

PAKISTAN STOCK BROKERS ASSOCIATION

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

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Secretary General

Ref: PSBA/P0622-01

June 8, 2022

MR. AJEET KUMAR

Chief Regulatory Officer

Pakistan Stock Exchange Ltd

Karachi.

Subject: **COMMENTS ON PROPOSED AMENDMENTS TO PSX REGULATIONS**

Dear Sir,

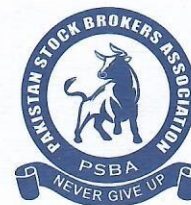
At the outset, we are thankful to you for taking the time out of our busy schedule, and joining us for a detailed session with respect to the proposed amendments to Pakistan Stock Exchange (PSX) Rule Book, pertaining to various matters. It was indeed a good opportunity for our members to understand and respond accordingly.

The comments received from our members are hereby submitted for your kind consideration:

- A. With regards to the Voluntary Delisting Regulations, in the best interest of minority shareholders we propose that where the initial buyback period of 60 days is expired, the remaining shareholders can still sell their shares within a period of 1 year from the date of completion of the initial buyback period. For this purpose, the Exchange may retain a bank guarantee from such a company to ensure that the remaining shareholders have the opportunity for another year to sell at the minimum set price. Moreover, it is highly recommended the buyback/de-listing committee of PSX should have the representation of industry experts including the Pakistan Stock Brokers Association (PSBA).
- B. We appreciate the initiatives that have been taken by introducing the Centralized Gateway Portal (CGP) to facilitate securities brokers in on-boarding customers through digital means which include IPO facilitation accounts, online account opening for the stock market, Roshan Digital Accounts, Shared KYC for local account-holders, etc. In addition to that, we propose that it should also include Investor Account Services (IAS) in order to avoid a separate application/set of documents to open IAS and it can automatically be processed through the CGP.

The PSX should ask CDC to compulsorily open an Investor Account (IA) in CDC for newly on-boarded customers, mirroring the details provided by the customer for opening a sub-account. This will have two effects, One, the broker can shift the extra shareholding of the customer in the sub-account to his/her IA for keeping a check on the regulatory requirement of maintaining the Asset Under Custody (AUC) limits, and minimizing the required BMC exposure. While, the PSX will have a sense of relief that client's extra securities are in the custody of CDC at IA.

- C. We welcome the proposed amendments to remove the restrictive period in the Open Session for the orders to be modified/ cancelled from the very beginning of the said session. However, considering the concerns received from the market participants we propose that there should be no restriction on modification/cancellation of orders during the pre-open session as well. The modification/cancellation should be allowed for the whole 18 minutes.



D. No Comments

E. We strongly refuse to accept the amendments proposed in the criteria for filing an appeal where the applicant will pay an appeal processing fee equivalent to 20% of the fine imposed, subject to a minimum of PKR 5,000 and a maximum of PKR 30,000 which shall be non-refundable. This provision has no acceptability which is against the set principles of law that a party seeking remedy from the higher authority be declared accused without giving an opportunity of being heard. Therefore, we firmly recommend that these amendments should not be carried out. Further, the word Senior Management may please be replaced with Relevant Officials in E (ii).

A part from the above, it is pertinent to mention here that in light of various judgments of the Honorable Courts, the practice of enhancing the penalty amounts by the Appellant Bench, which we have witnessed in a recent case, is also an extreme discouragement. We acknowledge that the Bench has a right to modify but modification should be to make something in a positive manner. Therefore, it may please be avoided. Moreover, it is highly recommended that the Regulatory Affairs Committee of PSX should have the representation of industry experts including PSBA. And/or the concept of Friend of RAC should be revived so that PSBA representative(s)/experts may attend the meetings in an advisory capacity.

F. No Comments.

In addition to the above, we would also like to submit for your kind consideration as below:

1. In order to rationalize the Base Minimum Capital Requirements (BMC) applicable to the Brokers, we propose that the value of securities of proprietary and the securities owned by the sponsors, directors, and their close relatives should be excluded from the value of Assets Under Custody (AUC) of that broker for the purposes of BMC (reference is made to the third proviso of sub-section 1B of section 6 of the Securities Brokers (Licensing and Operations) Regulations, 2016).
2. The perusal of the definition of BMC as ascribed in the PSX Rule Book together read with NCCPL Regulations and SECP Guidelines states that BMC is a deposit to be maintained as a normal business requirement. Therefore, we propose that the amount of BMC should be allowed to be taken while calculating Liquid Capital (LC). Another suggestion that comes to mind is that the amounts of BMC may be taken under Contingencies & Commitments in the Financial Statements as far as disclosure is concerned.
3. In the event of suspension of trading terminals due to any non-compliance according to the applicable rules/regulations, we strongly propose that one terminal should continue to operate so that the investors are not bothered and they are allowed to sell/square/close-out the open positions. However, the payment to the client may be in a controlled environment and subject to the verification of such client.
4. Furthermore, it is also submitted that the amendments, PSX intends to carry out in its Regulations should be first shared with PSBA as a Concept Note/Proposal. This would be a great way to start a healthy discussion, and the amendments are proposed with the consensus.

We hope that our recommendation in the best interest of Capital Market will be given due consideration.

Regards,