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KARACHI STOCK EXCHANGE LIMITED

#073 P.001/002

KSE/N-3290**NOTICE****June 25, 2015**

Reproduced hereunder letter No. **SMD-/MSCID-C&IW/26-1(150)/2015/1932-1934** dated June 24, 2015 received from **SECURITIES & EXCHANGE COMMISSION OF PAKISTAN, SECURITIES MARKET DIVISION, SURVEILLANCE, SUPERVISION AND ENFORCEMENT DEPARTMENT** regarding **CLARIFICATION/GUIDELINES IN RESPECT OF THIRD SCHEDULE OF SECURITIES AND EXCHANGE RULES, 1971**, for information of all concerned.

(Copy of the same is also available on our Website www.kse.com.pk).

**SECURITIES & EXCHANGE COMMISSION OF PAKISTAN****Securities Market Division****Surveillance, Supervision and Enforcement Department**

F. No. **SMD-/MS&CID-C&IW/26-1(150)/2015/1932-1934**

June 24, 2015

Mr. Nadeem Naqvi,
Managing Director,
Karachi Stock Exchange Limited,
Karachi Stock Exchange Building,
Stock Exchange Road,
Karachi.

Mr. Aftab Ahmed Ch.,
Managing Director,
Lahore Stock Exchange Limited,
Lahore Stock Exchange Building,
19, Khayaban-e-Aiwan-e-Iqbal,
Lahore.

Mr. Mian Ayyaz Afzal,
Managing Director,
Islamabad Stock Exchange Limited,
ISE Towers, 55-B, Jinnah Avenue,
Islamabad.

SUBJECT: CLARIFICATION/GUIDELINES IN RESPECT OF THIRD SCHEDULE OF SECURITIES AND EXCHANGE RULES, 1971

Dear Sir(s),

This is in continuation of Guidelines dated July 03, 2013, issued by Securities and Exchange Commission of Pakistan (the Commission) explaining treatment of various items in respect of calculation of Net Capital Balance ("NCB") under Third Schedule of Securities and Exchange Rules, 1971 ("SEC Rules").

The Guidelines provided the following explanation with respect to director's loan:

"The balance of director's loan account in which receipts/payments transactions pertaining to one year period till the date of reporting period of NCB are recorded should be classified as short term loan for NCB purpose irrespective of its classification/disclosure in the books of accounts of the brokerage house."

Recently, the Commission has received views from the market participants, wherein it has been highlighted that directors' loan extended to brokerage houses are normally of long term nature. Further, it was argued that such loan fall under the category of "Sub-Ordinated Loan", hence, it should be classified and treated as long term liability under NCB statement.

The Commission has reviewed and analyzed the matter and has concluded that:

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[Signature]
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FAX NO. : 0092 51 9218595

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SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

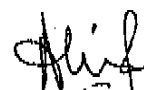
Securities Market Division

Surveillance, Supervision and Enforcement Department

1. For the purpose of calculating NCB, loan from director to their brokerage house, would be considered as long term loan if loan agreement executed on stamp paper, clearly reflects repayment after twelve months of the reporting period.
2. Director's loan or part of such loan due to be payable within twelve months from the reporting period shall be classified as short term loan irrespective of its classification/disclosure in the books of accounts of the brokerage house.
3. In case of early repayment of long term loan from director, the brokerage house shall immediately report the transaction to the stock exchange for adjustment of its trading exposure to that extent.
4. The brokerage house, within 15 days of such repayment of director's long term loan, shall provide to the stock exchange, a fresh NCB certificate duly certified by the auditor.

All Brokerage Houses/TREC Holders of the stock exchanges and the auditors appointed by them for certification of NCB shall ensure meticulous compliance of aforesaid clarifications in letter and spirit. Any violation or circumvention of this direction shall be dealt with under the provisions of the applicable law.

These Guidelines shall come into force with immediate effect.


(Abid Hussain)
Director/HOD (SSED)

Distribution:

1. All Members/Brokerage Houses/TREC Holders of the Stock Exchanges
2. Managing Directors of Stock Exchanges, Karachi/Lahore/Islamabad.
3. The Institute of Chartered Accountants of Pakistan, Karachi.
4. The Institute of Cost and Management Accountants of Pakistan, Karachi.
5. Office Copy.

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