



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
Policy, Regulation and Development Department

SMD/SE/2(102)/2003

July 25, 2012

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

Subject: Approval for Criteria for Selection of Auditors under the Regulations Governing System Audit (Regulatory Compliance) of the Brokers of the Karachi Stock Exchange

Dear Sir,

This is with reference to the Karachi Stock Exchange's (KSE) email dated July 18, 2012 to the Securities and Exchange Commission of Pakistan (SECP) whereby the KSE has submitted draft criteria for selection of auditors for the purposes of system audit of its brokers under its Regulations governing System Audit (Regulatory Compliance) of the Brokers.

In this regard, I am pleased to communicate that the Securities and Exchange Commission of Pakistan (SECP), in exercise of its powers under Clause 2.1.3 of the KSE's Regulations governing System Audit (Regulatory Compliance) of the Brokers, has accorded its approval for the selection criteria for auditors submitted by KSE, along-with certain additions considered essential as discussed and agreed with KSE. The selection criteria approved by the SECP is enclosed herewith as Annexure "A".

Further, KSE has requested for relaxation in relation to implementation of the revised approved criteria from the next ballot of the system audit, considering that the upcoming biannual ballot is to be held latest by July 31, 2012. In view of the same, KSE may proceed with the panel of auditors communicated vide its aforementioned email for system audits to be conducted on the basis of 1st biannual ballot of 2012 only. However, from the next ballot, KSE is advised to select audit firms in line with the selection criteria approved by the SECP and ensure adherence to the same.

Yours truly,

(Musarat Jabeen)
Director (PRDD)

Cc: Managing Director, Lahore Stock Exchange
Managing Director, Islamabad Stock Exchange

Mr. Farhan (IA)
Mr. Haroon
Mr. Rafique
27/7/12



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Annexure "A"

Criteria for Auditors Recommended to be approved by the SECP

1. The criteria for the Auditors to be eligible for inclusion in the Panel of Auditors for System Audit of brokers shall be as follows:
 - 1.1 The Auditors shall be a Chartered Accountants firm within the meaning of the Chartered Accountants Ordinance, 1961;
 - 1.2 The Auditors must have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan;
 - 1.3 The Audit firm shall have their office in Karachi as per the ICAP members' directory applicable on the ballot date;
 - 1.4 The Audit firm must have experience of conducting statutory/system audits and/or comprehensive investigations of brokerage houses;
 - 1.5 In case the Audit firm does not have prior experience of performing audits/investigations as stated in clause 5 above, the engagement partner of such Audit firm must have prior audit experience of brokerage houses;
 - 1.6 The Auditor shall be on the State Bank of Pakistan's Panel of Auditors on the ballot date.

2. Further, the brokerage houses are to select Audit firms from within the category as under:

| Brokerage house | As at | | Threshold | Allowed Category of Audit Firm | | |
|------------------------|-----------------|----------------|---------------------------|--------------------------------|---|---|
| | For JULY Ballot | For JAN Ballot | | A | B | C |
| Listed Brokerage House | 30JUN | 31DEC | - | √ | x | x |
| Net Capital Balance | 31DEC | 30JUN | Rs 500m and above | √ | x | x |
| | | | Rs 100m & upto Rs.499.99m | √ | √ | x |
| | | | others (<Rs.100m) | √ | √ | √ |

Note

The Exchange shall invite applications from Audit firms who are desirous to list on the panel of Auditors for System Audit, on the form prescribed by the Exchange and amended form time to time.