



Brokerage Industry

October 2017

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Capital Market Institutions

1) Pakistan Stock Exchange (PSX) –

- On January 11, 2016 all three (Karachi, Lahore & Islamabad) exchanges were merged under “Demutualization Act” and called Pakistan Stock Exchange.
- In FY 17, Chinese bought 40% stake in PSX whereas 20% of total shares were offered to the local public.
- MSCI reclassified Pakistan as emerging market.

2) Pakistan Mercantile Exchange Ltd (PMX) – In operations since 2007: Provides Futures contracts in commodities

REGULATORY FRAMEWORK	
Apex Regulator	Securities and Exchange Commission of Pakistan Limited
Exchanges	PSX & PMX
Depository	Central Depository Company of Pakistan Limited
Clearing	National Clearing Company of Pakistan Limited

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Category of Brokers and Financial Requirement

- ◆ **Trading Only:** Category shall mean that a securities broker can only execute its proprietary trades and trades on behalf of its customers but cannot settle executed trades or keep custody of securities.
- ◆ **Trading and Self-Clearing:** category shall mean the securities broker can execute as well as settle its proprietary trade and trades executed on behalf of its customer's and can keep custody of securities owned by its and its customer subject to such conditions as may be imposed by the Commission.
- ◆ **Trading and Clearing:** category shall mean that a security broker can execute as well as settle its proprietary trades and trades executed on behalf of its customers, in addition such brokers can settle trades for other securities brokers and their customers
 - "Trading Only" category shall be required to transfer its clearing, settlement and custody functions within a transition period of six months or an extended time period as may be allowed by the Commission. Such securities broker, during the transition period, shall comply with requirement applicable to the "Trading and Self-Clearing" category.

Category of securities broker	Paid up Capital / Net worth - PKR million-	Minimum Net Capital Balance PKR million	Within year 1 from obtaining fresh license	Within year 2 from obtaining fresh license
Trading Only	15	2.5	Securities broker to meet at least 50% the amount less than the minimum specified requirement	Securities broker to meet at remaining amount less than the minimum specified
Trading and Self Clearing	35	5	Securities broker to meet at lest 50% og the amount less than the minimum specified requirement	Securities broker to meet remaining amount less than the minimum specified requirement
Trading and Clearing	100	10		

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Market Statistics

PARTICIPANT			
#	Members	31-Mar-17	30-Jun-17
1	Total Brokers	291	255
1.1	Clearing Members	291	255
1.2	Non-Clearing Members	0	0
1.3	Listed	11	11
1.4	Rated	17	18
1.5	Custodian Clearing Members	7	7
1.6	MF Finanee Clearing Members	56	61
1.7	MF Financer Clearing Members	51	57
2	Total Non-Broker Clearing Members	169	170
3	Settling Banks	21	21

UNIQUE IDENTIFICATION NUMBERS			
#	Description	31-Mar-17	30-Jun-17
1	Individuals	234,734	233,327
2	Corporate	1,680	1,685
3	Financial Institutes	1,302	1,304
4	Brokers	312	302
5	Foreigners	8,186	9,140
6	Total UIN Active	246,844	245,756

INSTRUMENTS			
#	Description	31-Mar-17	30-Jun-17
1	Liste Equities	507	514
2	Debt Instruments	17	15
3	Unlisted Debt Instrument	24	24
4	MTS Eligible Security	33	29
5	MF Eligible Security	462	462

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Broker Activities

Brokerage	Financing	Advisory & Others
<ul style="list-style-type: none"> Equity Brokerage (Listed and Unlisted Securities) Fixed Income Commodity Brokerage 	<ul style="list-style-type: none"> Corporate Finance Leverage products (Margin Financing, Margin Trading and Security and Lending & Borrowing) Treasury Operations (Fixed Income & Money Market) 	<ul style="list-style-type: none"> Underwriting Research Financial Advisory

- 1) Ready Market:** All listed companies shares traded during regular market time. Regular market works on T+2 settlement system.
- 2) Futures Market:** Involves purchase and sale of securities at some future date (normally within one calendar month), at a price fixed today.
- 3) Margin Trading System:** Purchase of securities in ready market by equity participation.
- 4) Margin Financing:** Financing against net ready market purchases and may be obtained as per agreed Financier Participation Ratio.
- 5) Securities Lending & Borrowing (SLB):** Temporary exchange of securities with an obligation to re-deliver the same securities in the same number and at an agreed premium on a future date.

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Equity Market –Analysis

	30-Jun-17	Unit
Market Cap (Value)	9,610	PKR bln
Free Float (Value)	2,505	PKR bln
Outstanding (Shares)	139,944	Mln
Free Float (Shares)	38,782	Mln
GDP	31,862	PKR bln
KSE All (Volume Daily Avg.)	218	Mln
KSE All (Value Daily Avg.)	11,857	PKR Mln
Total UIN	245,756	Nos.

Ratios based on Market CAP			Ratios based on Free Float		
Market Cap / UIN PKR	39,211,000	39,103,827	Market Free Float / UIN PKR	10,148,914	10,193,845
Turnaround Days	502	641	Turnaround Days	133	178
Market Cap / GDP	30.38%	30.16%	Market Cap / GDP	7.86%	7.86%
Foreign Stake / Market Cap	9.00%	8.10%	Foreign Stake / Free Float	34.77%	31.07%

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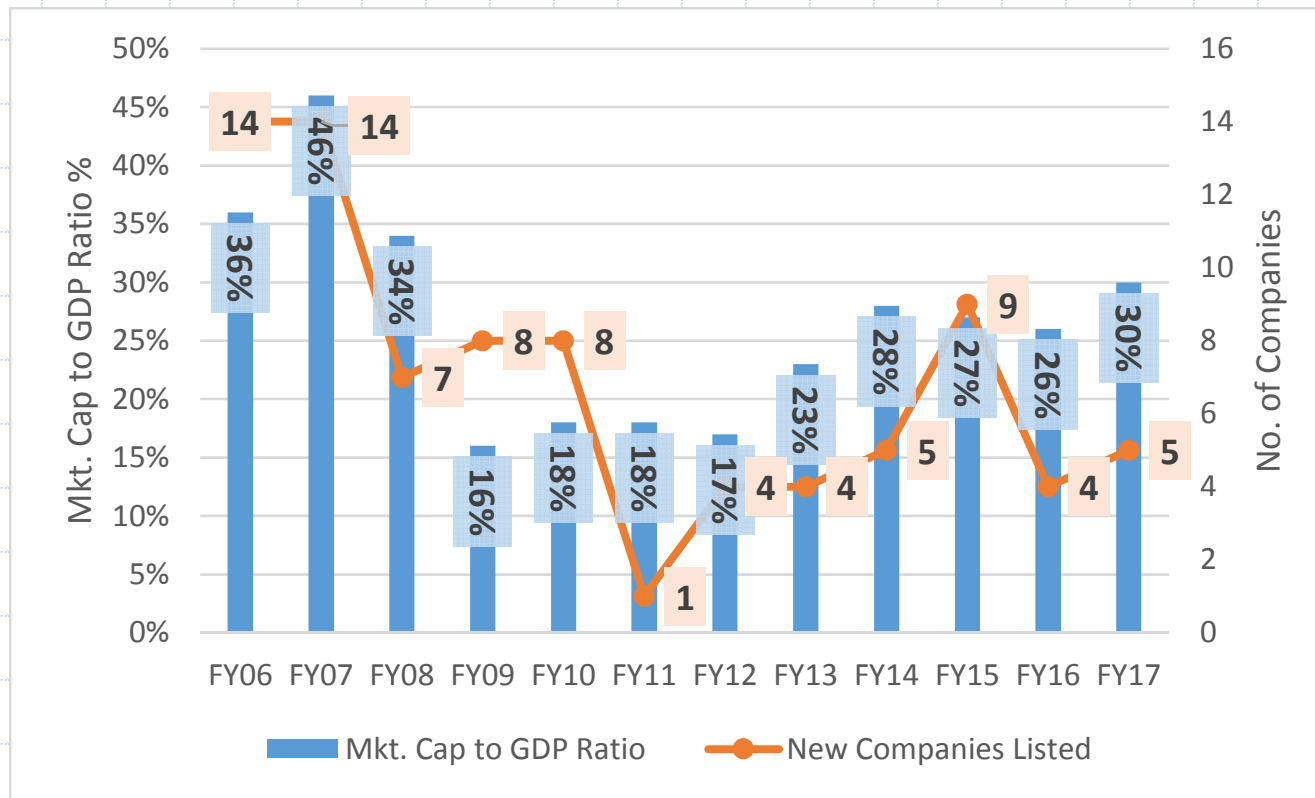
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Equity Market – Analysis



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Foreign & Local Trading Activity in Stock Market

	FY17			FY16		
	GROSS BUY	GROSS SELL	NET BUY / (SELL)	GROSS BUY	GROSS SELL	NET BUY / (SELL)
INDIVIDUALS	2,923,721	(2,929,730)	(6,009)	1,854,585	(1,841,298)	13,287
COMPANIES	194,963	(181,637)	13,326	126,691	(135,827)	(9,136)
BANKS / DFI	161,489	(182,204)	(20,714)	129,234	(129,920)	(686)
NBFC	9,658	(10,291)	(633)	42,076	(22,579)	19,497
MUTUAL FUNDS	329,624	(268,337)	61,287	165,720	(161,793)	3,927
OTHER ORGANIZATION	45,280	(47,346)	(2,066)	44,081	(39,937)	4,144
BROKER PROPRIETARY TRADING	640,681	(640,907)	(226)	615,778	(618,010)	(2,232)
INSURANCE COMPANIES	79,198	(56,055)	23,142			
LIPI NET	4,384,615	(4,316,506)	68,109	2,978,165	(2,949,364)	28,801
FIPI NET	489,112	(557,208)	(68,096)	411,337	(447,498)	(36,161)

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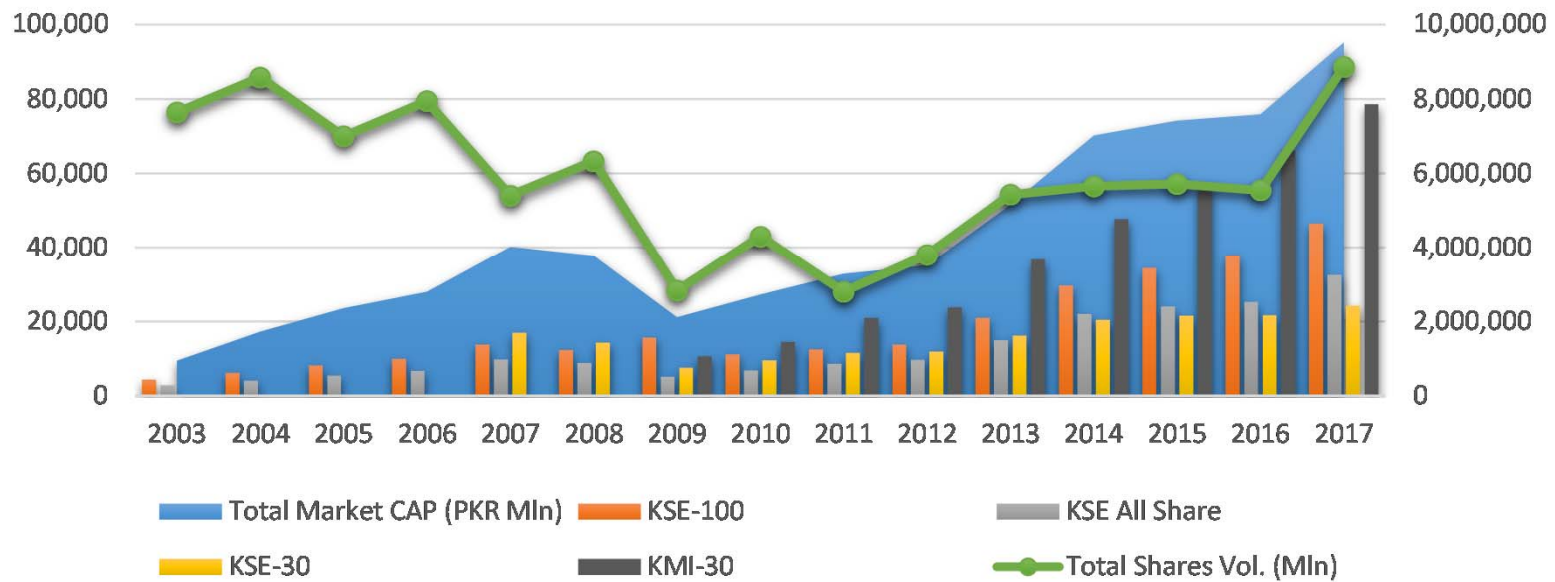
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Equity Market - Indexes Analysis

KSE Performance



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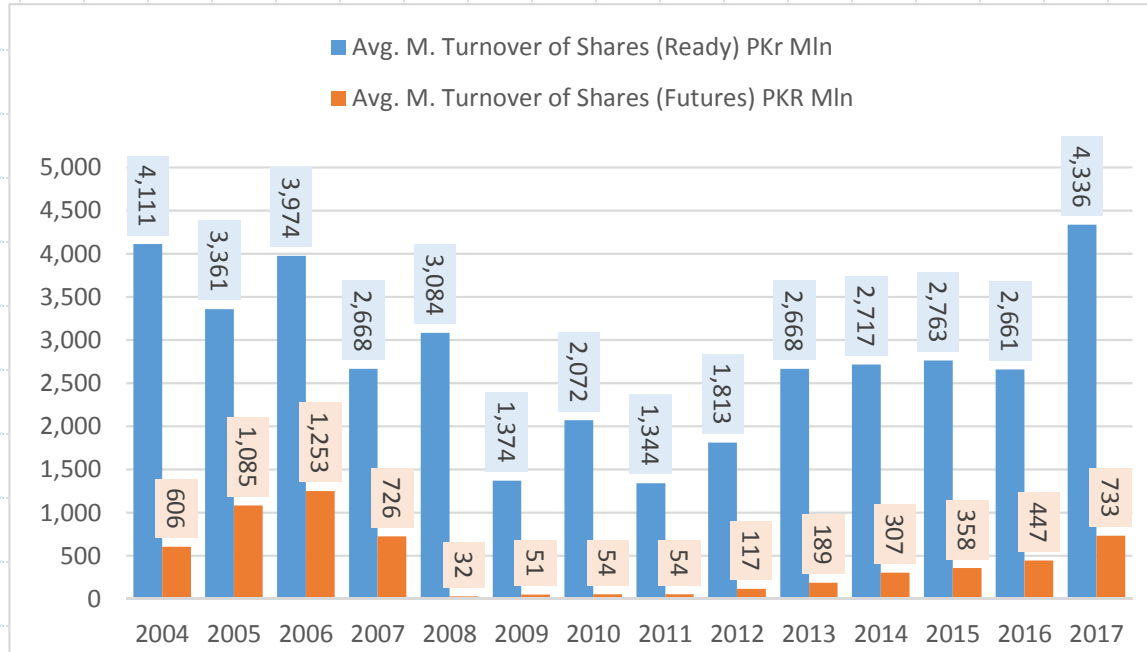
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Equity Market – Turnover Analysis



	1QFY17	2QFY17	3QFY17	4QFY17
Free Float (KSE) PKR. Mln.	72,007,708,674	70,285,277,076	68,791,259,469	65,907,382,812
Average Daily Volume	334,123,876	426,548,376	344,073,347	281,394,743
Turnaround Days	216	165	200	234

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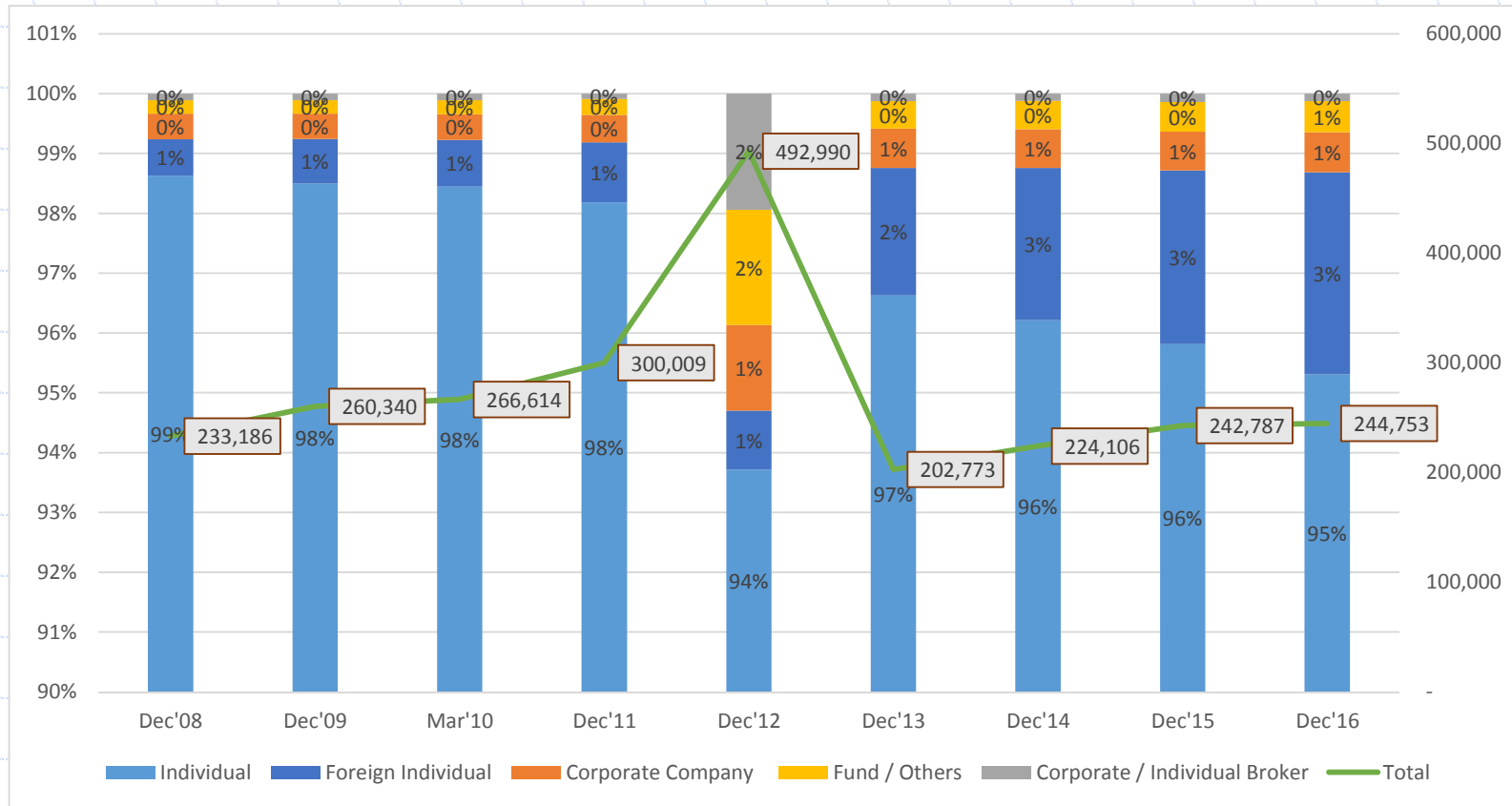
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Equity Market – Active UINs



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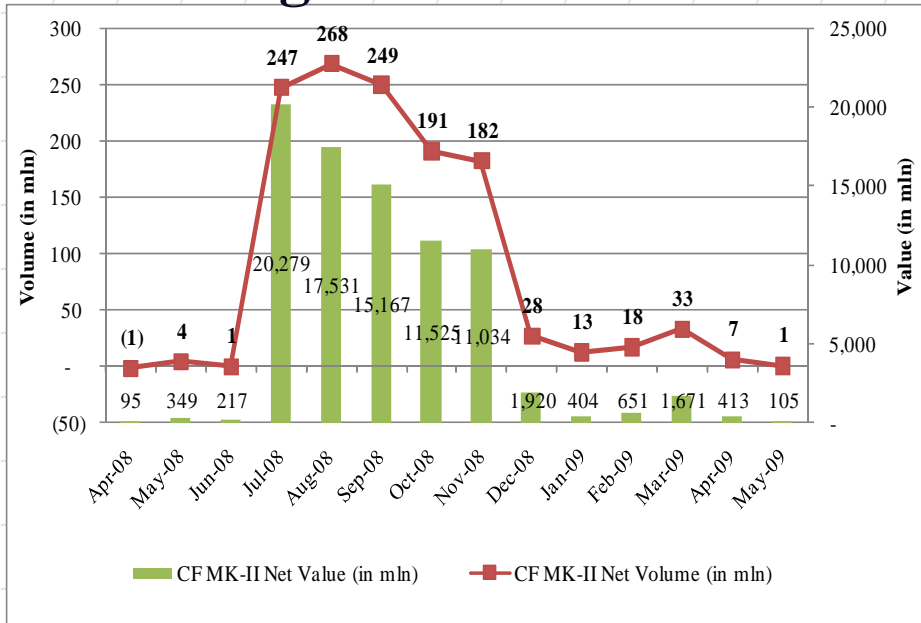
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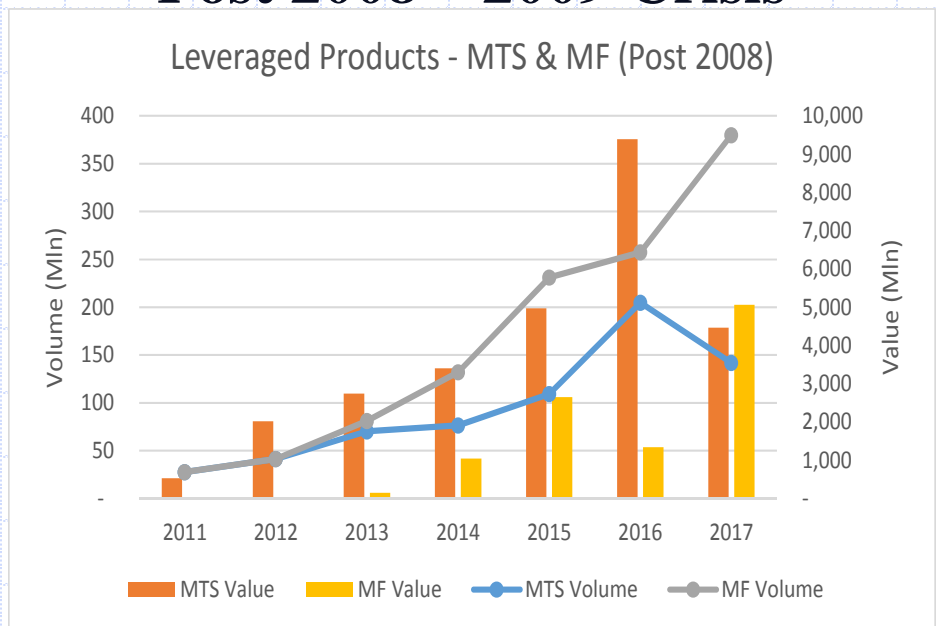


Equity Market – Leveraged Products

During 2008 – 2009 Crisis



Post 2008 – 2009 Crisis



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Securities Brokers Regulations 2016

Notification Date : 24th June, 2016

Definitions:

- **Blank Sale:** Means sale by a securities broker on its proprietary account or on customer's account when the securities broker or customer does not own shares respectively, or the sale does not constitute a sale with pre-existing interest or is sale without entering into a SLB contract to meet delivery obligations on the settlement date.
- **Customer bank account:** Means the bank account opened by the securities broker with a scheduled bank in Pakistan wherein all customer money is deposited and maintained.
- **Short Sale:** Means a sale by security broker, on it proprietary account or on customer's account, where the securities broker or customer does not own shares respectively or the sale does not constitute a sale with pre-existing interest, but the securities broker or the customer, as the case may be, has an SLB contract to meet delivery obligations on the settlement date.
- **Unique Identification number:** Means the unique identification number issued by a clearing house to a person for trading on the securities exchange

Financial Resources Requirement

- A Securities broker shall file monthly statements of **net capital balance (NCB)** and **liquid capital** with the Commission and the securities exchange and shall also submit an audited statement of the NCB and HY basis.
- The Securities broker shall start maintaining minimum liquid capital as per such amount and/or ratios and after such period of time as may be specified by the Commission through notification. Upon such notification by the Commission, the security broker shall be required to submit audited statement of liquid capital on half yearly basis, and the requirement to maintain net capital balance, the requirement to submit monthly statement if net capital balance and the requirement to submit half yearly audited statement of net capital balance shall be discontinued.

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Licensing Requirements

New License:

- Unlisted company: Sponsors require to collectively hold and retain not less than 51% of the share capital
- Listed company: Sponsors require to collectively hold and retain not less than 25% of the share Capital
- The sponsor does not have controlling interest in any other company holding license as a security broker
- The names of its sponsors, directors and senior management officers are appearing on the list of active tax payers issued by the Federal Board of Revenue; Provided that this requirement shall not be applicable in the case of foreign nationals

License Renewal:

- A Securities broker shall one month prior to the date of expiry of its license apply to the commission
- Renewal of license fee : PKR 50,000
- The commission shall send an intimation of renewal of license of the securities broker to the securities exchange, clearing house and central depository.

***Additional requirement for license under Trading and Self-Clearing and trading and Clearing**

- It has been admitted as a clearing member by the clearing house and a participant by the central depository
- In case of a company applying for license under Trading and Clearing category, it is a public company and at least one director in its board meets the criteria of independent director.

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Conduct of a Securities Broker

- A Securities broker shall not advertise its business publically unless it obtains prior clearance from the securities exchange
- **Disclosure of financial risk: A risk disclosure document with the following**
 - (a) the risk of higher volatility which may affect the complete or partial execution of an order and the price at which it may be executed
 - (b) risk of lower liquidity
 - (c) speculative trading
 - (d) risk of wider spread
 - (e) price fluctuations due to corporate announcements
 - (f) systematic risk, and
 - (g) specific risks of trading on leverage markets etc.
- A securities broker shall establish and implement a contingency plan to ensure continuity of its operations in the event of a disaster or crisis.
- A securities broker licensed under the Trading and Self-Clearing category of Trading and Clearing category shall ensure:
 - Compliance officer is appointed or designated

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Accounting and Audit

Preparation and submission of financial statements

A securities broker must also disclose in its financial statements the following:

- (a) customer assets held in the designated bank account or in the central depository system
- (b) total value of pledged securities with financial institutions indicating securities belonging to customers
- (c) turnover during the period, separately showing turnover from proprietary trades, retail customers and institutional; customers
- (d) income from dividends
- (e) pattern of shareholding, giving names of persons holding more than 5% shares
- (f) all changes in shareholding above 5%
- (g) treatment of amount receivable from customers
- (h) aging analysis of amounts due from customers;
in the case of amount receivable for more than five (5) days provision should be made to the extent by which the amount receivable exceeds the collateral held from such customers after applying haircuts

Management rating

The securities broker licensed under the Trading and Self Clearing and Trading and Clearing categories are encouraged to obtain management rating on annual basis from credit rating company licensed by the Commission and disclose such rating is above the level specified by the commission for the purpose, the Commission may consider reducing the frequency of applicable reporting or disclosure requirement such as reporting requirement pertaining to customer asset segregation etc. or reducing the frequency of periodic inspection for such securities broker under the applicable regulations.

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Legal Implications

- **Board of Directors**

The board is encouraged to have a balance of executive and non-executive directors, with the requisite skills, competence, knowledge and experience.

- **Responsible, powers and functions of board of directors:**

The board shall ensure that significant policies have been formulated on the following issues:

(i) governance, risk management and compliance issues

(ii) customer relations including customer awareness and a mechanism and timeline for handling/resolving their complaints/grievances; and

(iii) segregation of customer assets from securities brokers' assets

- **Meeting of the board**

The board shall meet at least once in every six months and be provided with appropriate and timely information. Provided that a securities broker licensed under the trading only category may comply with the above requirement on a voluntary basis.

- **Committees of the Board**

The board may establish appropriate board committees in order to allow a more effective discharge of its duties .

The board is encourage to form and audited committee which should preferably be constituted of independent/non-executive directors. At least one member of audited committee, where formed, should have relevant financials/accountancy qualification/experience

- **Auditors**

A securities broker shall have its statutory audited conducted from an auditors enlisted with in category “ A” or “B” of the State Bank Of Pakistan’s Panel of Auditors

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Leveraged Products

Margin Trading System (MTS)

- Maximum mark-up rate in MTS Market is KIBOR+8%
- Equity participation: Finanee (15%); Financier (85%).
- **Eligible Finanees:** All Broker Clearing Members.
- **Eligible Financiers:** A member of a Stock Exchange; a banking company; and a company, corporation or institution.
- Marked-to-Market (MtM) losses on daily basis in Cash only till the settlement of the entire MT Contract.
- MT Contract not exceed from 60 calendar days. Every 15th calendar day, MTS will automatically release one 4th quantity of the MT Contract Value.
- Rollover is allowed in MTS.

Margin Financing (MF)

- MF facility is made available to all brokers against net ready market purchases of their clients and proprietary positions.
- Financier Participation Ratio (commonly 75%). However, minimum of 25% or VaR whichever is higher should be contributed by finanee.
- Maximum mark-up rate in MTS Market is KIBOR+8%.
- **Eligible Finanees:** All Broker Clearing Members.
- **Eligible Financiers:** A member of a Stock Exchange; a banking company; and a company, corporation or institution.
- No MtM losses procedure. No roll over.
- Contract days 120 days.

Securities Lending & Borrowing (SLB)

- May be utilized by the borrowers to avoid delivery failure in ready market or to make a short sale.
- SLB is done through an automated platform provided by NCCPL to lenders and borrowers for placing offers and bids on un-disclosed manner.
- **Eligible Participants:** A member of a Stock Exchange; a banking company; and a company, corporation or institution.
- Max Premium of SLB KIBOR+8%.
- Contract period is maximum for 22 working days.
- On Settlement Day, the lender delivers the securities lent and borrower pays the total amount of borrowed securities.

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Order / Transaction Types

- 1) **Market Order:** Only order quantity is sent and trade is executed at the market price.
- 2) **Limit Order:** Limit price and order quantity are sent by the investor and trade is executed by the exchange when the market price reaches the price specified.
- 3) **Stop Loss Order:** A request to sell a security once the market price reaches or falls below a customer-specific price. Once the target price has been reached or surpassed, the order becomes a “market” order. Stop-loss orders are only available when selling a security to close a position.
- 4) **Short sell:** Selling securities owned by the seller in anticipation of repurchasing them at a lower price.

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- 1) **Processional Clearing Members Regulations.**
- 2) **Futures Brokers (Licensing and Operations) Regulations.**
- 3) **Upcoming futures and Options segment.**

(Source: <https://psx.com.pk/scripts/communicator.php?f=DerivativeSegmentDev.pdf&l=tXt>)

- 4) **Introduction of Exchange Traded Funds (ETFs).**

(Source: <http://www.nasdaq.com/article/etfs-to-target-attractive-opportunities-in-asia-cm864890> & psx.xom.pk)

- 5) **Expectation of a government bailout package.**

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