



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: 021-32401278-79 E-mail: psamail024@gmail.com

Ref: PSBA/P1020-01

October 7, 2020

MR. FARRUKH KHAN

Managing Director

Pakistan Stock Exchange Ltd

Karachi.

Subject: **CALCULATION OF NET CAPITAL BALANCE**

Dear Sir,

This is with reference to the subject captioned above, as you are aware that we are in talks with the operations and regulatory department of Pakistan Stock Exchange (PSX) regarding the matter. It is being written to apprise you that the matter requires immediate action.

Please also refer to Section 6 (6) of Securities Brokers (Licensing and Operations) Regulations, 2016, whereby, in case of any shortfall in the net capital balance, the securities exchange and clearinghouse shall immediately restrict the trading facility of such securities broker and shall only allow it to close out the open positions in a controlled environment.

It may please be noted that in pursuance of the observation of the National Clearing Company of Pakistan Ltd (NCCPL) that the amount of Base Minimum Capital (BMC) should be excluded from the calculation of Net Capital Balance (NCB). The matter was taken up with the Commission seeking clarification thereon, and subsequently we were responded that the items of BMC could not be used for the calculation of NCB. We, once again requested to revisit the same as this is the matter where the fate of all the NCB reports that are being submitted for the last four years, has to be decided, and that letter is yet to be responded by the Commission (Correspondence is attached for your ready reference).



Since, the matter was under discussion, hence the members were not clear as to whether the practice of the last four years is to be discontinued or not.

Now, as far as the submission of annual audited NCB is concerned which is due on October 31, 2020, there are few members with the shortfall in NCB due to the exclusion of amount of BMC.

It is therefore requested to take up the matter with the relevant authority, seeking one-time relaxation for the above discussed enforcement action, for the members who could not make it due to the confusion, and impression that the matter is still under discussion.

As far as the unaudited reports are concerned, it may also be noted that the members have not made any misrepresentation, and the same have been submitted in line with the format of the last four years. Hence, it may please not be construed that this has been made advertently.

Looking forward to your earlier response as we are very near to the deadline i.e. October 31, 2020.

Regards,

BILAL FAROOQ ZARDI

General Secretary

Cell# 0300- 266 2516

Cc:

Mr. Muhammad Luman - CEO - NCCPL.

Mr. Abbas Mirza - GM - Compliance - PSX.



PSX STOCKBROKERS ASSOCIATION

(A company setup under section 42 of the Companies Ordinance 1984)

(Formerly KSE Stockbrokers Association)

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off I.I. Chundrigar Road, Karachi.

Tel: 021-32401278, Fax: 021-32401279, E-mail: psamail024@gmail.com

Ref: PSA/S0520-02

May 5, 2020

MR. AAMIR KHAN

Chairman

Securities and Exchange Commission of Pakistan
Islamabad.

Subject: **SEEKING CLARIFICATION FOR THE PURPOSES OF
CALCULATION OF NET CAPITAL BALANCE**

Dear Sir,

We are in receipt of your clarification following our letter on the subject matter. In this respect, we would like to resubmit as under:

Heed may please be made to the content of our earlier letter wherein we have highlighted that on the discussed lines it is proved that BMC is a deposit to be maintained by the Broker (Please refer to the definition of BMC in PSX Rule Book). We understand that the amount of BMC has to be maintained mandatorily by the Broker to carry out its business activities but it is pertinent to mention here that the said amounts and/or shares are readily available to be convertible with and into other forms as illustrated in the Rule Book.

Furthermore, all the basic deposits that are not permissible to be taken in NCB as mentioned in the purpose guidelines also doesn't include the deposit of BMC, hence, it cannot be concluded in such a way (Please refer point 3.7A and 1.7B of the guidelines dated September 8, 2016). Needless to mention here that this is the matter where the fate of all the NCB Reports that are being submitted for the last four years, has to be decided.

Therefore, it is craved that the subject matter may not be concluded hastily and our earlier letter may please be revisited in light of all the relevant and applicable Rules & Regulations, to avoid any kind of misinterpretation in the case.

For any further clarification/deliberation we are also available for a meeting for which an option of ZOOM app may also be availed.

Kind regards,

Ghulam Mujtaba Sakarwala
General Secretary

Cc: **Mr. Muhammad Tanveer Alam** – Additional Director – SMD-BCD – SECP.
Mr. Aamir Mobin – Chief Regulatory Officer – NCCPL.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Securities Market Division
Brokers' Compliance Department

No. SMD-BCD/PSA/2020/2086

April 24, 2020

Mr. Ghulam Mujtaba Sakarwala,
Mezzanine Floor, Trading Hall,
Stock Exchange Building, Stock Exchange Road,
Off I.I Chundrigar Road,
Karachi.

Subject: Seeking Clarification For The Purposes of Calculation of Net Capital Balance (NCB)

Dear Sir

Reference is made to your letter no. PSA/SO420-40 dated April 14, 2020, wherein clarification is sought from Securities and Exchange Commission of Pakistan ("the Commission") regarding inclusion of Base Minimum Capital (BCM) amount into the calculation of NCB. In this regard, please note that;

As per Rule 19.2 of the PSX Rule Book, maintaining BMC is compulsory requirement for every broker desiring to trade in any Market, therefore every broker in order to become a market participant as a going concern, is required to maintain the required BMC level to be able to trade in any market.

Further, as per Schedule I of PSX Rule Book, BMC is maintained in any one or more of the following forms of collaterals in order to meet the required value of BMC;

- i. Cash
- ii. Bank Guarantee
- iii. Margin Eligible Securities, after applying Haircut as prescribed by NCCPL from time to time
- iv. Transferable TRE Certificate Lien Marked with Irrevocable Authority in favor of the Exchange in the manner prescribed
- v. Shares of Exchange presently blocked in CDC pursuant to Public Offering Regulations, 2017 by TREC holders as sponsors of the Exchange lien marked in favor of the Exchange in accordance with the rights, obligations and terms and conditions specified in the letter of lien mark as may be prescribed by the Exchange from time to time.
- vi. Shares of surviving entities of LSE and/or ISE pursuant to the Scheme of integrations approved by the Commission, maximum up to 100% of shares allotted to an initial shareholder of respective entity, after applying 30% Haircut on their breakup values.

In connection to the above, please note that all the line items of BMC mentioned above are either deposited or pledged/ lien marked with PSX and are mandatorily required to be

28/04/2020
11:05am

maintained in order to carry out business as broker and not readily available with the broker or convertible in Cash or Cash equivalent in the normal course of business, therefore the same could not be used for the calculation of NCB.

In addition, the line items relating to forms of collaterals in respect of BMC at point ii, iv, v and vi above i.e. Bank Guarantee, Transferable TREC (Lien Marked in favor of Exchange), Shares of the Exchange in blocked account of CDC, and Shares of LSE and/or ISE, are not the eligible assets/items used for the calculations of NCB.

We hope the above clarification would suffice your requirement.

Yours truly,



Muhammad Tanveer Alam,
Additional Director



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Ref: PSA/S0420-04

April 14, 2020

MR. AAMIR KHAN

Chairman
Securities and Exchange Commission of Pakistan
Islamabad.

Subject: **SEEKING CLARIFICATION FOR THE PURPOSES OF
CALCULATION OF NET CAPITAL BALANCE (NCB)**

Dear Sir,

With reference to the observations of National Clearing Company of Pakistan Ltd (NCCPL) addressed to our members, followed by their Thematic Reviews to provide explanations thereto with regard to the subject captioned matter.

Pertinently, we would like to take up the matter with your good self as requested by the members, to apprise of the matter and to seek clarification on the ambiguity so arises in this regard.

The observation of NCCPL is reproduced below:

- 1. The Securities Broker has calculated the Net Capital Balance (NCB) amounting to Rs. xxxxx. While reviewing the NCB, we noted that the Securities Broker has included the amount of Base Minimum Capital in NCB. Considering the above, the NCB of the Securities Broker is overstated by the said amount.*

As per the discussion with the concerned department of NCCPL they are of the view that based on the clarification on NCB issued by SECP, the value of BMC will not be taken in the calculation of NCB as it is not a deposit but a liability towards Exchange.



The definition of Base Minimum Capital as given in Rule Book of Pakistan Stock Exchange (PSX) is reproduced below:

Base Minimum Capital (BMC)

“means the collateral deposited and/or maintained by the Broker with the Exchange for its eligibility to trade through the Exchange Trading Systems to be calculated/prescribed as per Schedule-I annexed to chapter 19 of PSX Regulations;”

Rule 19.2 of the PSX Rule Book states that:

“Every Broker desiring to trade in any Market shall be required to maintain a Base Minimum Capital of the amount and in the form as calculated/prescribed in Schedule-I annexed to this Chapter.”

After the bare perusal of the definition and the above provision of Rule Book, BMC is a deposit to be maintained as a **normal business requirement** and not a **liability towards Exchange**. Utilization of BMC will take place in the event of 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.

It is worth to point out that the Exchange is also passing on profits to Securities Broker on cash amount deposited with the Exchange against BMC at the rate paid by the respective(s) banks after retaining service charge. If the amount of BMC is liability towards Exchange then why the Exchange is passing on the profits thereon? It is evident that BMC is a deposit and not a liability.

In accordance of point 3.7A of the Guidebook issued by the Commission in respect of various clarifications for computation and reporting of Net Capital Balance under applicable laws dated September 8, 2016, the shares that are pledged with Exchange as a part of **normal business requirement** may be taken in calculation of NCB. Hence, it is clarified that the observation of NCCPL is due to some misinterpretation of the facts and guidelines provided thereon, and the shares pledged with the Exchange for the purposes of maintaining the requirement of BMC is rightfully taken in the NCB reports.

Furthermore, you may please concede that the basic deposits, that are not permissible to be taken in BMC as illustrated in Point 1.7B of the above said clarifications, also doesn't include the deposit of BMC.

Hence, it is again clarified that the amount of BMC, deposited as a part of **normal business requirement** may be taken in the calculation of NCB.



Moreover, as per PSX Rule Book the BMC can be maintained in any of the following options among others:

- . Cash;
- . Bank Guarantee;
- . Shares of Margin Eligible Securities; and
- . Shares of Directors and CEOs in sub account.

No asset of the company will be deducted from NCB if the company opts to deposit the **Bank Guarantee or Shares of Directors/CEO for BMC**. Therefore, the similar treatment should be made for all the options to calculate NCB.

You may please witness that BMC is not a liability of the Company and just a basic deposit to be maintained with the Exchange to be eligible to trade through the Exchange Trading Systems. The shares pledged for BMC doesn't have any liability and the Company is authorized to sell these shares at its own discretion by switching to any other option for maintenance of BMC.

Based on the above discussion the nature of BMC is evident & clarified, and therefore we are of the considered view that amounts of BMC, taken for calculation of NCB, are as per the guidelines. The NCB reports are not overstated by the amounts of BMC.

Needless to mention here that the said report is being submitted twice in a year, duly audited by the auditors of Category A and B of State Bank of Pakistan Panel of Auditors as required under Securities Brokers (Licensing and Operations) Regulation 2016. And we believe that it can't be wrongly interpreted by them, having top class quality of services and audit.

In the light of above, your clarification in this regard is a need of time, to prevent our Front Line Regulator(s) to avoid any disciplinary action against the brokers.

We thank you for your kind prompt response and clarification accordingly.

Best regards,

Ghulam Mujtaba Sakarwala
General Secretary

Cc:

- Mr. Shauzab Ali** – Commissioner SMD – SECP.
Mr. Aamir Mobin – Chief Regulatory Officer – NCCPL.
Mr. Abbas Mirza – GM Compliance – PSX.