

PAKISTAN STOCK BROKERS' ASSOCIATION

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

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August 13, 2020

MR. FARRUKH H. KHAN
Managing Director
Pakistan Stock Exchange Ltd
Karachi.

Subject: **STATUS OF TRE CERTIFICATE**

Dear Sir,

Further to our letter PSA/P0720-02 dated July 17, 2020, we wish to state as under.

Trading Right Entitlement Certificate (TREC), a Right assigned, therefore an asset.

Trading Right Entitlement Certificate has been defined under Section 2(xxvii) of the Stock Exchanges (Corporatisation, Demutualisation and Integration) Act, 2012 as follows:

Trading Right Entitlement Certificates or TRE Certificate" means a certificate issued by a stock exchange evidencing right of the TRE Certificate holder to apply for registration as a broker in accordance with the Broker and Agent Registration Rules, 2001 as amended from time to time.

You will acknowledge that a limited number of **Rights** were assigned from the world at large and restricted to only those who were in a privileged class, as stockbrokers, at that time.

Accordingly, a Trading Right Entitlement Certificate (TREC) was issued in the name of individual stockbroker by the then Karachi Stock Exchange and now Pakistan Stock Exchange.

Initially, this assigned Right, through a TREC, was given a notional value of Rs. 15mn for the purposes of Base Minimum Capital, which later on changed to Rs. 5mn and currently at Rs. 2.5mn

By now, we have established that TRE Certificate is a Right assigned to the then stock members in lieu of their membership cards along with shares of Pakistan Stock Exchange which has a notional value of Rs. 2.5mn.

Please find enclosed a copy of the notice from PSX which clearly states that a forfeited TRE Certificate has been offered for sale at Rs. 2.5mn, by none other than the Exchange itself. This clearly shows that this TRE Certificate, being a **Right, therefore an asset**, has a value attached to it that can be utilized by the exchange.

Nowhere, an assigned Right can be lapse.

The timelines along with the repercussions stated under Section 16 of the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012 clearly exhibit the intent of legislation. In order to promote the Demutualization of stock exchanges, extended timelines were allowed for old members and new TREC Holders. It is clearly visible that all efforts and provisions were directed to put the process in operation.

Please acknowledge that Demutualization Act, 2012, is silent on life after anesthesia. In simple words, Demutualization Act does not contain any provision as to the possibility of re-opening of a brokerage operations after being dormant on its own accord.

This might have been overlooked to be incorporated in law or it might have been intentionally left for the current generation to take care of the **Rights** assigned to the then stock members.

Therefore, keeping in view the foregoing, we would request you that:

- 1. TREC, being a Right and given a notional value of Rs. 2.5mn should be considered as a separate asset of every Stock Brokerage Company.**
- 2. Since the Demutualization Act is silent on the concept of life after anesthesia, particularly temporary closure of stock brokerage business after being in operations, therefore the concept of Dormant TREC be allowed.**

Both the above requests will elevate members both in terms of value for their assets and business operations.

Our above request to allow temporary closure is currently prevailing practice of Pakistan Mercantile Exchange (PMEX), wherein, the memberships are dormant for many years and those who wish to continue may apply for a fresh license from the Securities and Exchange Commission of Pakistan (SECP).

Presently, at PSX, there is no such option available for the TREC Holders, and the only option available is to surrender the TREC. This is indeed not a business-friendly.



Our request, as above, will not only save members from force closure of their businesses but would also benefit Exchange in arresting the surrendering ratio.

A broker whose TRE Certificate is treated as a separate asset and is dormant, may at any time thereafter apply to the Exchange for reactivation by submitting such information including the financial condition of the broker as the Exchange require.

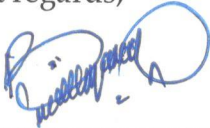
Furthermore, a dormant brokerage house must be allowed to trade with another broker of the Exchange till the time, the TRE Certificate is under dormant status.

We already have Rule 4.11 of PSX Rule Book, regarding the direction of reactivation by the Exchange to the TREC Holder(s), which might need some alterations to bring in this concept.

Please do not hesitate to contact the undersigned should you so desire.

Thanking You

Best regards,



BILAL FAROOQ ZARDI

General Secretary

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