



## PSX RESPONSE PAPER

[With reference to PSX Notice No. PSX/N-1076 dated September 08, 2021]

### Proposed amendments to PSX Regulations in relation to opening and operations of Account Facilitation/Customer Help Center by Brokers

February 14, 2022

#### 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-1076 dated September 08, 2021 invited public to submit their comments and feedback on proposed amendments in relation to allowing securities brokers to open Account Facilitation/Customer Help Center and engage sales staff and distribution network of their associates/holding companies for marketing their business/products in PSX Regulations, latest by September 17, 2021.

**Note:** For further details on the above notice, readers may peruse the same by clicking the following link:

<https://www.psx.com.pk/psx/resources-and-tools/listings/public-comments>

- 1.3 PSX received comments from seven respondents, out of which five have consented to reveal their identity, however two of them opted to keep their identity confidential. PSX is thankful to the respondents for submitting comments:

S. #	RESPONDENT'S NAME	DESIGNATION	COMPANY
1	Bilal Farooq Zardi	Secretary General	Pakistan Stock Brokers Association (PSBA)
2	Qamar Tariq	Chief Financial Officer	Abbasi and Company (Pvt.) Ltd. (Abbasi & Company)
3	Tanzeel ur Rehman	Head of Risk Management & Compliance	JS Global Capital Ltd. (JS Global)
4	Umair Ahmed	General Manager - Operations	Darson Securities Ltd. (Darson Securities)
5	Noman Abdul Majeed Adam	Director	Adam Securities Ltd. (Adam Securities)



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

COMMENTS	VIEWS OF PSX
<b>(1) COMMENTS BY MR. BILAL FAROOQ ZARDI, SECRETARY GENERAL AT PSBA</b>	
<p>This is with reference to PSX Notice PSX/N-1076 dated September 8, 2021, and the feedback session conducted by the Exchange to provide an overview of the proposed initiative to allow Securities Brokers to open Customer Facilitation/Help Centers. Healthy and constructive feedback was shared by the participants over the session which are also submitted here for your kind consideration.</p> <p>(i) It is indeed a good initiative to increase the investor base with minimum regulatory requirements and we hope that it will serve as an effective way to facilitate the customers to provide them an opportunity to connect with the Stock Brokers conveniently.</p> <p>(ii) The query has already been addressed during the session that this facility is being provided across the board, and not specifically to the Brokers having associated companies.</p> <p>(iii) When there is a prohibition on installing trading terminals and deployment of system operators, then there is no need for the telephone lines &amp; recording thereto, installation of CCTV cameras, and such other facilities</p>	<p>We appreciate your support for regulatory amendments on opening of Account Facilitation/ Customer help Center (Center) and encourage the Brokers to capitalize on these new opportunities. PSX would provide all necessary guidance in this regard.</p> <p>Previously it was proposed that Center could only be opened in an associated company of a Broker, however, as per the approved amendments, Brokers are allowed to open the Center and also engage sales offices and staff of other Designate Entity for marketing their brokerage businesses, which may include Commercial Bank, Asset Management Company, Insurance Company or any other entity as may be specified by the Exchange with prior approval of the SECP.</p> <p>Moreover, the approved framework also allows Broker to open Center at an appropriate public place, without opening the Center, subject to proper training by such Broker.</p> <p>These requirements have been removed in the approved amendments.</p>

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<p>as this will be a facilitation center only and not a proper branch office.</p> <p>(iv) Just to seek clarity, the biometric verification will not be necessarily required and the latter is now replaced with customer verification such as valid IBAN, mobile no, email address, etc. by NCCPL.</p> <p>(v) As it was also raised by the members in the session that the facilitation centers may please be allowed to open in any business premises even on shared office spaces which is popular prevailing concept rather than limiting it to the extent of associated companies. And, the dedicated person there, should also be considered as "Representative".</p>	<p>This is an optional facility which is at the discretion of the Broker. The Broker may decide to make available the biometric verification facilities or not at the Center.</p> <p>Previously it was proposed that Center could only be opened in an associated company of a Broker, however, as per the approved amendments, Brokers are allowed to open the Center and also engage sales offices and staff of other Designate Entity for marketing their brokerage businesses, which may include Commercial Bank, Asset Management Company, Insurance Company or any other entity as may be specified by the Exchange with prior approval of the SECP.</p> <p>Moreover, the approved framework also allows Broker to open Center at an appropriate public place, without opening the Center, subject to proper training by such Broker.</p>
<b>(2) COMMENTS BY MR. QAMAR TARIQ, CFO AT ABBASI &amp; COMPANY</b>	
<p>According to Clause 2.1 of <b>Part B [Allowing Securities Broker to market their business/products through sales force and distribution channels of their Associated/ Holding companies]</b>:</p> <p><i>Although, PSX Regulations or other applicable Rules and Regulations do not restrict Securities Broker from marketing their products/services through sales force or distribution channel of other companies, the following limitations may act as constraint for Securities Brokers which decide to engage the sales force of their associated/holding companies:</i></p> <p>(i) <i>Under Non-Banking Finance Companies &amp; Notified Entities Regulations, 2008 of</i></p>	



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<p><i>SECP, any employee of the Asset Management Company, shall not engage in brokerage business and the Asset Management Company shall not undertake brokerage service on stock exchange or in the money market.</i></p> <p>(ii) <i>As per Insurance Companies Sound and Prudent Management Regulations, 2012, the chief executive, principal officer or director or key officers of an insurer shall not, inter alia, be a member of stock exchange or director or employee of a brokerage house registered at any stock exchange or a spouse of such persons. In case of key officers (CEO, CFO, CS, COO, Actuary, CIO, HOIA, other HODs) the insurers must ensure that the cross functional activities of such personnel should not give rise to conflict of interest.</i></p> <p>(iii) <i>The relevant officials of Securities Brokers are required to have a Mandatory Certification currently being offered by the ‘Institute of Financial Markets of Pakistan’ (IFMP).</i></p> <p>Kindly clarify whether the Securities Brokers which do not have any associated / holding company shall be allowed to market their business through third parties or not?</p> <p>If the answer is “NO”, the Securities Brokers which do not have any associated / holding company shall be allowed to market their business through third parties. Otherwise it will be a biased decision to allow the Securities Brokers which have associated / holding company to market their business as they shall have an advantage over other Securities Brokers and may capture most of the market.</p>	<p>The approved amendments allow Brokers to open the Center and also engage sales offices and staff of other Designate Entity for marketing their brokerage businesses, which may include Commercial Bank, Asset Management Company, Insurance Company or any other entity as may be specified by the Exchange with prior approval of the SECP.</p> <p>Moreover, the approved framework also allows Broker to open Center at an appropriate public place, without opening the Center, subject to proper training by such Broker.</p> <p>The condition for Brokers to have associated/ holding company to open a Center, as notified previously, has been removed.</p>



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<b>(3) COMMENTS BY MR. TANZEEL UR REHMAN, HEAD OF RISK MANAGEMENT &amp; COMPLIANCE AT JS GLOBAL</b>	
<p>JS Global appreciates the initiative taken by PSX to create “Facilitation Center” which will contribute immensely in creating awareness in the general public about the advantages of investing in the capital markets of Pakistan. The potential outreach of brokerage houses will increase across the country and especially in remote areas. We believe this step along with the increasing role of digitalization will accelerate the rate of financial inclusion.</p> <p>We fully support these amendments but only have the following concern:</p> <p>The word “<b>Associated</b>” in clause No. 22A.2 of the Regulations needs to be defined because as per clause No. 2 (ii) (a) (II) of Securities Act, 2015, a company will become associated company by virtue of having common directorship without having any stake/shareholding of the brokerage. In this respect, companies which does not have any stake/shareholding in a brokerage house would be able to open Facilitation Center without having proper control of brokerage house and might result in misuse of clients’ assets.</p> <p>It may further be noted that the aforesaid proposed clause allows all sort of associated companies to be eligible for Facilitation Center, which might be companies where stringent controls of the regulators are not placed like the one are</p>	<p>We appreciate your support for regulatory amendments on opening of Center and encourage the Brokers to capitalize on these new opportunities. PSX would provide all necessary guidance in this regard.</p> <p>The term ‘Associated/ Holding Company’ has been replaced with ‘Designated Entity’ in Chapter 22A of PSX Regulations, which includes Commercial Bank, Asset Management Company, Insurance Company or any other entity as may be specified by the Exchange with prior approval of the SECP.</p> <p>The approved amendments allow Brokers to open the Center and also engage sales offices and staff of other Designate Entity for marketing their brokerage businesses, which may include Commercial Bank, Asset Management Company, Insurance Company or any other entity as may be specified by the Exchange with prior approval of the SECP.</p> <p>Moreover, the approved framework also allows Broker to open Center at an appropriate public place, without opening the Center, subject to proper training by such Broker.</p> <p>Same as above.</p>



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<p>applied on financial sector (Securities, banking and Insurance), which might create risk for misuse of clients' Assets, therefore it is request to allow only those associated companies which are related to financial sector in order to protect the interest of investors.</p>	
<b>(4) COMMENTS BY MR. UMAIR AHMED, GENERAL MANAGER OPERATIONS AT DARSON SECURITIES</b>	
<p>There is no record maintained in Customer Facilitation / Help Center related trading so we suggest you to provide an audit exemption on these Centers.</p> <p>We suggest the Associated /Holding company should be from Financial Industry or have existence in capital Market with having at least 8-10 years of experience.</p> <p>We also suggest that kindly allow this Customer Facilitation Center and distribution channels outside the Pakistan.</p>	<p>It may be noted that there is no mandatory requirement of conducting audit of the Center by PSX. However, to ensure that the Centers perform functions as specified under Chapter 22A of PSX Regulations, PSX has retained power to inspect or investigate any center of a Broker or appoint an audit firm for this purpose and in that case, the cost of audit shall be borne by the concerned Broker. The same practice is followed in case of System Audit of a Broker where the cost of such audit is borne by concerned Broker and also in case of special audit, investigation or investigation that may be conducted in respect of the affairs of a Broker, cost of which is also borne and paid by the concerned Broker.</p> <p>The term 'Associated/ Holding Company' has been replaced with 'Designated Entity' and has been defined in Chapter 22A of PSX Regulations, which includes Commercial Bank, Asset Management Company, Insurance Company or any other entity as may be specified by the Exchange with prior approval of the SECP. However, specifying the experience in capital market may be construed as a limitation. The purpose of this facility is to increase capital market outreach with lesser regulatory requirements, promote investor education and enhance customer base.</p> <p>PSX has noted this suggestion.</p>



COMMENTS	VIEWS OF PSX
<b>(5) COMMENTS BY MR. NOMAN ABDUL MAJEED ADAM, DIRECTOR AT ADAM SECURITIES</b>	
<p>Thanks for your proposed amendments regarding to allowing securities brokers to open Account Facilitation / Customer Help Centers. Further, the presentation by PSX in this regard had helpful for us to understand the concept of Account Facilitation / Customer Help Centers.</p> <p>We, appreciate the PSX efforts in order to increasing capital market outreach, attracting more investments and creating ease of entry for the investors.</p> <p>Further, we suggest that it should the mandatory to mention in notice board and/or standee that “payment made/received to/from customers is not allowed in Account Facilitation / Customer Help Centers”.</p>	<p>We welcome your support for regulatory amendments on opening of Center and encourage the Brokers to capitalize on these new opportunities. PSX would provide all necessary guidance in this regard.</p> <p>It has been specifically mentioned in Chapter 22A that dealing in cash is not allowed in Center with any of its existing or prospective customer. Broker is also required to clearly mention on a board/standee which is to be placed at a conspicuous place in Center that dealings in cash are not allowed.</p>
<b>(6) RESPONDENTS WHO OPTED TO REMAIN CONFIDENTIAL</b>	
<p>Thanks for your proposed amendments regarding to allowing securities brokers to open Account Facilitation / Customer Help Centres. Further, the presentation by PSX in this regard had helpful for us to understand the concept of Account Facilitation / Customer Help Centres.</p> <p>We, appreciate the PSX efforts in order to increasing capital market outreach, attracting more investments and creating ease of entry for the investors.</p> <p>Further, we suggest that it should the mandatory to mention in notice board and/or standee that “payment made/received to/from customers is not allowed in Account Facilitation / Customer Help Center”.</p>	<p>Please refer to comments given in point (5) above.</p>

**2. IMPLEMENTATION OF PROPOSED AMENDMENTS:**

The proposed amendments have taken effect from **February 07, 2022** and the notification in this regard has also been issued vide notice no. PSX/N-133 dated February 08, 2022.