



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 Zard
Secretary General

Ref: PSBA/P0721-01

July 06, 2021

MR. FARRUKH KHAN
Chief Executive Officer
Pakistan Stock Exchange Ltd
Karachi.

Subject: **APPROVED AMENDMENTS TO PAKISTAN STOCK EXCHANGE
(PSX) REGULATIONS RELATING TO BASE MINIMUM CAPITAL**

Dear Mr. Khan,

This refers to your notification PSX/N-836 dated July 2, 2021, pertaining to the approved amendments in PSX Regulations including but not limited to the chapter of Base Minimum Capital (BMC). We are pleased to convey the concerns of our members as under:

1. Firstly, please enlighten us as to why BMC is mixed with AUC? Definition of BMC as per the PSX Regulations is entirely different from what has been in practice. With pre and post-trade margins, the concept/rationale of BMC becomes irrelevant.
2. We believe that these amendments have been approved in pursuance of your notice PSX/N-298 dated March 1, 2021, whereby, the amendments in the said chapter were proposed and the comments were invited from the market participants. However, in the stated notice published on March 1, 2021, the changes relating to the below were not proposed. Hence, the comments were not given. Therefore, we propose to apprise the market participants regarding the changes without inviting comments.
3. It is indeed a cause of concern that the Exchanges' own issued TRE Certificate has no intrinsic value. Therefore, we respectfully deny the concept of exclusion of TRE Certificate from the forms of collateral to be maintained for the purposes of BMC. It is imperative to highlight here that 18.4 (viii) of Integration Order also states that **BMC shall be maintained in the form of TRE Certificate** among others. Therefore, it cannot and should not be excluded, being a crucial part of the legal document(s).
4. For the purposes of determination of BMC, the shares of sponsors, directors, chief executives, and immediate family are being taken into account. Please note that it is in contradiction with Securities Brokers (Licensing and Operations) Regulations, 2016, wherein, 3rd proviso of Section 6(1B) categorically states that **the assets under custody shall not include proprietary assets and the assets owned by its sponsors, directors and their close relatives.** We, therefore, propose making it in line with the quoted Regulations which is superior.
5. As per the notification, shares of surviving entities of LSE and ISE will be valued at lower of the last transaction price or break-up value. Whereas, the PSX shares will be valued at higher of break-up or market price subject to the application of a fixed haircut of 30%. We discourage this discrimination and propose making the shares of LSE/ISE in line with the PSX shares to be valued at higher of break-up or transaction price subject to the application of a fixed haircut of 30% only.



6. It is being reiterated that the Trading Only Brokers should not be required to maintain a fixed BMC of PKR 5 million having zero custody and no settlement functions. Thus, zero risk.
7. Most importantly, the notice has been circulated in the evening of July 2, while the implementation is expected in the very next working day. This time period is also unacceptable.

In view of the urgency of the matter and considering the implications of this action, we invite your immediate attention to resolve the matter. Also, we request you to hold the implementation of the discussed changes till the matter is under discussion with your authority.

Anticipating your positive response.

Regards,

Cc: **Mr. Aamir Khan** - Chairman - SECP
Mr. Ajeet Kumar - CRO - PSX
Mr. Jawad Haider Hashmi - GM, Trading & TREC Affairs - PSX



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Ref. No. PSX/ GEN-1379

July 13, 2021

Mr. Bilal Farooq Zardi
Secretary General,
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Mezzanine Floor, Trading Hall,
Stock Exchange Building,
Stock Exchange Road, Off I. I. Chundrigar Road,
Karachi.

Subject: Approved Amendments to PSX Regulations relating to Base Minimum Capital (BMC)

Dear Mr. Bilal,

This is with reference to your letter No. PSBA/P0721-01 dated July 06, 2021 addressed to the Chief Executive Officer of PSX in relation to the captioned subject. At the outset, we would like to appreciate PSBA for sharing feedback of its members on the revised BMC requirement.

In this regard, please find below our point-wise responses:

1. You would agree that the concept of BMC was introduced to minimize custody risk and the custody for the purpose of securities is determined based on the Asset Under Custody (AUC) maintained by a broker. Therefore, the BMC is determined based on AUC of a broker. You would appreciate that PSX has made amendments to determine the BMC based on AUC pertaining to clients of brokers only. BMC and trade margins serve different purposes and applications whereby BMC is utilized in the event of default of a broker in order to settle claims of affected investors whereas pre and post-trade margins are required by the National Clearing Company of Pakistan Limited to address settlement risk.
2. PSX from time to time had notified proposed amendments to PSX Regulations in relation to BMC. In addition to Notice No. PSX/N-298 dated March 01, 2021, PSX had notified various other BMC related amendments vide Notices No. PSX/N-6469 dated December 03, 2018, PSX/N-63 dated January 21, 2019, PSX/N-351 dated March 27, 2019, PSX/N-1013 dated August 16, 2019 and PSX/N-1202 dated September 27, 2019. It may be noted that the SECP granted consolidated approval of all those notified amendments vide letter dated June 22, 2021.
3. In order to ensure expeditious settlement of claims of aggrieved customers of a defaulted broker, PSX needs to have liquid collateral so that it could be converted into cash immediately without resorting to Centralized Customers Protection Fund of PSX first for obtaining funds, which requires prior approval of SECP. It must be noted that the TRE Certificate is a valuable asset for which every applicant has to pay to obtain it from PSX. However, sale of TRE Certificate of a defaulted broker is contingent upon the availability of bidder willing to purchase the TRE Certificate.
4. As per the approved amendments, value of securities available in proprietary account of a

broker will not be considered while determining BMC. However, value of securities of directors, sponsors and their close relatives are considered while determining BMC as such persons are considered as clients of the broker. In this regard, your attention is drawn to definition of 'Proprietary Trading' laid down in Clause 7.1.1 (d) of PSX Regulations which means 'trading conducted by a broker on its own account for direct gain of such broker'.

5. Considering that the shares of PSX are listed and have better price discovery and liquidity, the valuation methodology of these shares is different than the valuation methodology of shares of surviving entities of LSE and ISE.
6. We understand that the Trading Only (TO) Broker, which has fully transferred its securities including securities of its sponsors, directors and their close relatives to PCM/Trading and Clearing Broker, has comparatively lower risk. However, a risk of regulatory non-compliance with applicable regulatory framework of PSX or SECP by TO Broker still exists. As a result, such TO Broker may be declared defaulter if it commits regulatory breach. In such situation, PSX shall at once forfeit its TRE Certificate and initiate claim settlement process, for which liquid assets in form of BMC would be needed. Therefore, considering the relatively lower risk, the value of BMC has been fixed on the lowest side for such brokers. Also, fixed BMC of PKR 5 million is kept in line with the security deposit required to be deposited with PSX by the outgoing TRE Certificate Holder in the event of transfer/ surrender of TRE Certificate.
7. The approved amendments were effective immediately from the date of approval granted by SECP i.e. June 22, 2021. Accordingly, PSX updated its Rulebook on the website and implemented revised BMC requirements effective July 2021.

It is pertinent to highlight that all brokers have met the revised BMC effective July 2021. Moreover, PSX would like to inform that PSX shall revisit the BMC model holistically once the broker categorization regime is fully implemented and financial resource requirements of brokers are enhanced in accordance with the Securities Brokers (Licensing and Operations) Regulations, 2016, PSX and the resulting changes shall be notified for public consultation.

We hope that the above addresses the concerns of your members. In case of further queries, feel free to write to us.

Yours truly,



AJEET KUMAR
Chief Regulatory Officer

Cc:

1. The Chairman, SECP
2. The Chief Executive Officer, PSX
3. The Chief Operating Officer, PSX
4. The Head of Trading Department, PSX