

## Chapter 4: TRADING RIGHTS ENTITLEMENT (TRE) CERTIFICATE

### 4.1. COMPLIANCE WITH ACT/REGULATIONS:

The TRE Certificate may be conferred by the Exchange on such terms and conditions, rules, regulations, procedures or guidelines made hereunder in accordance with the provisions of the Act, Securities Ordinance, rules and regulations made thereunder including PSX Regulations as it may determine or amend them from time to time and the Memorandum of Association and Articles of the Exchange.

### 4.2. ENTITLEMENT OF TRE CERTIFICATE HOLDER TO TRADE:

Subject to fulfilling the conditions required under PSX Regulations, the TRE Certificate Holder who are registered with the Commission as a Broker under the Brokers and Agents Registration Rules, 2001 shall be eligible to trade on the Exchange and engage in the business of executing trades/transactions in Securities for their own account or on account of their clients. The TRE Certificate Holder shall carry out its business in accordance with applicable laws and will give paramount consideration to safeguarding the interest of Investors and general public and protection of the assets of its clients.

### 4.3. ISSUANCE OF TRE CERTIFICATES BY THE EXCHANGE:

#### 4.3.1. INITIAL SHAREHOLDERS:

The Exchange within thirty (30) days of having granted approval under sub-section (2) of Section 4 of the Act, shall issue a TRE Certificate to each Initial Shareholder.

#### 4.3.2. OTHER THAN INITIAL SHAREHOLDERS:

The Exchange may invite offers from the eligible persons who also meet the Fit & Proper Criteria for registration as a Broker; through publication of a notice to general public in widely circulated English and Urdu newspapers for issuance of TRE Certificates in the manner prescribed by the Commission.

Till the time the restrictions imposed by the Act on the number of TRE Certificates to be issued by the Exchange are in place, the Board shall prescribe a mechanism with the prior approval of the Commission for selecting the applicants out of total applicants where the number of applications for issuance of TRE Certificates exceed the maximum number of TRE Certificates to be issued.

### 4.4. APPLICATION TO THE EXCHANGE AND ELIGIBILITY CRITERIA FOR OBTAINING TRE CERTIFICATE:

Any person desirous of obtaining a TRE Certificate shall submit a duly signed application in writing to the Exchange in such form and accompanied by such documents as may be prescribed by the Exchange from time to time, subject to approval by the Commission. The applicant must meet the following eligibility criteria for obtaining TRE Certificate:

- 4.4.1. The applicant must be a Public or a Private company, other than a Single Member Company, as defined in the Companies Ordinance, 1984 (XLVII of 1984);
- 4.4.2. The applicant must have a minimum issued and paid-up capital of Rs.50 million;
- 4.4.3. The Chief Executive of the applicant company must be a citizen of Pakistan and should not be on the board of any company whose principal activity is investing/ trading in securities market;
- 4.4.4. The directors/ sponsors/ substantial shareholders of the applicant have not held the office of the directors or have been sponsors/substantial shareholders in any company viz TRE Certificate Holder or a Member prior to the date of demutualization, which had been declared defaulter or expelled by the Exchange or whose TRE Certificate has been cancelled/forfeited by the Exchange;

**Explanation:** For the purpose of this chapter the term "Substantial Shareholder" shall mean shareholder having more than 10% shareholding in the TRE Certificate Holder's company.

- 4.4.5. At least two Directors of the applicant including the Chief Executive must have a minimum academic qualification of "Graduation" from a university duly recognized by the Higher Education Commission of Pakistan or foreign qualification of equivalent level and have experience of at least five years in the business of buying, selling or dealing in securities;
- 4.4.6. The applicant company must not be engaged in any business other than that of a Broker or other related business as approved by the Commission from time to time;
- 4.4.7. No applicant shall be admitted as TRE Certificate Holder of the Exchange if that applicant or any of its directors/sponsors/substantial shareholders:
  - (a) Has been adjudged bankrupt or he has been proved to be insolvent even though he has obtained his final discharge;
  - (b) Has compounded with his creditors for less than full discharge of debts;
  - (c) Has been convicted of an offence involving a fraud or dishonesty;
  - (d) Has been at any time expelled or declared a defaulter by a Stock Exchange/PMEX or it has been debarred from trading in securities by any regulatory authorities including Commission or any court of law;
  - (e) Incurs such disqualification under the provisions of any applicable laws, rules and regulations for the time being in force, so as to prohibit or debar such person from seeking TRE Certificate;

- (f) Fails to satisfy Exchange that it has adequate staff, resources, risk management and internal control policies, procedures and systems available to effectively perform its obligations as a TRE Certificate Holder. The Exchange may accept an undertaking from the applicant at the time of submission of application for issuance or transfer of TRE Certificate that the applicant will comply with the aforesaid condition before TRE Certificate is granted/transferred to it by the Exchange; and
- (g) Fails to satisfy any other condition imposed by the Board.

#### 4.5. TRANSFER OF TRE CERTIFICATE:

- 4.5.1. A TRE Certificate Holder, holding transferable TRE Certificate, desiring to transfer its TRE Certificate must submit a written application, complete in all respect, to the Exchange duly signed by both the transferor and transferee, in such form and accompanied by such documents as may be prescribed by the Exchange from time to time, in accordance with the provisions of the Act, the Demutualization Regulations and PSX Regulations.
- 4.5.2. In case of an active TRE Certificate Holder filing his application for transfer, such TRE Certificate Holder shall also submit a Bank Guarantee or a guarantee by one of the existing TRE Certificate Holders of the Exchange, or a guarantee by an incoming TRE Certificate Holder or any equivalent security in a manner as may be acceptable to the Exchange to the extent of an amount prescribed by the Exchange with the approval of the Commission and valid for a period of two years from the date of transfer of TRE Certificate in order to enable the Exchange to settle all valid claims if received after the transfer of TRE Certificate.
- 4.5.3. The transfer application shall be accompanied by an auditor's certificate confirming that the incoming TRE Certificate Holder is having issued and paid-up capital as prescribed vide Regulation 4.4.2. above and maintains a net capital balance as per rule 2(d) of Schedule 3 to the Securities Rules as amended from time to time.
- 4.5.4. An applicant who does not fulfill the Fit & Proper Criteria specified by the Commission from time to time as required under the Demutualization Regulations made under the Act shall not be eligible and entitled to get TRE Certificate transferred.
- 4.5.5. The Exchange shall ensure that not more than one transfer is registered in respect of a TRE Certificate issued to the Initial Shareholder under Section 5 of the Act and no transfer should be registered in respect of additional TRE Certificate which is issued under sub section (5) and (6) of Section 16 of the Act.
- 4.5.6. The Exchange may require transferor and transferee to provide such information as may be required for determining the eligibility and fit and proper status for registering a transfer of TRE Certificate or for issuing NOC for such transfer.
- 4.5.7. In respect of notice period for transfer of TRE Certificate, the following procedure shall be adopted:
  - (a) *IN CASE OF A TRE CERTIFICATE HOLDER WHO HAS BEEN INACTIVE FOR LAST 24 MONTHS FROM THE DATE OF APPLICATION:*

The notice period for inviting objections/claims from all the concerned persons shall be 30 days after the issuance of notice.
  - (b) *IN CASE OF ACTIVE TRE CERTIFICATE HOLDER:*

The notice period for inviting objections/claims from all the concerned persons shall be 90 days after the issue of notice.

Provided that each outgoing TRE Certificate Holder shall continue to be liable for any genuine claims received after the abovementioned notice periods and shall give an undertaking to that effect to the Exchange.

*MODES OF INVITING CLAIMS:*

Broker shall invite claims from all the concerned persons including his clients through courier, personal delivery method, facsimile or, email and publication through newspaper having circulation in all cities in which registered and branch offices of the Broker are situated. Further, the Exchange shall also disclose such information through its website and also by publication in two widely circulated newspapers in Urdu and English language.

Provided that in the event of an undertaking given by the transferee (on the format prescribed by the Exchange) to settle all the objections/claims/liabilities of the outgoing TRE Certificate Holder, the Board may, even before expiry of the 30 or 90 days' notice period, as the case may be, consider and accept the transfer application.
- 4.5.8. In case the outgoing TRE Certificate Holder is a Participant of CDC and Clearing Member of NCCPL, it shall be required to notify the CDC and NCCPL about its application made to the Exchange for transfer of TRE Certificate and shall also submit to the Exchange, NOC of the CDC and NCCPL in this behalf.

#### 4.6. APPLICABILITY OF ELIGIBILITY CRITERIA ON CONTINUED BASIS:

The TRE Certificate Holders shall comply with the eligibility criteria as specified in clause 4.4. above relating to issuance and transfer of TRE Certificate at all times.

Provided that the Board may waive/relax minimum educational qualification requirement in case the Chief Executive of a brokerage house (which was a member of the Exchange prior to the Demutualization), has the stock market experience of at least 5 years as a Broker or an Agent or director of any of the Brokers of the Exchange.

Provided further that, in the case of conversion of an individual TRE Certificate Holder into a corporate body within the time period as provided in the Act, the minimum educational qualification requirement for the Chief Executive shall not apply where the same individual continues as a Chief Executive of the corporate body.

Provided further that the eligibility criteria shall not apply to the Initial TRE Certificate Holders of the Exchange till the time the Exchange, with prior approval of the Commission, notifies its application on such TRE Certificate Holders with adequate notice period.

#### **4.7. DECISION OF THE EXCHANGE:**

- 4.7.1. The Exchange shall accept or reject an application for issuance of a TRE Certificate within 30 days and its decision shall be final, conclusive and binding on the applicant. The Exchange may reject any application without assigning any reason.
- 4.7.2. The Exchange may only allow a transfer of TRE Certificate after all his liabilities are settled and there are no claims whatsoever against him on the date of transfer in respect of any transaction or dealing made with any other TRE Certificate Holder/Broker or Brokers of other Stock Exchanges or the Investors subject to PSX Regulations, NCCPL Regulations or any other relevant capital market regulations or any violation thereof.
- 4.7.3. Further, in case of transfer of TRE Certificate, the BMC of the outgoing TRE Certificate Holder shall not be released by the Exchange until the transfer process is complete or in case where the transferee has provided an undertaking to the Exchange under clause 4.5.7., the BMC is deposited by such transferee.
- 4.7.4. Where an application for issuance of new or transfer of existing TRE Certificate is accepted, the Exchange shall issue a TRE Certificate to the applicant or register the transfer, as the case may be, in compliance with the requirements of the Act, Demutualization Regulations and PSX Regulations.

#### **4.8. TRANSFER OF SHARES, CHANGE OF LEGAL STATUS AND OWNERSHIP:**

The requirements of Demutualization Regulations shall be applicable for any change in control or change in legal status of a TRE Certificate Holder.

#### **4.9. RELINQUISHMENT/SURRENDER AS A TRE CERTIFICATE HOLDER:**

- 4.9.1. A TRE Certificate Holder may after giving one month's notice to the Exchange voluntarily surrender his TRE Certificate and remove himself as a TRE Certificate Holder from the Exchange. However, the Exchange may only accept a TRE Certificate Holder's voluntary removal from the Exchange after all his liabilities are satisfied and there are no claims whatsoever against him in respect of any money owed by him to any other TRE Certificate Holder/Broker or Brokers of other Stock Exchanges or the Investors. The Exchange shall invite claims from Investors and other TRE Certificate Holders and a 90 days period shall be provided for submitting claims. Provided that in the case of an inactive TRE Certificate Holder, as described in Regulation 4.5.7.(a), the notice period shall be 30 days.

Provided further that in case of an active TRE Certificate Holder opting for voluntary surrender of TRE Certificate, such TRE Certificate Holder shall also submit a Bank Guarantee or a guarantee by one of the existing TRE Certificate Holders of the Exchange, or any equivalent security in a manner as may be acceptable by the Exchange to the extent of an amount prescribed by the Exchange with the approval of the Commission and valid for a period of two years from the date of surrender of TRE Certificate in order to enable the Exchange to settle all valid claims if received after the surrender of TRE Certificate. Provided that such TRE Certificate Holder shall remain liable for any genuine claims received after the abovementioned notice periods and shall give an undertaking to that effect to the Exchange.

- 4.9.2. No TRE Certificate Holder may sell, relinquish, transfer, pledge, mortgage or create any trust, charge, lien or any other encumbrance over the TRE Certificate in physical form he holds, let, sublet, assign, alienate or otherwise dispose off his TRE Certificate except with the prior written approval of the Exchange which may be given subject to any conditions imposed by the Exchange which it may think fit. Nor he shall assign any of his rights, benefits or privileges as a holder of TRE Certificate otherwise than in accordance with PSX Regulations.

Pending such approval, the PSX Regulations shall continue to bind TRE Certificate Holder who has given notice of relinquishment as if such notice had not been given and the jurisdiction of the Exchange over holder of TRE Certificate, his or its business, affairs and employees shall in no way be affected by such notice. The Exchange shall not be bound or compelled in any way to recognize (even when having notice thereof) any dealing or disposition made in contravention of PSX Regulations.

- 4.9.3. Further, a TRE Certificate Holder who individually or through any person acting in concert, directly or indirectly, possesses a "Controlling Interest" in a TRE Certificate Holding Company may not relinquish, transfer, let, sublet, assign, alienate or otherwise dispose off without the prior written consent of the Exchange. Every TRE Certificate Holder shall submit pattern of shareholding in the format specified by the Exchange at the end of each quarter.
- 4.9.4. Upon acceptance of relinquishment request/notice as a TRE Certificate Holder by the Exchange, such TRE Certificate Holder shall cease to be a TRE Certificate Holder of the Exchange. His name shall be removed from the register of TRE Certificate Holders and shall be communicated to the Commission accordingly.

#### 4.10. ISSUANCE OF NOC PRIOR TO TRANSFER OF TRE CERTIFICATE:

A TRE Certificate holder, holding transferable TRE Certificate, may request the Exchange to provide a NOC before entering into any transaction for the transfer of TRE Certificate. The Exchange may issue the NOC after satisfying itself that the prospective transferee fulfills the eligibility and fit & proper criteria.

#### 4.11. IN CASE OF ACTIVATION OR REACTIVATION OF A TRE CERTIFICATE HOLDER AS BROKER:

The Exchange shall issue notice for the activation or reactivation of a TRE Certificate Holder as a Broker provided that the concerned Broker submits the following to the Exchange:

- (a) A copy of valid Broker Registration Certificate confirming its registration as Broker with the Commission under the Brokers and Agents Registration Rules, 2001;
- (b) An original certificate of an Auditor confirming his Net Capital Balance as required under the NCCPL Regulations;
- (c) The list of signatories authorized to deal with the Exchange on its behalf;
- (d) Evidence of payment of Basic Deposit as per NCCPL Regulations along with letter of intention for trading in the respective market;
- (e) Collateral to meet the Base Minimum Capital as prescribed and determined under the chapter 19 of PSX Regulations;
- (f) Proof of his registration as Broker Clearing Member (BCM) with the NCCPL and admission as a Participant with the CDC;
- (g) A letter to the Exchange informing details about its Proprietary UIN and Bank Accounts opened with settling banks recognized by the Exchange for the purpose; etc.

#### 4.12. ACCREDITED AGENT:

##### 4.12.1. APPROVAL OF APPOINTMENT OF AGENT BY THE EXCHANGE:

- (a) A Broker may appoint as many Accredited Agents as it require at any time.
- (b) The approval of appointment of Accredited Agents will be granted by the Exchange on having given due notice to the TRE Certificate Holders of the Exchange and subject to Registration with Commission under the Brokers and Agents Registration Rules, 2001.
- (c) The annual fees for the appointment and renewal of the Accredited Agents by the Exchange shall be paid by the Brokers as prescribed by the Exchange from time to time.

##### 4.12.2. POWERS OF AGENTS:

An Accredited Agent can transact business only on behalf of appointing Broker. He shall not make bargains or sign contracts in his own name or in any other name except on behalf of or under the instructions of his Broker.

##### 4.12.3. DATA BASE OF AGENTS:

The Exchange shall maintain a database of the Accredited Agents viz name, contact address, name of his employer, date of joining and leaving of his employment or the withdrawal of his accreditation etc. The updated list of Accredited Agents shall also be made available on Exchange's website.

##### 4.12.4. BROKER'S/EMPLOYER'S RESPONSIBILITY:

- (a) Any Broker desirous of appointing an Agent shall have to make an application to the Exchange for appointment and registration under Brokers and Agents Registration Rules, 2001 along-with an undertaking signed by such Accredited Agent as provided in clause 4.12.5. below.
- (b) A Broker terminating the employment or withdrawing the authorization of an agent shall notify immediately in writing, the name of such Agent and the date of termination of his employment or the withdrawal of his authorization and shall also publish the notice of Agent Registration Cancellation in at least one English and one Urdu widely circulated newspapers of the country.
- (c) After the notice given by the Broker, the Exchange shall issue a notice inviting objections and claims within 24 hours and in case of no objection or claim is received; it shall proceed with the cancellation of such Agent in accordance with these Regulations and procedures of the Exchange and circulate the notice sent by the Broker for information of all concerned. However in case if any objection or claim received by the Exchange it shall proceed according to the powers conferred to the Exchange under these Regulations.
- (d) The Exchange shall forthwith give the notice of such employment, termination or withdrawal to all TRE Certificate Holders and post the same upon the notice board and website of the Exchange.
- (e) The responsibility of a Broker for the acts/bargains of his Accredited Agent shall continue until one trading day after the notice of the termination of his employment or the withdrawal of his authorization received by the Exchange. However, the acts/bargains already made by any such Accredited Agent prior to his termination or withdrawal of his authorization shall continue to be the responsibility and binding on the Broker who was the employer of such Accredited Agent.

##### 4.12.5. UNDERTAKING FROM THE ACCREDITED AGENTS:

A Broker desirous of appointing an Accredited Agent shall submit an undertaking to the Exchange signed by such Accredited Agent as follows:

- (a) I shall maintain strict discipline at all times in the trading hall and the premises of the Exchange.

- (b) I shall do business on the Exchange in the name of and on behalf of my appointing TRE Certificate Holder only. I shall not do any business on behalf of other TRE Certificate Holders of the Exchange directly as their constituent or on account of their constituents.
- (c) I shall at all times abide by the Regulations of the Exchange and will not act or indulge in any activities which might prejudice the fair name or the interest of the Exchange or my appointing TRE Certificate Holder or other TRE Certificate Holder.

#### **4.13. RESEARCH REPORTS BY THE BROKER AND COMMUNICATION WITH MEDIA:**

- 4.13.1. A broker engaged in preparation, writing and/or publication of a research report or substance of a research report or making a public appearance concerning a listed security or a public offer shall comply with the requirements as specified in the Research Analyst Regulations, 2015.
- 4.13.2. The sponsors, directors and employees of brokerage houses shall exercise due care and diligence and shall be mindful of their obligations and responsibilities in the capacity of a regulated entity and capital market intermediary while commenting or interacting with the media in any manner.

#### **4.14. REPORT OF VIOLATION OF REGULATIONS:**

Every TRE Certificate Holder of the Exchange shall immediately report to the Exchange of any violation of any provisions of PSX Regulations by any TRE Certificate Holder, which may come into its notice.

The Exchange shall take necessary action in respect of such violations in accordance with these regulations.

#### **4.15. PAYMENT OF FEE/DEPOSIT:**

Each applicant shall be required to pay a fee, deposit, charges, contribution or any other sums to the Exchange with the application for issuance or transfer of TRE Certificate, as prescribed by the Exchange from time to time with the approval of the Commission.

#### **4.16. REGULATIONS FOR THE MAINTENANCE OF A STANDARDIZED ACCOUNT OPENING FORM:**

- 4.16.1. The Brokers shall adopt the Standardized Account Opening Form (SAOF), attached as Annexure-I to this chapter, as amended from time to time, for all their Account Holders.

##### **Explanation:**

SAOF contains the minimum Terms and Conditions which are equally binding on the Broker and Account Holder(s). However, in order to protect the rights of the concerned parties, the Brokers may include additional terms and conditions preferably in separate section to the SAOF, as long as such terms and conditions do not, in any way, negate or undermine any other applicable laws, rules, regulations, directives/notices/circulars of the Commission, the Exchange etc., and the terms and conditions laid down in the said SAOF.

- 4.16.2. Brokers shall incorporate any amendments in SAOF for their new Account Holders immediately and bring the same into conformity through addendums for their existing Account Holder(s) within 3 months from the publication of such amendments in the Official Gazette of Pakistan or any other time period specified by the Exchange from time to time with prior approval of the Commission. After expiry of such period the Brokers shall not allow any Account Holder to purchase further securities without complying with the above requirement.
- 4.16.3. Any amendment in the SAOF pertaining to roles and responsibilities of Brokers shall be binding on them after 7 days' notice to market participants by the Exchange, whether or not such amendments have been incorporated in the manner specified above.

#### **4.17. KNOW YOUR CUSTOMER AND CUSTOMER DUE DILIGENCE:**

The Brokers shall formulate and implement an effective Know Your Customer (KYC) and Customer Due Diligence (CDD) internal policy and framework in accordance with the guidelines issued by the Exchange, with the prior approval of the Commission and any notices or circulars issued by the Commission from time to time. The KYC and CDD policy should be approved by the Board of Directors of the Broker, if it is a Corporate Brokerage House, and must be appropriately communicated to every agents and branches of the Broker. The Brokers shall also ensure that the above-mentioned policies are effectively disseminated to and understood by the relevant personnel.

#### **4.18. SEGREGATION OF CLIENTS' ASSETS BY THE BROKERS:**

- 4.18.1. The Brokers shall ensure that the assets belonging to their clients are kept separated from the assets of the Broker. For this purpose, the Broker:
  - (a) shall maintain separate bank account(s), with word "clients" in the title, which will include all funds of their clients along with record/breakdown of clients' balances. The Broker may keep clients' unutilized funds in a profit-bearing bank account and in such case, shall pass on profit earned on these funds to the clients out of the total profit accrued on such funds, as mutually agreed in writing between the Broker and his clients;
  - (b) shall maintain separate sub-accounts under his Participant Account in Central Depository System (CDS) for each of his clients to maintain the custody of margins deposited by the clients in the form of securities and securities bought for clients;



(c) may maintain a Collateral Account under his Participant Account in CDS for all clients. This account shall be used exclusively for instances where outstanding payment has not been received from clients in respect of securities purchased on their behalf and relevant purchase obligation is to be settled. In such cases, the Broker will be allowed to transfer the securities on the respective settlement date from the respective sub-account to the Collateral Account for a maximum period of three (3) settlement days only to the extent of the transaction volume for which the client's payment is outstanding for whatsoever reason and comply with relevant requirements contained in the CDC Regulations. The Broker shall, in addition to the electronic reporting of such transfers through ways and means as specified by the Exchange report the Exchange in writing explaining the reason for utilizing the Collateral Account and/or for holding client's securities immediately after such transfer. The notice from the Broker will be accompanied with following documents:

- (i) Non-payment notice served on the client through courier, personal delivery method, facsimile, email or properly recorded telephone line, advising him to make payment by the close of banking hours on the next working day after the settlement day and notifying that, otherwise the Broker shall have a right to dispose of the required securities to cover the shortfall in the client's account at client's risk and cost;
- (ii) Client's sub-account and Collateral Account Activity Report of movement date and;
- (iii) Documentary evidence substantiating the genuineness and circumstances of the reason for non-payment by the client which may include failure of client to pay in time due to non-clearance of client's cheque, any natural calamity, law and order situation, non or delayed functioning of an automated procedure, e.g., NIFT.

Provided that for a particular client, the Broker is allowed to transfer securities from the sub-account of client to the Collateral Account only once in a calendar month.

4.18.2. Except as permitted above, the clients' funds and securities shall not be used by the Broker for any purpose other than as authorized by the client in writing in the manner and procedure prescribed by the Exchange, NCCPL and/or CDC. The Broker shall be obliged to maintain and furnish documentary evidence to substantiate the compliance with the above regulations as and when required by the Exchange.

4.18.3. On the basis of documents mentioned under sub-clause 4.18.1.(c), the Exchange shall determine if the requisite documents substantiate the transfer of client's securities by the Broker and shall maintain a database of such transfers. Exchange may also carryout enquiry and/or special audit in relation to non-compliance with this regulation.

4.18.4. Deleted

4.18.5. Deleted

4.18.6.(a) The Broker shall submit to the Exchange "Clients' Assets Segregation Statement" as per format prescribed by the Exchange within fifteen (15) days of the end of the latest fortnight.

4.18.6.(b) The Broker within forty five (45) days of the close of its financial year shall submit an annual "Clients' Assets Segregation Statement", duly verified by its Statutory Auditor.

#### **4.19. CONFIRMATION OF CLIENTS' ORDERS BY TRE CERTIFICATE HOLDERS/ BROKERS:**

Whenever an order of any client has been executed by a Broker, confirmation of such execution shall be transmitted to the said client by the Broker within 24 hours of the execution of such transaction through any previously agreed mode of communication as specified in the SAOF. The confirmation order shall precisely include the following specific information:

- (a) Date on which order is executed;
- (b) Name and number of securities;
- (c) Nature of transaction (SPOT, Ready, Future, Leveraged Market, Debt Market and also whether bought or sold);
- (d) Price;
- (e) Commission rate and any other charges ;
- (f) Applicable regulatory levies i.e. trade or transaction fee of the Exchange, CDC, NCCPL and SECP etc;
- (g) Applicable statutory levies i.e. taxes and duties of federal and provincial government;
- (h) Whether the order is executed for the Broker's own account or from the market. {Rule 4(4) of Securities & Exchange Rules, 1971}.

#### **4.20. GENERAL OBLIGATIONS OF TRE CERTIFICATE HOLDERS/BROKERS RELATING TO LEVERAGED MARKETS:**

In addition to any obligation of a Broker/TRE Certificate Holder under the applicable laws, agreements or as specified in the SAOF, the Broker shall ensure the following:

4.20.1. No transaction is executed by the Broker on behalf of a client in the Leveraged Market unless an appropriate agreement has been executed between the broker and such client.

4.20.2. All risks involved in the relevant transactions have been fully disclosed and the broker has obtained a written confirmation from its clients that they have understood and have the ability to bear the risks in such transactions.

4.20.3. The options available to a client in respect of various financing facilities in the securities markets have been fully disclosed and explained to the clients.

4.20.4. All provisions of the Anti-Money Laundering Act, 2010 (Act VII of 2010) and any rules and regulations made there-under are complied with at all times.

- 4.20.5. The credit worthiness of clients is evaluated through a proper credit risk assessment methodology and credit limits are assigned to each client beyond which the client shall not be allowed to take a position in the Leveraged Market.
- 4.20.6. Maintenance of records evidencing compliance with the aforesaid obligations and that such records remain available for inspection by the Commission or any other person authorized to do so, at any time.

#### **4.21. TRADING BY EMPLOYEES OF BROKERAGE HOUSES:**

- 4.21.1. The TRE Certificate Holders may allow securities trading to their employees only through their own brokerage houses.
- 4.21.2. The TRE Certificate Holders shall register their all employees into the UIN database with all registration details including their respective designations and update/modify the registration details whenever any change occurs within five (5) working days from the date of employment or any change in his/her registration details, as the case may be.
- 4.21.3. The TRE Certificate Holders shall ensure that while trading, the concerned employee strictly observes the Code of Conduct prescribed by the Exchange, which is annexed in Annexure-II to this chapter.
- 4.21.4. The Exchange will monitor compliance of this Regulation including Code of Conduct. Any breach/violation by the TRE Certificate Holder or its employees will attract penalties on the concerned TRE Certificate Holder as may be prescribed by the Exchange from time to time.
- 4.21.5. A TRE Certificate Holder shall not allow trading on behalf of another TRE Certificate Holder's employees. TRE Certificate Holders shall use the facility mentioned in Regulation 4.21.2. above for this purpose.

Provided that nothing contained in this Regulation shall be applicable on employees of TRE Certificate Holders not registered as Brokers with the Securities & Exchange Commission of Pakistan under the Brokers and Agents Registration Rules, 2001 at the relevant time, who may trade in the securities through other brokerage houses under intimation to the concerned non-broker TRE Certificate Holders and the Exchange.

#### **4.22. MANDATORY PROVISION OF QUARTERLY ACCOUNT STATEMENT TO CLIENTS:**

Every Broker shall provide within 15 working days of end of each quarter a quarterly account statement to each of its clients through acceptable mode of communication as provided under Standardized Account Opening Form prescribed under chapter 4 of PSX Regulations. The statement must include inter alia the following information for the reporting period:

- (a) Cash ledger statement showing opening and closing cash balances; all receipts and payments of money and settlement-wise money obligation debited or credited to the client account;
- (b) Securities positions as per back office record of the Broker showing status of available and pledged securities and reconciliation for any differences between back office record and CDS record; and
- (c) Securities positions as per CDS record.

#### **4.23. STATUTORY AUDIT OF THE BROKERAGE HOUSES:**

All Corporate Brokerage Houses shall have their statutory audit conducted from an auditor enlisted within Category 'A' or 'B' of the SBP's Panel of Auditors.

#### **4.24. RECEIPT / PAYMENT OF AMOUNT FROM / TO CUSTOMERS BY THE BROKERAGE HOUSES:**

The Brokerage Houses shall receive/make payments of Rs. 25,000/- and above from/to customers drawn on customer's own bank account/in the name of customers only in the manner as provided in Standard Terms and Conditions of Standardized Account Opening Form prescribed under chapter 4 of PSX Regulations.

#### **4.25. MANDATORY TARIFF STRUCTURE:**

- 4.25.1. Every Broker shall provide to its clients a tariff schedule annexed to SAOF which should contain the information as prescribed under Clause 4.19 (e), (f) and (g) above.
- 4.25.2. The tariff schedule as mentioned above shall be signed by the clients and the Broker.
- 4.25.3. In case of any change in the tariff mentioned under sub-clauses (f) or (g) of Clause 4.19, the Broker shall communicate the change to its clients within seven working days from the effective date of such change. However, any change in the tariff mentioned under sub-clause (e) shall take effect after the same is agreed and duly signed by the clients and the Broker.

#### **4.26. IT AND INFORMATION SECURITY REQUIREMENTS FOR THE SELECTION OF SOFTWARE VENDORS AND USAGE OF SOFTWARE BY THE TRE CERTIFICATE HOLDERS:**

- 4.26.1. The TRE Certificate Holders shall:
- (a) Ensure that the software or application, which means electronic data processing system; excluding network or communications equipment; for the purpose of this clause, used directly or indirectly for the purpose of trading, risk management, clearing and settlement, and preparation and maintenance of books and accounts etc. meet the bare minimum standards/specifications, regular testing including vulnerability assessment and penetration testing and certification requirements prescribed by the Exchange from time to time.

- (b) Comply with information technology and information security requirements as prescribed by the Exchange.
- (c) Submit to the Exchange an audit report/certificate of the auditor for appropriateness of necessary controls and safeguards put in place in relation to information security arrangements.
- (d) Use the software either procured from the eligible vendors or provided by the Exchange or developed in-house by the software development team of the TRE Certificate Holder.

The Exchange shall make available the eligibility criteria and the list of eligible vendors on its website.

- (e) Ensure that the Exchange provided endpoint security/antivirus solution remain installed and operational at all times on all trading terminals.
- (f) Ensure that only Exchange certified ancillary software are installed on the trading terminals.

4.26.2. The Exchange shall take disciplinary action(s) against a TRE Certificate Holder which fails to comply with requirement of this clause.

#### **4.27. MANDATORY SUBMISSION OF FINANCIAL INFORMATION, STATEMENTS, RETURNS AND OTHER INFORMATION:**

Every Broker shall submit:

- (a) Hardcopies of its annual financial statements along with audit report to the Exchange within four months after the end of each financial year;
- (b) Hardcopies of its half-yearly financial statements to the Exchange within 60 days after the end of each half year;
- (c) Quarterly financial information to the Commission through online Financial Reporting System (FRS) within 30 days from the close of each quarter; and
- (d) Any other information or reports in such form and manner and within such time as may be specified and required by the Commission and/or the Exchange from time to time or as and when the need arises.



**Annexure-I**

[NAME OF THE BROKER]  
 Broker, \_\_\_\_\_ Stock Exchange  
 (Address of Head Office and concerned Branch Office)

Broker Registration No. \_\_\_\_\_

**ACCOUNT OPENING FORM**

NOTE 1: EACH AND EVERY COLUMN MUST BE FILLED IN  
 NOTE 2: EACH PAGE OF THIS FORM WILL BE DULY SIGNED BY THE ACCOUNT HOLDER(S) AND THE BROKER

<b>NATURE OF ACCOUNT:</b>			
SINGLE: <input type="checkbox"/>	JOINT: <input type="checkbox"/>	CLIENT ID / ACCOUNT NO.	
COMPANY: <input type="checkbox"/>	FIRM: <input type="checkbox"/>	CDC ACCOUNT NO.	

<u>ACCOUNT HOLDER</u>	<u>JOINT ACCOUNT HOLDER</u>
ACCOUNT TITLE/ NAME: _____ ADDRESS: _____ TEL: _____ E-MAIL: _____ FAX NO: _____ PERMANENT/REGISTERED ADDRESS: _____	ACCOUNT TITLE/NAME: _____ ADDRESS: _____ TEL: _____ E-MAIL: _____ FAX NO: _____ PERMANENT ADDRESS: _____
<b><u>For individuals only:</u></b> DATE OF BIRTH: _____ NATIONALITY: _____ STATUS: _____ RESIDENT _____ NON-RESIDENT GENDER: _____ MALE _____ FEMALE FATHER'S/HUSBAND'S NAME: _____ NATIONAL IDENTITY CARD NO. (IN CASE OF NON RESIDENT PASSPORT NO.): _____ OCCUPATION: _____	DATE OF BIRTH: _____ NATIONALITY: _____ STATUS: _____ RESIDENT _____ NON-RESIDENT GENDER: _____ MALE _____ FEMALE FATHER'S/HUSBAND'S NAME: _____ NATIONAL IDENTITY CARD NO. (IN CASE OF NON RESIDENT PASSPORT NO.): _____ OCCUPATION: _____
<b><u>For Companies or Firms only:</u></b> Company Registration No. _____ STATUS: _____ RESIDENT _____ NON-RESIDENT	

**Declaration of Solvency**

The Account Holder hereby declares that:

- It has not applied to be adjudicated as an insolvent and that it has not suspended payment and that we have not compounded with our creditors;
- It is not un-discharged insolvent; and
- It has not been declared defaulter in repayment of loan of a bank/financial institutions.

**Name of Authorized Persons to operate the account**

The account shall be operated by the following:

	<u>Names</u>	<u>Specimen Signature</u>	<u>Singly/Jointly</u>
(a)	_____	_____	_____
(b)	_____	_____	_____
(c)	_____	_____	_____

The authority of the person(s) authorized to operate the account will be clearly spelled out in the letter of authorization from the Account Holder.

**MARGIN DEPOSIT**

The Account Holder(s) hereby undertakes to deposit and maintain \_\_\_\_ % margin against his/her/their outstanding trades/exposure for the purpose of trading in his/her/their account. The broker shall notify the Account Holder(s) about any change in the above margin requirements for the already executed trades at least 3 working days prior to the implementation of the revised margin requirements.

**CLIENT BANK DETAILS (OPTIONAL):**

**ACCOUNT(S) WITH OTHER BROKER(S) (OPTIONAL)**

NAME OF THE BANK: \_\_\_\_\_  
SAVINGS/CURRENT A/C NO.: \_\_\_\_\_  
BRANCH ADDRESS: \_\_\_\_\_

NAME OF THE BROKER(S)	BROKER EXCHANGE	CLIENT ID/ACCOUNT

**NOMINATION:**

*(In the event of death of the Account Holder, the nominee shall be entitled to receive securities/cash available in the account of the account holder after set-off against losses/liabilities in the account.)*

Name of Nominee: \_\_\_\_\_ Surname: \_\_\_\_\_

NIC Number: \_\_\_\_\_  
Date of Birth: \_\_\_\_\_ (DD/MM/YYYY)  
Postal Address: \_\_\_\_\_  
Tel: \_\_\_\_\_ E-mail: \_\_\_\_\_

**SPECIAL TERMS AND CONDITIONS**

The terms and conditions set herein below shall be equally binding on the Broker and the Account Holder(s).

1. All transactions between the parties shall be subject to the Articles, Rules and Regulations of the Exchange, revised policies, Board Directions and new regulations to be framed in pursuance of Section 34 of the Securities & Exchange Ordinance, 1969. Moreover, all applicable provisions of the Securities & Exchange Ordinance, 1969 read with the Securities & Exchange Commission of Pakistan Act, 1997, Brokers and Agents Registration Rules, 2001, Securities and Exchange Rules 1971 and all directions/directives passed from time to time to regulate the trades between the parties and to regulate Brokers conduct and the Central Depository Companies of Pakistan Act, 1997, Rules framed there under and the National Clearing and Settlement System Regulations and any other law for the time being in force. The Broker shall ensure provisions of copies of all the above Laws, Rules and Regulations at his office for access to the Account Holder(s) during working hours.
- 1(a). In case any dispute in connection with the trade or transaction between the Broker and the Account Holder is not settled amicably, either party may refer the same to arbitration in accordance with the provisions of PSX Regulations, which shall be binding on both the parties. The Account Holder hereby agrees that he would have no objection if his name and other relevant particulars are placed on Exchange's database accessible by Brokers of the Exchange if he fails or refuses to abide by or carryout any arbitration award passed against him in his dispute with the Broker.
2. The amount deposited as security margin by the Account Holder(s) with the Broker shall only be used for the purposes of dealing in securities, such as trading and/or settlement of deliveries of securities on behalf of the Account Holder(s). The Broker shall not use such amounts for his own use.
- 2(a). The credit amount of the Account Holder(s) shall be kept by the Broker in a separate bank account titled "Account Holder/Client Account" and shall not be used by the broker for his own business.
3. The Broker shall be authorized to act on the verbal instructions of the Account Holder(s). The Broker shall provide a written confirmation of the executed transactions as required under rule 4(4) of the Securities & Exchange Rules, 1971, and all such transactions recorded by the Broker in his books shall be conclusive and binding upon the Account Holder(s), which shall not be questioned by him/her/them, subject to clause 5 below.  
Or  
The Account Holder(s) shall give written instructions for the sale/purchase of securities to the Broker. The Account Holder(s) shall not give any verbal/oral instructions. The Broker shall provide a written confirmation of the executed transactions as required under rule 4(4) of the Securities & Exchange Rules, 1971, and all such transactions recorded by the Broker in his books shall be conclusive and binding upon the Account Holder(s), which shall not be questioned by him/her/them, subject to clause 5 below.
4. The Broker shall provide the confirmation of the executed transactions to the \_\_\_\_\_ (Name of Account Holder) at the above stated address by means of acceptable mode of communication or by hand subject to acknowledgement receipt.

5. In case there are any error(s) in the daily confirmation statement, the Account Holder(s) shall report the same to the Broker within one working day of the receipt of confirmation. In case the Account Holder(s) do not respond within one working day of the receipt of the said daily confirmation statement, the confirmation statement shall be deemed conclusively accepted by the Account Holder(s).
6. In the event that the Account Holder(s) fail(s) to deposit additional cash or securities as margin within one working day of the margin call (in writing), the Broker shall have absolute discretion to and, without further notice to Account Holder(s), liquidate the Account Holder(s) outstanding positions, including the securities purchased and carried in such account, so that the margin is maintained at the required level.
- 7 (a) The Broker shall be responsible to ensure delivery of CDC eligible securities in the CDC account of the Account Holder(s) subject to full payment by the Account Holder(s). In case of companies which are not on the CDS, the Broker shall ensure delivery of physical shares along with verified transfer deeds against payments, to the Account Holder(s). Further, the Broker shall be responsible for the payment of any credit cash balance available in the account of the Account Holder preferably in form of A/c Payee cross cheque only within 1 working day of the request of the Account Holder(s) (subject to the maintenance of the margin requirements).
- (b) In the event of non-receipt of payment from the Account Holder on settlement day against securities bought on account of the Account Holder, the Broker may transfer such securities to his Collateral Account under intimation to the Exchange, after complying with the requirements as mentioned in relevant clause of this chapter.
8. The Broker shall accept from the Account Holder(s) payments through "A/c Payee Only" crossed cheque, bank drafts, pay orders or other crossed banking instruments in case of amounts in excess of Rs. 25,000/-. Electronic transfer of funds to the Broker through banks would be regarded as good as cheque. The Broker shall be responsible to provide the receipt to the Account Holder(s) in the name of the Account Holder(s) duly signed by authorized agents/employee of the Broker and the Account Holder(s) shall be responsible to obtain the receipt thereof. In case of cash dealings, proper receipt will be taken and given to the Account Holder(s), specifically mentioning if payment is for margin or the purchase of securities. The broker shall immediately deposit in its bank account all cash received in whole i.e. no payments shall be made from the cash received from clients. However, in exceptional circumstances, where it becomes necessary for Broker to accept cash in excess of Rs.25,000/-, the Broker shall immediately report within one working day such instances with rationale thereof to the Exchange in accordance with the mechanism prescribed by the Exchange.
9. The Brokers shall make all the payments of Rs.25,000/- and above, through crossed cheques / bank drafts / pay orders or any other crossed banking instruments showing payment of amount from their business bank account. Copies of these payment instruments including cheques, pay orders, demand drafts and online instructions shall be kept in record for a minimum period of five years.
10. The Account Holder(s) shall have a right to obtain a copy of his/her or their ledger statement under official seal and signature of the Broker or his authorized representative on a periodic basis. In case of any discrepancy in the ledger statement, the Account Holder(s) shall inform the Broker within 1 working day of receipt of the ledger statement to remove such discrepancy.
11. The Account Holder(s) shall operate the account and execute transactions himself/herself/themselves unless the Account Holder(s) authorize Mr. /Ms. / \_\_\_\_\_ I. D. No. \_\_\_\_\_ to transact in the account. All transactions executed by the authorized person shall be binding upon the Account Holder(s).

12. **For Joint Account Holder(s) only:**

We, the Account Holders shall operate the account jointly or severally and the instructions issued either jointly or severally shall be binding on us as well as upon the Broker in respect of the joint titled account.

Or

Our titled account shall be operated only by \_\_\_\_\_ who shall be deemed as the authorized person for operating the joint account or issuing any instructions relating thereto.

13. The Broker shall be responsible to append a list of his authorized agents/traders and designated employees, who can deal with the Account Holder(s), with this account opening form and a copy of both the opening form and the list will be provided to the Account Holder(s). Any change therein shall be intimated in writing to the Account Holder(s) with immediate effect.
14. The Broker shall debit the account of the Account Holder(s) for the commission charges or any other charges in connection with the brokerage services rendered, which shall be clearly detailed in the ledger statement/daily confirmations.
15. The Broker shall not disclose the information of the transactions of the Account Holders to any third party and shall maintain the confidentiality of this information. However, in case the Exchange or the Commission, as the case may be, requires any such information, the Broker shall be obliged to disclose the same for which the Account Holder(s) shall not raise any objection whatsoever.
16. In case a Broker converts his individual brokeship rights to corporate brokeship and vice versa the agreement and conditions laid down herein above shall remain effective unless otherwise agreed by the parties.
17. Acceptable mode of communication between the Account Holder(s) and the Broker shall be through letter (courier/registered post/fax/E-mail) or by hand subject to receipt/acknowledgment. The onus of proving that the e-mail has been received by the recipient shall be on the sender sending the e-mail. Confirmation of orders to clients made through fax or e-mail will have a time record.
18. All orders received telephonically and placed on Trading System shall be supported by recording on dedicated telephonic lines, preferably connected with a computerized taping system so as the orders could possibly be sorted on UIN basis and made user friendly.
19. In case of change of address or contact numbers of either party, the concerned party shall immediately notify the other party of the changes in writing.

20. I/We, the Account Holder(s) acknowledge receipt of this account opening form (signed here by me/us in duplicate) along with the copies of all the annexures and I/we, the Account Holder(s) also undertake that I/we have understood all the above terms and conditions of this agreement which are acceptable to me/us.
21. I/We, the Account Holder(s) understand that the shares trading business carries risk and subject to the due diligence on part of the broker. I/We may incur losses for which I/we, the Account Holder(s) shall not hold the Broker responsible.
22. I/We, the Account Holder(s) further confirm that all information given in this application is true and complete and hereby authorize the Broker to verify any information mentioned above.

\_\_\_\_\_  
Signature of Broker

\_\_\_\_\_  
Signature of Account Holder

\_\_\_\_\_  
Signature of Joint Account Holder

**WITNESSES:**

1. \_\_\_\_\_ (I. D. Card No. \_\_\_\_\_)

2. \_\_\_\_\_ (I. D. Card No. \_\_\_\_\_)

Opened by: \_\_\_\_\_ Checked by: \_\_\_\_\_

Date: \_\_\_\_\_

**Enclosures (for individuals):**

1. Attested copies of National Identity Card of the applicant.
2. Attested copies of National Identity Card of the Joint Holders and or Nominee(s) (if applicable)
3. Attested copies of passports of the applicant, Joint Holders and or Nominee(s) (in case of non-residents)
4. Copy of the letter of authorization from the Account Holder(s) of the person authorized to trade in my/our accounts (if other than the account holder).
5. A list of Transaction fee, Commission to be charged by the Broker and other CDC charges to be levied.

**Enclosures (for corporate entities):**

1. Certified true copy of Board Resolution (specimen provided as per Annexure-A below).
2. Certified true copies of Memorandum & Articles of Association.
3. List of authorized signatories.
4. List of nominated persons allowed placing orders.

**Annexure-A**

**Board Resolution**

"**RESOLVED** that an application be made on behalf of \_\_\_\_\_ (name of entity) to \_\_\_\_\_ ("broker") for opening an Account and for the afore-said purpose the Account Opening Form including Terms and Conditions as set out herein be executed on behalf of \_\_\_\_\_ (name of entity).

**FURTHER RESOLVED** that Mr. /Ms. \_\_\_\_\_ and Mr. /Ms. \_\_\_\_\_ be and are hereby authorized and empowered, either singly/jointly for and on behalf of \_\_\_\_\_ (name of entity) to sign and execute and deliver this Account Opening Form and Terms & Conditions and other documents in connection therewith, and to do any other act, deed or thing for and on behalf of \_\_\_\_\_ (name of entity) in respect of company's application for opening an Account.

**FURTHER RESOLVED** that Mr./Ms. \_\_\_\_\_ and Mr./Ms. \_\_\_\_\_ be and are hereby authorized and empowered, either singly/jointly to represent to the broker on all matters pertaining to the maintenance and operation of the Account, to deal, liase and correspond with broker and give instructions to fulfill all the responsibilities and obligations to broker under the Law, Rules and Regulations and the Terms & Conditions in relation to the Account from time to time, and to deal with other incidental and ancillary acts, things and deeds".

Signatures of the Directors

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

5. \_\_\_\_\_

Date of Resolution: \_\_\_\_\_

Annexure-II

**CODE OF CONDUCT FOR TRADING BY EMPLOYEES OF BROKERAGE HOUSES**

1. Employees of Brokerage Houses desirous of trading must obtain prior written authorization for such activity from the Broker or authorized officer of the Brokerage house on his trading account opening form.
2. Employee must submit to the Broker or authorized officer of the Brokerage house, a written undertaking of his understanding and willingness to strictly abide by all the relevant rules, regulations, codes and procedures as prescribed by the Exchange, Clearing Company, Depository Company and the Commission at all times while trading on his own account.
3. The provisions of chapter 7 of the PSX Regulations or any other Regulation which may be made from time to time in this regard would be applicable to such trades.
4. All trades on behalf of the employees concerned shall be executed against their own respective UINs and shall be subject to these PSX Regulations.
5. Employees must ensure that investment advice given to clients by them does not result in a conflict of interest with their individual trading activities.
6. The employees should not indulge in buying or selling securities of a company for their own account or any account over which they exercise control if they possess non-public information or inside information of that company or information pertaining to any potential trade/deal which may affect the share price of that company. Further, they will not pass any such information to others.
7. The employees should not buy or sell those securities for their own account in which they are aware of clients' proposed trades, trades by the Brokerage house or forthcoming research report regarding such securities.
8. Brokers shall monitor their employees' trades regularly and the Internal Audit Department will ensure compliance of these PSX Regulations and any violation shall be communicated to Audit Committee/Chief Executive Officer and shall be submitted to the Exchange and/or the Commission as and when demanded.
9. Adherence by Brokers as well as their employees, in letter and spirit, to this Code of Conduct is mandatory.