

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

PSBA/P0920/02

September 07, 2020

MR. ABBAS MIRZA

GM & Acting Chief Regulatory Officer
Pakistan Stock Exchange Ltd
Karachi.

Subject: **COMMENTS ON PROPOSED REVISION IN TRADING FEE**

Dear Sir,

This is with reference to your notice PSX/N-971 dated September 3, 2020, whereby solicitation of comments from general public has been requested on the subject matter.

In this context, we wish to state as under:

1. It would have been much better had this proposal been discussed with this Association prior to solicitation of comments from general public. Pakistan Stock Brokers Association (PSBA), being a legally constituted and recognized representative body of TREC Holders, should have been taken in confidence. We fail to understand as to why PSX management forward proposals without taking stakeholders in confidence. World over, successful proposals are always with the consultation of stakeholders.
2. Since we were not consulted, this proposal, tantamount to arbitrary increase in the trading fee and would therefore be challengeable under Competition Commission Act, 2010. We believe that the requirements of Competition Commission have not been taken into consideration while increasing the fee due to monopolistic edge.
3. While we regret that PSX management did not learn from what COVID-19 has imparted to the world, paradigm shift, that is, work from home viz a viz reduction in cost or cost saving and failed to reduce its overhead costs.
4. While we regret that PSX management is continuously increasing its cost and all its proposals are directed towards increasing cost of doing business as against the Government's initiative of reducing cost of doing business.
5. While we regret that all such increase in cost of doing business will eventually be borne by the investors, number of investors is reducing day by day.
6. The proposed revision in Trading fees is:

Market	Existing Fee (PKR per PKR 100,000/- value of trade)	Proposed Fee (PKR per PKR 100,000/- value of trade)	Change %
Ready Deliver Contract	2.78916	4.50	61.34
Futures	3.50191	4.00	14.22

7. This hefty increase in cost by more than 60% will once again make the brokerage business unviable.
8. There had been number of instances, where PSX management had admitted that **trading fee is subject to volume and value.**

This fact is also reported in PSX published financial statements. (Please refer note 28.1 & 28.2 of financial statements – 2019).

*28.2. During the period, **the performance of the Stock Market presented a downwards trend as compared to comparative period,** having an adverse impact on the traded value and volumes and consequently **the trading fee revenue declined by 22%.***

9. It is also mentioned on page#8 of the published financial statement of PSX for the year 2017 that:

*In terms of income from exchange operations, this depicted an improvement of 41% YoY to Rs.452.9 million in FY17 versus Rs.320.7 million in FY16. This was a result of 54% increase in trading fee to Rs.339.6 million versus Rs.221.0 million last year. **The higher trading fee was a result of higher average daily traded value** which, in FY17, came in at Rs.20 billion (Ready and Futures) versus Rs.12.8 billion in FY16, i.e. an increase of 56% YoY.*

10. The same reason was given in the year 2014 when on page#64 of the published financial statement of Pakistan Stock Exchange, the then Karachi Stock Exchange:

*Income from Exchange Operations, constituting 21% of total income, grew by 61% to PkR244.2million. The main driver in the latter was trading fees, depicting an increase of 106% year on year. Two factors were responsible for this growth in trading fees. First, **average daily value traded in the ready market rose by 50% from PkR 6.0 billion in FY13 to PkR9.0billion in FY14 while in the Futures market it rose by 100% from PkR 1.0 billion to PkR2.0billion.***

11. While we observed that credit has been taken being the best performing market (value) and volume crossed a billion mark.

Under these circumstances, it would have been much better had PSX management proposed to decrease its Trading Fee rather than massive increase. It would have been market friendly rather than an obstacle for future growth which will be the impact of proposed cost revision.

MARKET HIGHLIGHTS

Description	2015	2016	2017	2018	2019
Total Listed Companies	560	559	560	558	544
Total Listed Capital (Rs. in million)	1,189,519	1,289,081	1,317,220	1,297,375	1,340,270
Total Market Capitalization (Rs. in million)	7,421,032	7,588,472	9,522,358	8,665,045	6,887,301
New Companies Listed	9	4	5	6	2
Listed Capital of New Companies (Rs. in million)	38,140	6,046	13,376	6,719	10,161
New Debt Instruments Listed	4	2	1	1	9
Total Issue Size of New Debt Instruments (Rs. in million)	31,000	13,000	10,500	7,000	42,820
Total Shares Volume (in million)	57,204	55,430	88,599	46,532	39,943
Average Daily Share Volume (in million)	233	221	363	187	164
Average Daily Traded Value (Rs. in million)	11,102	9,505	15,337	8,141	6,362

Following is a reflection of value and volume traded over the last 5 years:

12. The following chart further elaborates our views precisely:

(all figures in million)

Year	Total shares volume	Average daily share	Average daily traded value	Trading Fee
2015	57,204	233	11,102	231
2016	55,430	221	9,505	221
2017	88,599	363	15,337	340
2018	46,532	187	8,141	209
2019	39,943	164	6,362	163

13. While we observed that four reasons have been forwarded in your above referred notice and none of them has any tangible reason thereof:

- Comparison with regional market - without sharing their volume, value, investor base and products available is nothing but illusion;
- Not revised since 2014 - Trading Fee charged is based on **value and volume** therefore is directly proportionate to trades and not years;
- Modernization - self assumed;
- Offering document and business plan - Focus should be to increase revenue by introducing new product and increase investor base by reducing cost of doing business and not by increasing trading fee which significantly affect brokerage operations.

14. It is also pertinent to mention that initially when this Trading Fee was agreed upon there were no other charges billed by the Exchange. However, over the years and with the change in regime, through Demutualization of Exchanges, stock brokers are being charged on each and every service that used to be covered under the umbrella of Trading Fees. The regulatory, services, and system costs are also being borne by the members separately.

Therefore, we strongly believe that your proposal is:

1. Without merit;
2. Arbitrary;
3. Not business friendly;
4. Increasing rather than reducing cost of doing business;
5. An obstacle for future growth; and
6. For over staffing and expensive human resources employed.

Furthermore, reduction in the cost of doing business should be our prime objective and on similar grounds, the Government of Pakistan has also abolished presumptive tax on brokerage commission u/s 233A.

We wish to reiterate, that it would have been much better had PSX management proposed to decrease its Trading Fee rather than massive increase. It would have been market friendly rather than hampering future growth.

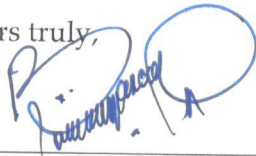
This proposal has been put forward without any consultation with the most important stakeholder i.e. the stockbrokers community. The increase in "Trading or laga" represents an arbitrary, naked, and unreasonable exercise of monopoly power that seems wholly predicated on the need to cover excessive administrative overhead costs and the possible unrestrained increase in these costs in future. It is our considered opinion that this increase in laga cannot be justified on any reasonable ground, and therefore, comes within the mischief of Section 3(3) of the Competition Act, 2010, since it constitutes an abuse of dominant position by imposing an "unreasonable increase in price" on the hapless consumer utilizing the services of PSX.

The securities regulator should also take necessary action in this connection since it has the responsibility for beneficial regulation of the capital market, protection of the investor and to foster viable market intermediaries.

While we reserve our rights and based on the foregoing, we request to close this matter.

Thanking you,

Yours truly,



BILAL FAROOQ ZARDI

Secretary General

Cell# 0300- 266 2516

Cc:

Mr. Aamir Khan - Chairman - Securities and Exchange Commission of Pakistan