

Date: June 04, 2024

PSX RESPONSE PAPER

[With reference to PSX Notice No. PSX/N-475 dated May 20, 2022]

Proposed amendments to PSX Regulations in relation to various matters

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-475 dated May 20, 2022 invited public to submit their comments and feedback on the proposed amendments to PSX Regulations in relation to the following matters, latest by June 02, 2022:
- A. Revamping of Voluntary Delisting regulations prescribed under Chapter 5 of PSX Rulebook;
 - B. Allowing securities brokers to open online account of individual local customers through the Centralized Gateway Portal;
 - C. Removing restrictive period for cancellation and modification of orders that remain unfilled during Pre-Open session;
 - D. Introducing criteria for filing appeal by securities brokers against the disciplinary action taken by the Chief Regulatory Office of PSX;
 - E. Managing split of futures contracts for companies/ ETFs quoted in Futures Markets, whose book closure is announced; and
 - F. Reducing the minimum number of arbitrators on the Permanent Arbitration Panel formed in accordance with Chapter 18 of PSX Regulations.

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 two respondents on matters A, B C and D. However, PSX did not received any comments on matters E and F. 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	Designation	Company
I	Mr. Umar Farooque	Senior Manager – Internal Audit	Topline Securities Limited (TSL)
II	Mr. Bilal Farooq Zardi	Secretary General	Pakistan Stock Brokers Association (PSBA)

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

A. Revamping of Voluntary Delisting regulations prescribed under Chapter 5 of PSX Rulebook:

SR. #	COMMENTS	RESPONSES OF PSX
(I) COMMENTS BY MR. UMAR FAROOQUE, SENIOR MANAGER, INTERNAL AUDIT, TSL		
1	<p>5.14.2 (b) This should be 12 months and not three years as fundamentals may have changed.</p> <p>5.14.5 (c) The Exchange may determine a different quantum in exceptional cases for reasons to be recorded. This clause 5.14.5 (c) should be removed.</p>	<p>The three-year average market price tends to smoothen out the impacts of market volatility.</p> <p>This clause has been removed from PSX Regulations. In the approved amendments, there are only two (02) clauses regarding the minimum quantum of shares to be purchased by the sponsors to qualify for delisting as laid down in PSX Regulation 5.14.5 (a) and (b).</p>
(II) COMMENTS BY MR. BILAL FAROOQ ZARDI, SECRETARY GENERAL, PSBA		
2	<p>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 company to ensure that the remaining shareholders have the opportunity for another year to sell at the minimum set price.</p>	<p>After the expiry of initial buyback period of 60 days, the shareholders can sell their shares at the minimum buyback price for the further period of 12 months through the Purchase Agent under clause 5.14.3 (h). In order to secure this obligation, the Exchange obtains and retains an undertaking from the Purchase Agent which binds the Purchase Agent to buy back the shares from the minority shareholders at the minimum buyback price approved by the Company's shareholders subsequent to completion of initial buyback period. Moreover, during this 12-month period, the Purchase Agent is not allowed to surrender its TRE Certificate.</p>
3	<p>It is highly recommended the buyback/de-listing committee of PSX should have the representation of industry experts including the</p>	<p>The composition of the PSX's Voluntary Delisting Committee (VDC) is determined by the PSX Board. The VDC comprises of experienced and seasoned members of the PSX's Board (i.e. representation of</p>

	Pakistan Stock Brokers Association (PSBA).	Shareholder Directors and Independent Directors) as well as the senior officials of the PSX Management.
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B. Allowing securities brokers to open online account of individual local customers through the Centralized Gateway Portal:

SR. #	COMMENTS	RESPONSES OF PSX
COMMENTS BY MR. BILAL FAROOQ ZARDI, SECRETARY GENERAL, PSBA		
1	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.	PSX has noted this comment.
2	<p>In addition to that, we propose that it should also include Investor Account Services to avoid a separate application/set of documents to open IAS and it can automatically be processed through the CGP.</p> <p>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, PSX will have a sense of relief that client's extra securities are in IAS in CDC custody.</p>	<p>Through CGP, the Investors can also open an Investor Account in CDC.</p> <p>Presently, the customers have choice to either open sub-account or IAS account. Any customer can move their securities from sub-account to IAS account as per his/her discretion at any time subject to CDC Regulations.</p>

C. Removing restrictive period for cancellation and modification of orders that remain unfilled during Pre-Open Session:

SR. #	COMMENTS	RESPONSES OF PSX
COMMENTS BY MR. BILAL FAROOQ ZARDI, SECRETARY GENERAL, PSBA		
1	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.	During the session with the market participants, it was proposed that PSX should only remove restrictive period in Open Session while the restrictions in Pre-Open Session will remain in place. In accordance with that and considering the international practices, PSX amended the regulations accordingly. Moreover, the restriction on order cancellation and modification order placement period in pre-open should remain in place for efficient open price discovery.

D. Introducing criteria for filing appeal by securities brokers against the disciplinary action taken by the CRO of PSX:

SR. #	COMMENTS	RESPONSES OF PSX
COMMENTS BY MR. BILAL FAROOQ ZARDI, SECRETARY GENERAL, PSBA		
1	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	It may be noted that the appeal processing fee has been significantly reduced to a flat amount of PKR 5,000. The appeal processing fee would encourage filing of appeal on serious ground and also avoid any frivolous filing of appeals. The Appellant Committee has the power to refund the appeal processing fee to the securities brokers if the Appellant Committee overturns the original decision or varies it in the manner sought by the Appellant. PSX, as a front-line regulator, has mandate to enforce regulatory requirements in a fair and transparent manner and appeal is an integral part of this process. Keeping this in mind, PSX

<p>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).</p> <p>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.</p>	<p>has created regulatory provisions to allow dissatisfied parties to file appeals not only against enforcement actions but also against any arbitration award passed against them. Provision of appellate forum in both these cases and historically having large numbers of appeal cases disposed-off is a testament of the fact that PSX provides equal opportunity to all to have their case reassessed through appellate forums. Moreover, the party is at the liberty to file appeal at other higher forums if it is still not satisfied with the decision of the appellant forums of PSX. Moreover, the term 'Senior Management Staff' appropriately covers the senior staff members of PSX.</p>
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2. IMPLEMENTATION OF APPROVED AMENDMENTS:

The approved amendments to PSX Regulations with respect to matters mentioned above have taken effect from the dates as mentioned below:

SR. #	Subject Matter of Approved Amendments	Effective Date
A	Revamping of Voluntary Delisting regulations prescribed under Chapter 5 of PSX Rulebook	April 10, 2023
B	Allowing securities brokers to open online account of individual local customers through the Centralized Gateway Portal	April 19, 2023
C	Removing restrictive period for cancellation and modification of orders that remain unfilled during Pre-Open session	November 22, 2022
D	Introducing criteria for filing appeal by securities brokers against the disciplinary action taken by the Chief Regulatory Office of PSX	October 12, 2022
E	Managing split of futures contracts for companies/ ETFs quoted in Futures Markets, whose book closure is announced	November 22, 2022
F	Reducing the minimum number of arbitrators on the Permanent Arbitration Panel formed in accordance with Chapter 18 of PSX Regulations	October 12, 2022