



PSX RESPONSE PAPER

[With reference to PSX Notice No. PSX/N-1520 dated December 29, 2021]

Proposed amendments to PSX Regulations in relation to change in the definition of Accredited Individual Investor eligible for trading in securities listed in Growth Enterprise Market (GEM) of PSX

February 14, 2023

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-1520 dated December 29, 2021 invited public to submit their comments and feedback on proposed amendments in relation to change in the definition of Accredited Individual Investor eligible for trading in securities listed in Growth Enterprise Market (GEM) of PSX, latest by January 06, 2022.

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 eleven (11) respondents, out of which ten (10) have consented to reveal their identity, however one of them opted to keep its identity and comments confidential. PSX is thankful to the respondents for submitting comments.

The names of the ten (10) respondents are mentioned below:

S. #	RESPONDENT'S NAME	DESIGNATION	COMPANY
1	Mustafa Farooq	-	CDC
2	Pakistan Stock Brokers Association (PSBA)	-	PSBA
3	Omer Sala Ahmed	Head of Corporate Finance & Advisory	Topline Securities Limited
4	Sani-e-Mehmood Khan	CEO	Securities Exchange Management Suite
5	Abdus Samad Salim	Director	Salim Sozer Securities Pvt Ltd
6	Shams ul Arfeen	-	-
7	Danish Elahi	-	-
8	Rasheeda Bano	-	-
9	Ali Wahab	-	-
10	Ahsan Amin	-	-

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

S.#	COMMENTS RECEIVED	VIEWS OF PSX
1. Mustafa Farooq [Central Depository Company Limited]		
1 (i)	We understand process for obtaining and relying solely on self-declaration by the Accredited Individual is a weak arrangement. It should be subject to some due diligence on the part of SROs / Brokers at respective Primary and Secondary market levels. At broker end, it can easily be made part of compliance keeping in view the responsibilities of brokers under AML/CFT Regulations like submission of wealth statement by the sub-accountholder etc.	In order to provide ease and considering practical difficulties highlighted by the market participants, the eligibility of individual investors to trade in secondary market is shifted to be assessed on the basis of self-declaration. A self-declaration form, which has a legal status, is a formal statement made by an individual that asserts the authenticity and accuracy of the information provided therein by the said individual.
1 (ii)	Pre-trade checks should be in place in trading system on the basis of data provided by NCCPL. This will not only avoid non-compliances generally but also help to restrict non-compliance that is specific to intra-day trading which is not being catered in the current mechanism. Here, we would like to highlight that similar control is currently in place in the case of 5% shareholding in the case of shares of Banks and 2% shareholding in the case of shares of PSX.	Suggestion noted.
1 (iii)	While we understand that term "Net Asset" has been modified to "Asset" to expand the customer base. However, there may be line items or events which offsets the Assets with Liabilities, resultantly defeating the purpose of keeping Rs. 5 million threshold.	The manner of verification eligibility has been linked with self-declaration. Therefore, if investors assess that the value of their assets is higher than minimum required, they can file the self-declaration accordingly.
2. PSBA		
2 (i)	The requirement of Rs.5 million for becoming Accredited Investor may please be deleted as requested vide our earlier letter PSBA/P1221-03 dated December 7, 2021.	The Growth Enterprise Market is provided by PSX exclusively for Growth Companies to raise capital from Accredited Investors meeting the minimum stipulated requirement. Growth Companies by nature carry higher investment risk including liquidity risk as compared to the companies listed at the main board of the Exchange.

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2 (ii)	For secondary market, undertaking through Digital means like WhatsApp, etc. may please be acceptable.	<p>Moreover, offering in GEM Board does not involve issuance of prospectus and hence participation of general public. Therefore, to keep GEM Board separate from Main Board, minimum threshold requirements are applicable for both primary as well as secondary market. Only Accredited Investors, having financial strength and understanding of unique nature of this market and associated risks, have been allowed to participate on GEM Board.</p> <p>The self-declaration by investor would be considered sufficient as verifiable mean, and can be submitted in hard form, transmitted electronically or confirmed via any application which can be maintained as a log, any other recognized social media platform, agreeing to the self-declaration window by accepting, check marking, acknowledging etc.</p>
3. Omar Salah Ahmed (Topline Securities Limited)		
3 (i)	<p>Having studied the draft amendments, in our opinion when a person who is verified as the accredited investor by way of having securities of PKR 5million with CDC, he/she should be automatically marked as the accredited investor by NCCPL/PSX.</p> <p>In secondary market, NCCPL should auto mark investors buying GEM Board stocks as accredited as Broker must have allowed him only if he is Accredited Investor. Regulator should promote ease of doing business why did work of a Broker to go into NCCPL system and mark them as accredited when it is already being done.</p> <p>Kindly find below section wise comments on proposed amendments:</p>	<p>Auto-marking of Accredited Individual Investors (All) is being done in National Clearing Settlement System (NCSS) who participated in the IPO following due process of submitting self-declaration.</p> <p>Relevant SROs have performed an exercise whereby all those CDC account holders having securities worth at-least 40% higher than the minimum requirement of PKR 5 million or more marked as eligible Alls for trading in GEM. Such database shall be subject to regular</p>

S.#	COMMENTS RECEIVED			IEWS OF PSX
				review due to fluctuations in prices of securities.
	Reference	Regulation/Rule	Comments	
3 (ii)	5A.1.1(d)	Accredited individual investors registered with NCCPL having total assets of at least Rs.5 million.	Total assets of PKR 5 Mn should be estimated market value or cost of total assets of PKR 5Mn whichever is higher.	The manner of verification eligibility has been linked with self-declaration. Therefore, if investors assess that the value of their assets is higher than minimum required, they can file the self-declaration accordingly.
3 (iii)	4.29	It shall be mandatory for Securities Brokers to ensure through verifiable means that the orders of only those customers are entered into the Trading System for execution who/which are eligible for trading in a particular security and/or market as per the criteria laid down for such security and/or market, as the case may be, under these Regulations.	In our opinion, the word verifiable means should be excluded and since we are including declaration by an accredited investor, the self-declaration should be sufficient to be marked as accredited investor.	PSX has obtained power u/c 4.29 of its Regulations to notify the manner whereby eligibility of Accredited Investor could be determined. Accordingly, PSX vide notice dated April 01, 2022, has notified the manner, whereby eligibility of Accredited Investor would be determined. In this regard, the manner would be that the investor would self-declare himself as an eligible individual investor and the same would be considered sufficient by the regulators. The onus of verification is limited on the brokers to the extent of obtaining such self-declaration/undertaking from individual investor prior to allowing trade in GEM and retaining such document for record and audit purposes.
4. Abdus Samad Salim [Salim Sozer Securities Pvt. Limited]				
4 (i)	<p>The requirement of Rs.5 million for becoming Accredited Investor may please be deleted as requested over zoom video call. Because it would be very difficult for a small investor investing in GEM stock to meet the said requirement.</p> <p>Also refer to the two companies listed on GEM board failed to sustain because of the requirement of Rs. 5 million. If PSX wants to make this product successful, this limit needs to be removed or revised.</p>			Please refer comment given in Sr. # 2(i) above.

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5. Sani-e-Mehmood [SEMS]		
5 (i)	<p>The proposal does appear to have been conceived to absolve those who allowed and/or facilitated some ineligible Investors to invest, trade and hold Securities on the GEM Board. An Accreditation and subsequent entry of an Ineligible Investor onto the GEM Board carries host of issues including but not limited to AMT/CFT and/or the subjects relating to Ultimate Beneficial Ownerships (UBO).</p>	<p>The Growth Enterprise Market is provided by PSX exclusively for Growth Companies to raise capital from Accredited Investors meeting the minimum stipulated requirement. Growth Companies by nature carry higher investment risk including liquidity risk as compared to the companies listed at the main board of the Exchange.</p>
5 (ii)	<p>Given the international focus on AML/CFT and UBO and Pakistan's own latest legislation, it is the primary responsibility of PSX to ensure that the Investor Accreditation process is in compliance with the letter and spirit of FATF and AML/CFT broad objectives and approved/amended regulations. Letting Dubious Person to trade and "own" shares of a Security, listed on the GEM Board is a compromise over basic controls.</p>	<p>Taking this risk aspect in mind and to ensure that the prospective investors are wary of risks associated with investing in Growth Companies, PSX has</p>
5 (iii)	<p>The fact is that a counterparty of a trade on GEM Board could not be the ultimate beneficial owner of the trade. How then can AML/CFT due diligence be done on them before execution of the transactions?</p> <p>The Person(s) which allowed/facilitated an Ineligible Investor to trade and hold position(s) is to be reprovved and reprimanded. The proposal to allow a onetime exit to ineligible investor carries the risk of black and terror-financing related monies coming to GEM Board, and getting out through exceptional route of onetime exit (leading to an unknown destiny). We recommend and warrant that letting Ineligible Investors exit without AML/CFT proceedings carries an exposure-risk in front international donor and AML/CFT agencies. We would therefore, urge the PSX Board to look at the handling of the matter which creates a perception that a lax and rewarding approach is adopted where strict punitive action should have been taken.</p>	<p>required Issuer to prominently make the following specific disclosures, among others, on the cover page of the Information Memorandum:</p> <p>a) A disclaimer in bold letters stating that, "This is not a prospectus for issue of shares to the general public, but a document prepared for the purpose of offering shares only to Accredited Investors. This IM has not been approved by the Securities & Exchange Commission of Pakistan (the Commission) or the Pakistan Stock Exchange Limited (the Exchange)";</p> <p>b) Advise for Investors: The GEM is designed primarily for Growth Companies. Growth Companies are comparatively exposed to higher investment risk including liquidity risk as compared to the companies listed at the main Board of the Exchange. The prospective investor should, therefore, be aware of the risk of investing in</p>



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		<p><i>such companies and should make the decision to invest only after careful diligence of the issue and consideration. It is advisable to consult any independent investment advisor before making investment in equity of the Issuer;</i></p> <p>The Information Memorandum is circulated in advance of an issue so that the investors could read, understand and seek advice where needed and only then decide to invest in Growth Companies.</p> <p>Besides the above, in primary market, the individual investors are required to self-declare/certify themselves as Accredited Investors before subscribing for shares in Initial Offering.</p> <p>Once an investor receives shares through initial offering based on self-declaration, the shares of the Issuer, post listing, are then available for trading at the stock exchange through securities brokers.</p> <p>It is pertinent to highlight that PSX vide notice dated April 01, 2022 has notified manner of verifying the eligibility of Accredited Individual Investors to trade in GEM Market. Hence, by virtue of this, where a Securities Broker has a reason to believe, based on its KYC/CDD checks, that an individual investor is ineligible to trade in GEM, then such broker will unmark such investor in NCSS of NCCPL and disallow further exposure to such</p>

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		ineligible customer's account in GEM. Broker will allow such ineligible customer an opportunity to liquidate GEM shares, fully or partially, in the normal course at his/her discretion and risk with no bearing on the broker. The broker shall record reasons in writing for such belief and restrictions imposed on investor.
5 (iv)	It is an international best practice that Individual Investors who do not meet specific income or net worth tests, regardless of their financial sophistication, is denied the opportunity to invest in private markets such GEM Board. Furthermore, the Rule 501(a) of US Securities and Exchange Commission allows Persons of Professional Certifications, designations or credentials or other credentials issued by an accredited educational institution, which the Commission may designate from time to time by order.	The concept of Accredited Investor is introduced in Pakistan after taking into account the international practices and the recent amendment to broaden to definition of Accredited Individual Investor is also testament to the fact that PSX is supportive of changes which lead to market growth and wider investor base in line with international practices.
5 (v)	<p>Whereas, in our case, we appear to ignore both the aforementioned International Best Practice.</p> <p>Unless, otherwise solemnly stated by an official, a possibility of the existence of a systemic risk cannot be ruled out; AS, there could be some "Accredited Persons" not being the Ultimate Beneficial Owner(s) of the "trade" are holding "GEM Board Securities and Money flows" therein.</p> <p>In the absence of the statement of assurance, it would be expedient for the PSX Board to consider suspending the GEM-Board-trading, till the time a third-party audit clears all identities and underlined documents in the wake of AML/CFT and subsequently, the task of evaluating the "Eligible Accredited Investors of the GEM Board is outsourced to a third-party.</p>	<p>GEM Board is not a private market. A private market, indeed, is designed to enhance access to capital for issuers through an online platform developed to bring issuers and accredited investors together to buy and sell shares without the issuer going public. Notable examples of private markets are as follows:</p> <ul style="list-style-type: none"> ▪ Canada's Exempt Market (TSX's Private Market Platform); ▪ Turkey's BIST Private Market; ▪ USA's NASDAQ Private Market.
6. Shams Ul Arfeen		
6 (i)	We appreciate PSX's effort in developing the GEM, and to make it more attractive for issuers as well as investors. It is clear that currently the GEM Board is not generating liquidity, which substantially dampens its	Please refer comment given in Sr. # 2(i) above.

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6 (ii)	<p>attractiveness, and therefore certain adjustments are necessary.</p> <p>I understand that the PSX and SECP wish to protect certain classes of investors from exposure to GEM based stocks, which might be considered more risky than normal board.</p> <p>However, it is also a reality that there are all sorts of companies listed on the main board, from high volume blue chips to thinly traded MNCs to non-performing SOEs and even scrips on the defaulter's counter, and there is no bar on any individual investor to invest in such companies. In light of this, restricting access of certain individual investors to the GEM board seems unnecessary. Just the fact that these scrips will be on the GEM board, and even the symbols for these used by PSX have "GEM" as a prefix, seem sufficient for highlighting the fact that these scrips are not the regular scrips, and if investors still want to trade in these, there should be no bar on them at most, PSX may require investors to sign off an acknowledgement that they understand the additional perceived risk associated with the GEM board. Therefore, my main suggestion is to do away with any threshold requirement for individual investors on the GEM Board.</p> <p>However, if the PSX/ SECP still feel that there must be a certain barrier for individual investors, then please consider the following comments in light of the proposed amendments circulated by PSX:</p> <table border="1" data-bbox="305 1377 987 1923"> <thead> <tr> <th data-bbox="305 1377 423 1409">Reg.</th> <th data-bbox="423 1377 987 1409">Comments</th> </tr> </thead> <tbody> <tr> <td data-bbox="305 1409 423 1923">4.29</td> <td data-bbox="423 1409 987 1923">The wording "through verifiable means" should be deleted from the proposed regulation. The onus of certification is on the individual investor; once he/she self-certifies, it should be enough. Brokers should not be asked to produce any other evidence other than the self-certification of the individual investor. Further, the broker should be able to obtain self-certification from the investor through any form-physical document, email, other digital means on the online trading platform- there should be no requirement to provide this on stamp paper, etc.</td> </tr> </tbody> </table>	Reg.	Comments	4.29	The wording " through verifiable means " should be deleted from the proposed regulation. The onus of certification is on the individual investor; once he/she self-certifies, it should be enough. Brokers should not be asked to produce any other evidence other than the self-certification of the individual investor. Further, the broker should be able to obtain self-certification from the investor through any form-physical document, email, other digital means on the online trading platform- there should be no requirement to provide this on stamp paper, etc.	<p>Please refer comment given in Sr. # 3(iii), wherein the manner of notification issued by PSX for determining the eligibility of Accredited Investor has been mentioned in detail. PSX has also retained power u/c 4.29 of PSX Regulations to modify the manner if needed in future and also notify for information of all.</p>
Reg.	Comments					
4.29	The wording " through verifiable means " should be deleted from the proposed regulation. The onus of certification is on the individual investor; once he/she self-certifies, it should be enough. Brokers should not be asked to produce any other evidence other than the self-certification of the individual investor. Further, the broker should be able to obtain self-certification from the investor through any form-physical document, email, other digital means on the online trading platform- there should be no requirement to provide this on stamp paper, etc.					

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6 (iii)	<p>It is imperative that there should be no additional requirements or risks placed on the brokers; otherwise they will always discourage trade on GEM Board. My discussion with some brokers indicate that they are very reluctant to execute these trades due to the additional hassle and risks.</p> <p>Also, the current modification in the regulation gives powers to the PSX to decide what the “manner” of notification will be. While this gives flexibility for the future to the PSX, it still leaves uncertainty at this stage, therefore my suggestion is to clarify what this manner will be initially, and PSX should retain the power to modify it in future.</p>	<p>PSX considers that PKR 5 million is an adequate figure. The objective is that savvy and knowledgeable investors, who understand the unique nature of this market and associated risks, participate in GEM.</p>
	<p>5A.1.1 The changes suggested to the definition – i.e. shares worth Rs. 5m, and assets instead of net assets are helpful.</p> <p>However, I feel that the Rs. 5m figure seems arbitrary and it is not clear what the rationale of this figure is. It is my suggestion that even if the PSX wants to shield certain investors from exposure to the GEM listed stocks, it should take an approach to exclude, for e.g. the lowest 10%, or max 20% of individual investors. There is no way for us to judge whether the current limit of Rs. 5m excludes 5% or 95% of the individual investors. Therefore, I suggest that PSX reviews this threshold based on data available with it/ CDC/ NCCPL, and adjusts the threshold so that only a small minority of the investors are excluded who are deemed to be most vulnerable. My own guess is that the threshold should be in the 0.5m – 1.0m range.</p> <p>It seems also relevant to consider that if leverage products are not available on the GEM listed stocks, then in any case the chances of high risk positions for retail investors are eliminated, and thus any threshold may not be needed at all.</p>	

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7. Danish Elahi								
7	<p>For most, If the individual(s) has securities (higher of cost or market value at the time of accreditation) of PKR 5 million or more they should automatically be marked as the accredited investor by NCCPL directly or by the designated broker for both IPO (primary market) and as well as secondary market for normal trading, the process should not require duplication. Our comments are hereunder for your kind review and perusal.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #ADD8E6;">Amendments suggested</th> <th style="background-color: #ADD8E6;">Views</th> </tr> </thead> <tbody> <tr> <td style="vertical-align: top;"> <p>4.29. EXECUTION OF TRADES ON THE ACCOUNTS OF ELIGIBLE CUSTOMERS:</p> <p>It shall be mandatory for Securities Brokers to ensure through submitted documents by accreditation investor that the orders of only those customers are entered into the Trading System for execution who/which are eligible for trading in a particular security and/or market as per the criteria laid down for such security and/or market, as the case may be, under these Regulations.</p> </td> <td style="vertical-align: top;"> <p>The word verifiable means should be excluded and replaced with "submitted by accredited investor" since it's a self-declaration should be sufficient to be marked as accredited investor.</p> </td> </tr> <tr> <td style="vertical-align: top;"> <p>5A.1. DEFINITIONS:</p> <p>5A.1.1. In this chapter, unless the subject or context otherwise requires:</p> <p>(d) "Accredited Investor" includes:</p> <p>(i) Institutional investors; and</p> <p>(ii) Accredited individual investors registered with NCCPL having total assets of PKR 5 Million (should be higher of cost or market</p> </td> <td style="vertical-align: top;"> <p>The total assets (higher of cost or market value) of an individual at the time of accreditation should be considered to be the base criteria.</p> </td> </tr> </tbody> </table>	Amendments suggested	Views	<p>4.29. EXECUTION OF TRADES ON THE ACCOUNTS OF ELIGIBLE CUSTOMERS:</p> <p>It shall be mandatory for Securities Brokers to ensure through submitted documents by accreditation investor that the orders of only those customers are entered into the Trading System for execution who/which are eligible for trading in a particular security and/or market as per the criteria laid down for such security and/or market, as the case may be, under these Regulations.</p>	<p>The word verifiable means should be excluded and replaced with "submitted by accredited investor" since it's a self-declaration should be sufficient to be marked as accredited investor.</p>	<p>5A.1. DEFINITIONS:</p> <p>5A.1.1. In this chapter, unless the subject or context otherwise requires:</p> <p>(d) "Accredited Investor" includes:</p> <p>(i) Institutional investors; and</p> <p>(ii) Accredited individual investors registered with NCCPL having total assets of PKR 5 Million (should be higher of cost or market</p>	<p>The total assets (higher of cost or market value) of an individual at the time of accreditation should be considered to be the base criteria.</p>	<p>Please refer comment given in Sr. # 3(i). Further, if investors assess that the value of their assets is higher than minimum required, they can file the self-declaration accordingly.</p> <p>Please refer comment given in Sr. # 3(iii).</p> <p>If investors assess that the value of their assets is higher than minimum required, they can file the self-declaration accordingly.</p>
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	value) at the time of accreditation.	
8. Rasheeda Bano		
8	The requirement of Rs.5 million for becoming Accredited Investor may please be deleted so that small investor can invest.	Please refer comment given in Sr. # 2(i).
9. Ali Wahab		
9 (i)	<p>As an investor who has benefited from participation in Pakistan’s capital markets since 2003, I welcome the need for public comments on proposed amendments to the PSX regulations in relation to the definition of Accredited Investors eligible to trade securities listed on the Growth Enterprise Market (GEM) Board.</p> <p>From the very outset, the idea of GEM board with restrictions on investments by Accredited Investors is self-defeating. In a country, where the capital markets would ideally want large base participation from investors as well as deeper level of issuers, the requirement for Accredited Investors to have Net Assets in excess of Rs 5 million as well as Self Declaration would restrict the liquidity as well as attractiveness of the GEM Board for companies to list their shares.</p> <p>While GEM board is looking to differentiate listed entities on the basis of risk they are carrying, there are many companies listed on the exchange who have either very thin volumes (an investor buys the shares and cannot liquidate), do not have the necessary profitability or do not offer distribution to shareholders. There are companies on defaulter’s counter and an investor can buy and sell shares freely. If the focus is to avoid risk, nothing stops an investor from investing in such companies. Additionally, you may also appreciate that institutional investors like NBFIs, Banks, Mutual Funds, Family Offices etc. generally have restrictions on investments in companies which have a low market cap and/or low volume. The need for retail investors to trade in GEM Board companies is high in order to make the GEM Board lucrative.</p> <p>On the proposed amendments, my comments / suggestions are as follows:</p> <p>5A.1.29: it is suggested that the requirement of assets to be held in the name of an Accredited Investor’s CDC account be equal to the amount of investment</p>	<p>Please refer comment given in Sr. # 2(i) above.</p> <p>Please refer comments given in Sr. # 2(i) and 6(iii).</p>



S.#	COMMENTS RECEIVED	VIEWS OF PSX
9 (ii)	<p>he or she is making. Assuming I buy Rs 50,000 worth of shares of a GEM Board company, my assets in CDC accounts linked to my UIN be equal or more of the amount of my investment. If the PSX is interested in a number, then it should not be more than Rs 0.50 million (Rupees five lakhs).</p> <p>Self-certification should also be done through registered mobile phone's texting, WhatsApp, email or any other verifiable means.</p> <p>In a country where anyone can buy or sell land, buy or sell cars or invest in fixed income certificates, the PSX should look to make its regulations more enticing for investors than cumbersome.</p> <p>Hope you will consider my suggestions. You will also appreciate that I am shareholder of PSX and would like to see high number of listings as well as volume on the exchange to make my investment in the PSX more attractive.</p>	Please refer comment given in Sr. # 2(ii) above.
10. Ahsan Amin		
10	<p>The requirement of Rs 5 million should not be there as this is not good for the free market movement and price discovery of the stock.</p> <p>There are international stock exchanges like Toronto Stock Exchange (TSX) and TSX Venture Exchange (TSXV) where TSX focuses on senior issuers whereas TSXV focuses on venture capital and early stage companies seeking funds for growth. However, there is no restriction on buying and selling the companies to the investors. I hope the exchange will consider the point and remove this unnecessary requirement from investing in the GEM board.</p>	Please refer comment given in Sr. # 2(i).

2. IMPLEMENTATION OF PROPOSED AMENDMENTS:

The proposed amendments have taken effect from **April 01, 2022** and the notification in this regard has also been issued vide Notice No. PSX/N-324 dated April 01, 2022.