



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, E-mail: secretariat@psba.pk, Web: www.psba.pk, Fax: 021-32401279

PSBA/Notice-072

NOTICE FOR MEMBERS

June 21, 2022

DELIBERATION ON CONSOLIDATED JOINT INSPECTION FRAMEWORK

Dear Members,

This is in continuation with our notice **PSBA / Notice-70 dated June 17, 2022**, regarding the subject session held on June 20, 2022.

During the session, our members requested to share the presentation of the said session so that the suggestions/recommendations/feedback is shared with PSBA to submit the same to the Oversight Committee comprises of the representation of three SROs.

Accordingly, all members are invited to provide written comments on the proposed framework, presentation is attached herewith as mentioned above, and the comments can be submitted through email at **psamail024@gmail.com** latest by Friday, June 24, 2022.

_____sd_____

BILAL FAROOQ ZARDI
Secretary General

Copy to:

1. PSBA Website



CONSOLIDATION OF REGULATORY AUDITS/INSPECTIONS OF SECURITIES BROKERS INTO JOINT INSPECTION REGIME

JUNE 20, 2022

INTRODUCTION

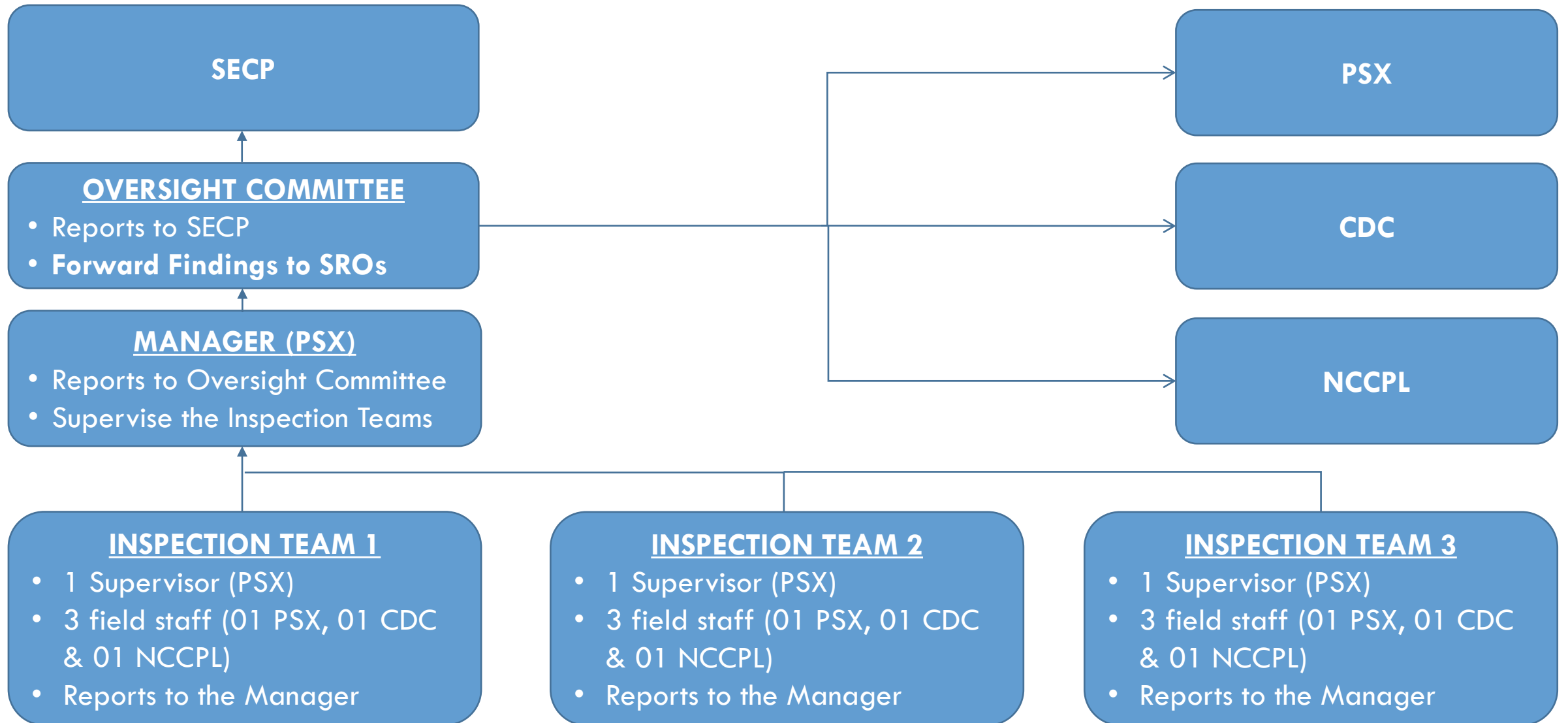
- SECP introduced Joint Inspection regime by promulgating Joint Inspection Regulations, 2015 with effect from October 15, 2015.
- Joint Inspection regime is a comprehensive on-site inspection framework designed to cover regulatory scopes of PSX, CDC and NCCPL from order instructions to trade settlement.
- The objective to implement Joint Inspection regime is to have a risk-based inspection framework for brokers through a central platform with comprehensive scope.
- With the implementation of Joint Inspection regime, it was envisaged that multiple regular regulatory audits and inspections of the three SROs would be discontinued.
- Currently, due to the resource limitation, the Joint Inspection regime is functioning alongside with the requirements of other regulatory audit/inspections.

INTRODUCTION

- Presently, brokers are subject to following types of regulatory audits and inspections by SECP, PSX, CDC and NCCPL:

Sr. No.	Audits/Inspections	Inspecting Authority	Scope	Average No. of Field Work Days	Under Regulation	Frequency
1	Joint Inspection ("JI")	Jointly by PSX, CDC & NCCPL	Comprehensive Scope	35-40	Joint Inspection Regulations, 2015	Risk Based
2	System Audit	PSX	Scope also part of JI	15-30	PSX Regulations	Once in Two Years
3	IBTS Audit	PSX	Non-technical part already covered in JI scope	5-10	PSX Regulations	Once in Two Years
4	CDC Inspection	CDC	Scope also part of JI	15-20	CDC Regulations	Once in Two Years
5	System Audit	NCCPL	Scope also part of JI	10-20	NCCPL Regulations	Once in Two Years
6	SECP Inspections and Thematic Review	SECP	Scope mainly part of JI	20	SECP Act	Risk Based
Total				100-140		

REPORTING STRUCTURE OF JOINT INSPECTION



PROCESS OF JOINT INSPECTION

Inspection Notice, Planning, Execution and Completion of Field Work

50 DAYS

Drafting & Issuance of Letter of Finding to Broker for Management Comments

15 DAYS

Counter Comments by Inspection Team & Submission of Draft Inspection Report to OC for Review

15 DAYS

OC Review / Approval & Submission of Final Report with SECP

30 DAYS



CONSOLIDATION OF REGULATORY AUDITS / INSPECTIONS

LATEST INSTRUCTIONS OF SECP:

SECP has approved the revised framework for joint inspection to consolidate the other regulatory audits and inspections of SROs.

BENEFITS OF CONSOLIDATION:

- Removal of multiple audits including system audits/inspections and corresponding inspection costs
- Ease of doing business for brokers
- Efficiency in brokerage business operations
- Central and joint platform for inspection of brokers
- Monitoring of regulatory compliance with all SROs through single inspection
- Improved compliance culture among brokers
- Quality of regulatory inspections through in-depth analysis
- At par with international standards

KEY FACTORS RELATING TO CONSOLIDATION OF JIT

Factors	Consolidated JI	Existing Regulatory Inspections
Inspection Cycle	Risk Based with 3 Years Inspection Cycle	Vary from Two to Three Years (Refer Table in Slide 3)
Scope of JI / Scope of Regulatory Inspections	<ul style="list-style-type: none"> • System Audit of PSX • IBTS Audit (Non-Technical Areas) • System Audit of NCCPL • CDC Inspections • SECP AML/CFT Regulations, 2020 	
No. of Full Scope JI to be Conducted per Year (Max. Capacity)	66	-
Average No. of Days of Field Work	35-40	100-140 (Refer Table in Slide 3)
Limited Scope Inspection [LSI] Frequency	Every non-compliant Broker in Full Scope JI shall be inspected under LSI	-
No. of Staff Required	39	-
JI Cost (Rounded Off)	PKR 60 Million	-

INSPECTION FEE

Variable Fee Per Broker Per Annum:

- Each broker will have to pay a variable amount of supervision fee per year depending upon its traded value.
- The standard supervision fee rate will be **0.4119 paisa** (estimated based on the traded value of **2020-21**) on every traded value of Rs.100,000.
- The supervision fee rate will be reviewed every year and it will be subject to **ceiling and floor**.

Broker Category	TO	TSC	TC
Maximum Fee	80,000	160,000	240,000
Minimum Fee	50,000	100,000	175,000
Category wise Inspection Fee	1,300,000	19,462,268	2,640,000
Total Recovery (Marginal Cost)	23,402,268		

THANK YOU