of the Pakistan Stock Exchange (PSX). The industry consists of 195 stock brokers, approximately 550 listed companies, and 372,318 investors. PSBA is also an active member of the Asia Securities Forum with the head office in Tokyo, Japan.

In the past year, we have witnessed a positive economic environment that has contributed significantly and led the market to record levels. From July to December, there was an increase of 61,862 Unique Investor Numbers (UINs), with December alone accounting for a remarkable addition of 15,130 UINs. With the historically high 8.5x price-to-earnings multiple as compared to the current one, and given the current market outlook, attractive dividend yields, and positive economic indicators, there are promising opportunities for investors. However, there are several areas that we would like to bring to your attention for further growth in the market.

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1. REMOVAL OF DISTORTION / ANOMALY REGARDING DEFINITION OF THE TERM “SECURITY” & START OF ITS HOLDING PERIOD WITH REFERENCE TO SECTION 37A OF THE INCOME TAX ORDINANCE 2001

Background:

In terms of the Income Tax Ordinance, 2001 (the “Ordinance”), the share of an unlisted company is called a “share”, but after the listing of the company, i.e., a Public Company in terms of the Ordinance, the said share is reclassified as “security”. This reclassification, i.e., from share to security, affects the tax liability of the gain arising on the disposal of the security. Any gain on the disposal of security is taxed u/s 37A, whereas, gain on the disposal of shares is taxed u/s 37 of the Ordinance.

In terms of section 37A, the share of a company disposed off, in the tax year for which the company had the status of public / listed company, was considered “security” with effect from the date of acquisition, irrespective of the status of the company, at the time of acquisition of the said share. Considering this, the National Clearing Company of Pakistan Ltd. (NCCPL) has been determining and collecting gain tax on securities in an automated manner contrary to the assessment proceedings u/s 37, coupled with comparatively higher tax rates.

The tax was being collected by NCCPL u/s 37A until the decision of the Sindh High Court (SHC/the Court) (216 PTD 1813/2016 SLD 1141) dated 04-03-2016, namely Khalid Mansoor VS FBR and 3 others (the Judgment). In the said judgment, the Court ruled that shares of a company acquired only after the announcement of its listing shall be treated as a security, while the shares acquired prior to the announcement of listing shall continue to be shares.

Quote from the Judgment:

“Having considered the matter, in our view, for the charge in Section 37A to be complete, and thus the tax levied in terms thereof to be payable, the instrument in question (here shares of the company) must be a “security” for the entire “holding period”. In other words, the relevant instrument must be (i) a “security” on the date on which it was acquired, and (ii) a “security” on the date on which it is disposed off. Both these conditions must be met and applicable for the charge to be complete. Since “security” has a specific meaning for purposes Section 37A, this means that the instrument in question must be a “security”, as defined, on both the dates.

As presently relevant, this meant that the shares of the company ought to have been listed on a Stock Exchange on the date on which the petitioner acquired the same and the date on which he disposed them off. Both of these conditions had to be met for there to be a “holding period” within the meaning of Sub-Section (2) and, there for a valid levy in terms of Section 37A.”

Consequent upon the Judgment:

(i) The shares of a listed company are divided into two categories (shares and securities) for the tax treatment of capital gains and would be taxed u/s 37 and Section 37A of the Ordinance instead of Section 37A only, as per the prevalent interpretation and practice.

(ii) Considering the Judgment of the Court, FBR started enforcing taxes on sponsors under Section 37 as the shares available with them were acquired prior to the formal listing of the company.

(iii) The PSBA also took up this matter and convinced SECP & PSX to write a letter to FBR and highlight its importance. We also made many representations to the FBR and Government Officials but it appears that we wish to compromise on its broader objective of documentation of economy with the small amount of tax collections. Despite the assurances given at the highest level, nothing concrete has been provided so far.

In view of the foregoing and considering the interest of the capital market, an explanation, as proposed below, may be introduced to section 37A (3) of the Ordinance.

Explanation:

“For removal of doubt, it is clarified that for this section, the share of a company, disposed off in a tax year for which the company has the status of a public company, “becomes a security” with effect from the date of acquisition, irrespective of the status of said company at the time of the acquisition of the said share.”

2. RATIONALIZATION OF TAX RATES FOR COMPANIES LISTED ON THE STOCK EXCHANGE

A newly listed company used to get a small tax credit for the first four years of listing. This was abruptly discontinued without any discussion or taking any feedback from PSX, and three years ago, when it was done, by some estimates that the total tax impact of this credit was only 50 million rupees; the FBR had actually gained more tax revenue from capital gains tax on these newly listed companies. This was a small incentive that was revenue-positive, which was abruptly taken away.

All markets in the world needs a sympathetic tax and regulatory regime till they reach a certain critical mass and size, we are not doing this effectively in Pakistan because as you know capital market don’t develop in isolation and they need a whole ecosystem to be nurtured.

Therefore, in order to encourage documentation and create a long-term positive impact on tax revenue, there should be reduced rates of tax for listed companies compared to unlisted companies.

3. SIMPLIFICATION OF KYC, AND AML/CFT REGULATORY REQUIREMENTS

Since the reform agenda being pursued by the government, we are pleased to share that our market and all its stakeholders have worked very hard to modernize and make the capital market accessible to all investors and issuers, which is very important that all should be able to access the capital market easily. Implementation of a state-of-the-art surveillance system, which has brought PSX fully into the 21st century. This is a great example of collaboration.

However, following our target for the next three years to bring the total number of UINs to 2.5 million, at least 1% of the total population now has a KYC and AML/CFT distortion and needs to be addressed. As you are aware, AML/CFT compliance requirements are put in place to prevent money laundering and terrorist financing. While we understand the importance of these regulations, we also believe that our operations are not at risk of being involved in such activities. Our brokers operate within a tightly regulated stock exchange market that is well-documented.

The National Risk Assessment Reports also acknowledged that the TF risk for the securities market is LOW, considering the below-discussed implementations.

We understand that the stock brokers are considered Financial Institutions according to the FATF for the activities or operations in Transferable Securities on behalf of their customers. And they are required to follow and adhere to the relevant requirements stated in the FATF Methodology and CDD requirements and guidelines.

The guidelines provided by the FATF are used by regulators around the world to develop their AML/CFT measures. In our view, according to the said guidelines, the Brokers operating in the Stock Exchange are not subject to comprehensive customer due diligence (CCDD) as it does not pose any significant risk. Brokers are only subject to simplified CDD, which is less burdensome and costly.

The research paper discusses that there are three characteristics of the documented sectors:

- i. Non-Cash Dealings are restricted;
- ii. Restriction on receiving third-party Cheques; and
- iii. Compliance with International Standards.

Evaluation Of Risk-Reducing Factors:

- i. Transaction Traceability;
- ii. Regulatory Oversight;
- iii. Securities and Exchange Commission (SEC) Reporting.

While relaxation from comprehensive customer due diligence is sought, it is essential to emphasize that the stock exchange industry already has robust internal controls and compliance measures to prevent and detect any illicit financial activities. These measures can be leveraged to further minimize risks.

Given the documented nature of the Stock Exchange industry, there is a compelling case to grant relaxation from comprehensive customer due diligence requirements for regulated brokers in accordance with the FATF Guidelines as CCDD is known as Enhanced Due Diligence (EDD) that is used by Financial Institutions for the customers and transactions which poses a higher risk of money laundering. CDD/EDD measures involve complex procedures to conduct detailed background checks and also involve obtaining detailed and/or confidential information about the customers.

The FATF guidelines categorically state that CCDD/EDD measures should be used in specific situations and/or transactions involving high-risk customers.

The presented arguments and case studies establish the industry's credibility and commitment to combating financial crimes effectively. Regulators should consider adopting a risk-based approach that aligns the level of AML/CFT compliance requirements with the sector's inherent risk level. This, in turn, affects productivity and ultimately affects the stock exchange's overall performance. Therefore, we request relaxation from the AML/CFT compliance requirements to facilitate our business operations.

Being subject to strict compliance obligations adds an unnecessary burden to our brokers and their operations, which could make the process of trading on the stock exchange slower and more costly. Furthermore, we are in constant alignment with international standards and adhere to all necessary regulations to maintain our good standing in the market.

Moreover, the role of the National Clearing Company of Pakistan (NCCPL) as a Centralized KYC Organization should be implemented effectively as a Financial Intelligence Unit – Administrative Type FIU. This enables them to process the reporting under a Centralized, Independent, and Administrative Authority, which receives and processes information from the sector and transmits disclosures to judicial or law enforcement authorities domestically/internationally.

4. CHARGING OF SINDH SALES TAX – JURISDICTION ISSUES TO BE SETTLED IN THE COUNCIL OF COMMON INTEREST

A bare perusal of Article 70 (4), Article 142 & 143 together read with Fourth Schedule (Part I and II) point 30, of the Constitution of the Islamic Republic of Pakistan (the Constitution). It shows that the industries defined thereon, among others, “Stock Exchanges and Future Markets with objects and businesses not confined to one province”, include a wide range of subjects, such as communication, taxation, etc.

Hence, the Constitution establishes a federal system of government, where authority is divided between the federal government and the provincial governments. The federal government has exclusive legislative and executive authority over the subjects listed in the “Federal Legislative List (FLL)” (which includes the stock exchange, also as captioned above).

In addition, Article 144 of the Constitution provides that if any provision of a provincial law is inconsistent with federal law, the federal law shall prevail and the provincial law shall be void. This ensures that federal laws take precedence over provincial laws in matters within the federal government's jurisdiction, and the federal government would be responsible for regulating and governing those industries.

The various additional provincial contributions that stock brokers are subjected to are beyond the existing regulations. It is imperative to acknowledge these contributions as they significantly impact the operational costs and financial obligations of stock brokerage firms.

Apart from the existing regulatory framework, stock brokers are obligated to contribute to several provincial funds and institutions, including but not limited to the following:

1. Workers Welfare Fund;
2. Workers Participation Fund;
3. Social Security Institution Fund;
4. Professional Tax; and
5. Shops & Establishment Authorities.

Given the above, it is hereby requested, urged, and reiterated that this matter may please be resolved by the National Tax Council finding an amicable resolution.

5. CONSISTENT AND LONG-TERM TAX POLICIES

As much as favorable tax treatment, investors need a stable and predictable tax environment. When making a long-term investment decision, they need to know what tax treatment their investment will receive over the term of their investment horizon. Otherwise, they may simply decide not to invest or adopt short-term trading strategies.

The GOP must move away from short-term measures and frequent changes to tax treatment and adopt long-term measures to promote savings, investment, and development of the capital market.

6. INTRODUCTION OF INVESTMENT SAVINGS ACCOUNT (ISA)

Savings and investments are important for socio-economic development because they help create capital. Pakistan faces challenges like unemployment, a growing population, and slow economic growth. One major issue is the low saving rate, which limits sustainable national economic development. Low savings are considered a significant barrier to economic growth. By increasing savings, we can raise capital formation and lead to higher economic growth rates. ISA is a personal savings account that helps investors achieve their life goals. A specific annual contribution can be made to these accounts, which also provides tax benefits and has been successfully implemented in various jurisdictions.

Other countries, such as the USA with its RSIA accounts, the UK with ISA accounts, and Japan with NISA accounts, have successfully channeled savings into productive investments through capital markets. It is estimated that these initiatives have led to a remarkable growth of new accounts in just one year. These accounts often serve as a primary source of income during retirement. In Pakistan, implementing similar accounts would not only foster investment but also support the government's goal of documenting the informal sector. Although their designs vary according to the scheme's objectives, they all share a common feature: up to a certain threshold, capital accumulates free of tax on dividends and capital gains.

It is proposed that the Government of Pakistan establish a mechanism and regulatory framework for the launch of ISA. This initiative aims to encourage the channeling of savings into productive investments. These schemes will help transition capital from unproductive and large undocumented sectors into the formal and productive sectors of the economy.

By some estimates, 40 million middle-class Pakistanis have an average per capita accumulated wealth of over USD 10,000, for a total of over Rs. 50 trillion. Much of the wealth is currently invested in real estate, gold, and other asset classes in Pakistan. It would be advantageous if we could capture just 10% of that wealth.

Proposed Features:

1. Each account allows tax-free growth for up to five years;
2. Individuals can invest up to Rs. 1,000,000 annually, with a total maximum limit of Rs. 5,000,000; and
3. Contributions and capital gains beyond the limit will be subject to full taxation.