



Central Depository Company
of Pakistan Limited

Head Office: CDC House, 99-B,
Block 'B', S.M.C.H.S.,
Main Shakra-e-Faisal,
Karachi-74400

Ref. No. CDC/LC&R/017/2017

August 31, 2017

Circular No. 17 of 2017

***Sub: Unauthorized Deposit taking by Securities Brokers including their Representatives
and Agents***

To,
The Chief Executive Officers of
all TREC Participants,

As advised by the Securities Exchange Commission of Pakistan ("**the Commission**"), we place the circular no. 20 of 2017 dated August 30, 2017 issued by the Commission whereby prohibiting unauthorized deposit taking by Securities Brokers including their Representatives and Agents (copy enclosed).

This is for your information and necessary compliance.

Regards,

Badiuddin Akber
Chief Compliance & Risk Officer

Copy for information to:

The Executive Director/HOD-PRPD(SMD)
Securities and Exchange Commission of Pakistan
Islamabad



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SECURITIES MARKET DIVISION

No. SMD/PRPD/Circular/ 888 /2017

August 30, 2017

CIRCULAR NO. 20 OF 2017

Subject: UNAUTHORIZED DEPOSIT TAKING BY SECURITIES BROKERS INCLUDING THEIR REPRESENTATIVES AND AGENTS

It has been observed that some of the Securities Brokers ("Brokers") are involved in unauthorized deposit taking activity in one form or other. This act of Brokers is not only in contravention of the Companies Act, 2017 ("Companies Act") but also against the Securities Act, 2015 ("Act") as deposit taking is not a permissible activity for a Broker under the Act. Furthermore, the Act restricts a Broker to undertake only that activity exclusively which is permissible under the Act.

In view of the foregoing and to protect the public interest and customers, the Securities and Exchange Commission of Pakistan, in terms of powers conferred to it under Section 71 (1) (a) of the Act, hereby directs all the Brokers including their representatives and agents to comply with the following:

1. A Broker including their representatives and agents shall not accept any money or deposit or borrowing by whatsoever name called and in whatsoever manner from any person including an individual or any segment of public or directors and sponsors of a Broker including their representatives and agents except in the following manner: -
 - a) redeemable capital issued by a Broker under the Companies Act.
 - b) finance obtained by a Broker from a financial institution.
 - c) advance, application or subscription money for Broker's shares.
 - d) subordinated loans from Broker directors or sponsors as identified at the time of license renewal in terms of Regulation 4(c) of the Securities Brokers (Licencing and Operations) Regulations, 2016 or substantial shareholders of Broker subject to the following conditions:
 - (i) subordinated loan shall be documented by a formal subordination agreement between the provider of the loan and the Broker. Furthermore, minimum tenor, terms of repayment and repayment schedule of subordinated loan shall be specifically made part of the subordinated agreement;
 - (ii) subordinated loan shall be in the form of cash only;
 - (iii) subordinated loan shall be un-secured and sub-ordinate to all other indebtedness;
 - (iv) no markup or interest shall be paid by the Broker on the subordinated loan;
 - (v) certificate from the auditor of Broker evidencing injection of funds as subordinated loan;

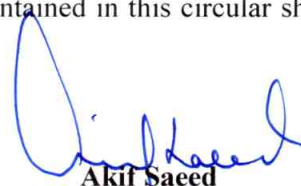
- (vi) subordinated loan shall only be utilized by the Broker for the purpose of increasing equity/net worth, liquid capital or for any other purpose duly approved by the Commission on such terms and conditions as deemed appropriate. Subordinated loan in no way be utilized towards any other purpose including margin financing/margin trading etc; and
- (vii) prior approval of the Commission shall be required for repayment of subordinated loan.

Explanation: The terms "person" shall include an individual, a Hindu undivided family, a firm, an association or body of individuals whether incorporated or not, a company and every other legal person.

- 2. The Broker including their representatives and agents may accept money in the name of Brokers from its customers, only for trading purposes if that customer's UIN is already mapped in NCCPL system. Moreover, no pre-determined or guaranteed rate of return by whatsoever name called and in whatsoever manner shall be given to such customers including as part of reduced charges in commission/tariff structure.
- 3. This circular shall come into force with immediate effect. However any Broker who is in non-compliance with the aforementioned requirements at the time of issuance of this circular shall immediately report the non-compliances in writing and make compliance with this circular within 60 days from the date of issuance of this circular under intimation to the following:

**Director/Head of Department
Surveillance, Supervision and Enforcement Department
Securities Market Division
Securities and Exchange Commission of Pakistan
10th Floor, 63-NICL Building, Jinnah Avenue
Blue Area, Islamabad**

- 4. All Brokers are required to ensure meticulous compliance of this circular in letter and spirit. Any violation or circumvention of the directions contained in this circular shall be dealt with under the provisions of Act.


Akif Saeed
Commissioner (SMD)

Distribution:

- 1. Pakistan Stock Exchange for disseminating among TREC holders and placing on its website;
- 2. Central Depository Company for information and placing the same on its website;
- 3. National Clearing Company of Pakistan Limited for information and placing the same on its website;
- 4. Chief Executive officers of all Brokers;
- 5. Chairman, Oversight Committee formed under Joint Inspection Regulations, 2015.
- 6. The Institute of Chartered Accountants of Pakistan.
- 7. The Institute of Cost & Management Accountants of Pakistan.