

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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Bilal Farooq Zardi
Secretary General

Ref: PSBA/S1020-02

October 23, 2020

MR. SHAUZAIB ALI
Commissioner - SMD
Securities and Exchange Commission of Pakistan
Islamabad.

Subject: **CALCULATION OF NET CAPITAL BALANCE**

Dear Sir,

This is with reference to our meeting held in your office wherein we sought help of your good office in the subject matter, and in continuation of our earlier letter PSA/S0520-02 dated May 5, 2020, which is still unattended. We would like to further discuss the content:

WHEREAS, the perusal of definition as ascribed in PSX Rule Book and Rule 19.2 of PSX Rule Book states that Base Minimum Capital (BMC) is a deposit to be maintained as a normal business requirement.

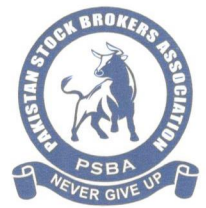
AND WHEREAS, the utilization of BMC will take place in the event of any default by a broker or cancellation/forfeiture of its TRE Certificate and at that time it will become liability towards Exchange, but not in a normal circumstance.

AND WHEREAS, the Exchange is also passing on profits to Securities Brokers on cash amount deposited with the Exchange against BMC at the rate paid by the respective bank(s) after retaining service charges. If the amount of BMC is liability towards the Exchange then why is the Exchange passing on the profits thereon?

AND WHEREAS, in accordance with point 3.7A of the Guideline issued by the Commission in respect of various clarifications for computation and reporting of Net Capital Balance (NCB) dated September 8, 2016, the shares that are pledged with the Exchange as a part of normal business requirement may be taken in calculation of NCB.

AND WHEREAS, the basic deposits that are not permissible to be taken in BMC as mentioned in point 1.7B of the aforesaid guideline, also does not include the deposit of BMC.

AND WHEREAS, the Securities Broker at its own discretion may switch with any of the available options, which clarifies that it is readily available with the broker or convertible in Cash or Cash equivalent in the normal course of business.



AND WHEREAS, the NCB reports are being submitted, duly audited by the auditors of Category A and B of the State Bank of Pakistan panel of auditors, as required under Securities Brokers (Licensing and Operations) Regulations, 2016.

AND WHEREAS, the NCB is part of the audited financial statement and the external auditors are duty-bound to comply with the requirements of the Companies Act, and International Accounting Standards.

AND WHEREAS, the assets internationally classifies as assets even though the same is pledged against any borrowing. Similarly, liabilities should be disclosed under liabilities.

AND WHEREAS, it would have been much better had the Regulator provide the new format for the computation of NCB in light of newly introduced treatment which has now been imposed after years in operations.

AND WHEREAS, it is clear from the definition that BMC is just to give eligibility to trade.

AND WHEREAS, the line items that are being maintained is collateral against Clients Assets Under Custody according to the definition of PSX Rule Book. Hence, it cannot be construed as BMC.

The matter has been under discussion with the SECP, many of our members have not excluded the amounts of BMC in their NCB. Therefore, it may please not be construed as any misrepresentation, and accordingly, the PSX may please be directed to give one-time relaxation considering the situation as discussed above.

Moreover, some of our members after excluding the BMC from the audited NCB might come with the shortfall in the NCB. Hence, the said cases may also be given one-time relaxation for any enforcement action, subject to the condition that they have complied with the required threshold in the current month's NCB reports.

In case of any further clarification, we are available on your first call.

Regards,

Cc: Mr. Farrukh Khan - MD - PSX.
Mr. Tanveer Alam - Additional Director - BCD - SECP.
Mr. Aamir Mobin - CRO - NCCPL
Mr. Abbas Mirza - Acting CRO - PSX.



Securities and Exchange Commission of Pakistan

Securities Market Division

Policy, Regulation and Development Department

SMD/SE/2(20)/2020

October 29, 2020

Mr. Bilal Farooq Zardi
Secretary General
Pakistan Stock Brokers Association
Karachi.

Subject: Calculation of Net Capital Balance

Dear Sir,

This is with reference to your letter No. PSBA/S1020-02 dated October 23, 2020 and the SECP's earlier letter of April 24, 2020 on the subject matter.

In this regard, it may please be noted that assets comprising BMC are not being treated as liability. However, BMC is required to be maintained with Pakistan Stock Exchange (PSX) on long term basis. Therefore, the assets constituting BMC which are deposited or pledged/ lien marked with PSX cannot be used for the calculation of NCB as per the requirements of Securities Brokers (Licensing and Operations) Regulations, 2016.

It is further reiterated that the following line items relating to forms of collaterals in respect of BMC are not the eligible assets/items used for the calculations of NCB:

- i. Bank Guarantee.
- ii. Transferable TRE Certificate Lien Marked with Irrevocable Authority in favor of the Exchange in the manner prescribed.
- iii: Shares of surviving entities of LSE and/or ISE.

In view thereof, the Commission cannot accede to PSBA's request. You are requested to advise PSBA's members to ensure compliance with requirements of the law especially when clarification in the matter had already been issued by the SECP vide its letter of April 24, 2020.

Regards,

(Salman Arshad)
Additional Joint Director