

PSX RESPONSE PAPER

[With reference to PSX Notice No. PSX/N-1100 dated November 7, 2022]
Proposed amendments to PSX Regulations in relation to introduction of Online Only Securities
Broker

1. INTRODUCTION:

- 1.1 PSX publishes 'Response Paper' on its website after close of consultation process on proposed amendments to PSX Regulations. The Response Paper sets out PSX's response to the comments received on the proposed regulatory amendments.
- 1.2 PSX vide notice No. PSX/N-1100 dated November 07, 2022 invited public to submit their comments and feedback on the proposed amendments to PSX Regulations in relation to introduction of 'Online Only' category of Securities Brokers. Readers may peruse such notice by clicking the following link:
<https://www.psx.com.pk/psx/resources-and-tools/listings/public-comments>
- 1.3 PSX received comments from 17 respondents, out of which 1 requested confidentiality. PSX is thankful to the respondents for submitting comments. Following are the respondents who consented to reveal their identity along with comments:

S. #	Respondent's Name
I	Adam Securities Limited
II	Alfalah CLSA Securities (Pvt.) Limited
III	Akik Capital (Pvt.) Limited
IV	Arif Habib Limited
V	BMA Capital Management Limited
VI	EFG Hermes Pakistan Limited
VII	Fortune Securities Limited
VIII	Foundation Securities (Pvt.) Limited
IX	IGI Finex Securities Limited
X	Intermarket Securities Limited
XI	Ismail Iqbal Securities (Pvt.) Limited
XII	JS Global Capital Limited
XIII	Next Capital Limited
XIV	Optimus Capital Management (Pvt.) Limited
XV	Taurus Securities Limited
XVI	Topline Securities Limited

1.4 Comments received along with responses of PSX are mentioned below:

COMMENTS RECEIVED
<p>(1) COMMENTS COLLECTIVELY SUBMITTED BY:</p> <ul style="list-style-type: none"> (i) ALFALAH CLSA SECURITIES (PVT.) LIMITED (ii) AKIK CAPITAL (PVT.) LIMITED (iii) ARIF HABIB LIMITED (iv) BMA CAPITAL MANAGEMENT LIMITED (v) EFG HERMES PAKISTAN LIMITED (vi) FORTUNE SECURITIES LIMITED (vii) FOUNDATION SECURITIES (PVT.) LIMITED (viii) IGI FINEX SECURITIES LIMITED (ix) INTERMARKET SECURITIES LIMITED (x) ISMAIL IQBAL SECURITIES (PVT.) LIMITED (xi) JS GLOBAL CAPITAL LIMITED (xii) NEXT CAPITAL LIMITED (xiii) OPTIMUS CAPITAL MANAGEMENT (PVT.) LTD (xiv) TAURUS SECURITIES LIMITED (xv) TOPLINE SECURITIES LIMITED
<p>This is with reference to your notice PSX/N-1100 dated Nov 7 2022, whereby the Exchange invited Public Comments on Proposed Amendments to various regulations.</p> <p>We, a group of 15 leading brokerage firm, who provide various services including Online and Offline Trading Services to our clients have following comments on these Amendments.</p> <p>ONLINE ONLY CATEGORY</p> <p>We strongly believe that there is no need to add new clause No. 4.28.2 and 4.28.3 under standard range/ scale of brokerage commission, whereby Online Only Securities Broker can charge 50% lower commission and all other categories of brokerage houses can also offer discounted brokerage to those clients who are on boarded through online means and not offered any value-added services.</p> <p>We think that this is not the main reason that can encourage on-boarding of new clients. There are many other factors which we have discussed on many occasions with frontline and apex regulators.</p>

COMMENTS RECEIVED

This is to remind you that Minimum Commission was introduced in 2019 after detail deliberations and discussions with SECP and PSX. This sudden change in policy of slashing commission rate by 50% will drastically affect the business model of existing brokerage firms who have invested a lot in infrastructure and human resource over a period of time.

We therefore suggest that **forementioned clauses should not be inserted.**

(2) ADDITIONAL COMMENTS BY TOPLINE SECURITIES LIMITED

1. Definition - 'Online Only Securities Broker'

Fine with it.

2. Insertion - 'Online Only Broker'

Fine with it.

3. Lower Commission - 'Online Only Broker' PSX Regulation 4.28. STANDARD RANGE/ SCALE OF BROKERAGE COMMISSION

The **prevailing mechanism** of standardization of commission, which was agreed after thorough consultations for months and subsequent agreements, **is in the best interest of each stakeholder** and should be continued. Brokers have invested in infrastructure and human resource based on that. In addition to the above, what is the definition and framework of 'New Client'? Further, what are 'Additional Services' which 'Online Only Broker' cannot provide? What is Value Added?

(3) ADDITIONAL COMMENTS BY BMA CAPITAL MANAGEMENT LIMITED

It is already mentioned in the introductory paragraph of the PSX notice that Online Only brokers will be conducting business with lower operational and overhead costs as compared to other categories of brokers while at the same time they will be allowed to charge up to 50% lower brokerage to their clients.

This would be an unfair advantage towards the Online only brokers and **it would be in contradiction with the minimum commission regulation** (Standard Range/Scale Commission).

Furthermore; the definition of new client based on the UIN would allow new brokers or new UIN-based clients to attract all clients of other leading brokers to them by offering reduced brokerage. This would lead to the entire industry finding a way around the regulation of minimum brokerage which is very harmful to the other categories of brokers who have significantly higher investments in the business with high operational

COMMENTS RECEIVED

and overhead costs. Verification that no value-added services are given to the new clients being charged lower brokerage is also not clear and auditable.

We strongly believe that the **reduced brokerage clause 4.28 should be deleted** and the brokerage charge is not something which is a major barrier in onboarding new clients to the industry.

(4) COMMENTS BY ADAM SECURITIES LIMITED

With reference to the proposed amendments in Clause 4.28.2 regarding the collection of brokerage commission from their customers at lowered rate by reducing the range as prescribed in Annexure-III of Chapter 4 by not more than fifty percent (50%).

We believe that **this amendment will affect and disturb the business of existing Securities Brokers**, i.e. Trading and Clearing and Trading and Self Clearing Securities Broker. Clients will attract to move and transfer to Online Only Securities Brokers in order to take the benefit of lowered rate commission.

With reference to the proposed amendments in Clause 4.28.3 regarding to charge lower brokerage commission only for new clients on boarded through online means for other categories of brokers.

We believe that **this amendment will discriminate and victimize the new and existing clients** as new clients will get the benefit of lowered rate of commission in compare to existing clients and further this will lead to shake the confidence of existing customers as well.

CONSOLIDATED VIEWS OF PSX

After deliberating all of the above comments in detail internally as well as with the SECP, PSX decided that the brokerage commission range presently applicable for all categories of brokers be kept intact for Online Only Securities Brokers. Accordingly, in PSX Regulations, the brokerage commission range has been kept same for all broker categories.

The rates may, however, be reviewed and possibly tweaked if needed for this new category once there is adequate number and trading history of online brokers. These numbers would indeed help PSX in making better assessment of the quantum of change needed in the standard brokerage rates.

(5) COMMENTS RECEIVED FROM RESPONDENT WHO OPTED TO KEEP THE IDENTITY CONFIDENTIAL

COMMENTS	VIEWS OF PSX
<p>This is with reference to PSX notice no. PSX/N-1100 dated November 07, 2022 inviting comments on proposed amendments in PSX Regulations in relation to various matters. We furnish our comments as under:</p> <ol style="list-style-type: none"> 1) As per clause 1 of Schedule-I, the Online Only Broker shall maintain the BMC as per table B wherein we have noted that Table B allows Securities Broker to provide collateral in the forms of securities therefore we are of the view clarification need to be added in light of Securities Broker Regulations whereby online only broker shall not engage in proprietary trading. 2) Regulation 4.30.1 (c), as per Securities Broker Regulations, online only broker shall not provide physical place for trading to its clients therefore the same need to be ensured. 	<p>Online Only Securities Broker shall maintain BMC in any of the forms as applicable on such category.</p> <p>It will be ensured that Online Only Securities Brokers comply with the requirements of all applicable regulations.</p>

2. IMPLEMENTATION OF PROPOSED AMENDMENTS:

The proposed amendments to PSX Regulations have taken effect from **April 10, 2023**.