

INVEST | TRADE | HEDGE



Regulatory Awareness Session

Key Regulatory Requirements & Common Observations

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Disclaimer

The Futures Brokers should not construe this presentation as comprehensive and inclusive of all regulatory requirements applicable to them.

We intend to provide an overview of key regulatory requirements only. Therefore, brokers are advised to thoroughly review and understand the relevant laws and regulations to obtain a complete understanding of their rights and obligations.

Presentation Outline

- **KEY REGULATORY REQUIREMENTS UNDER FUTURES BROKERS (LICENSING AND OPERATIONS) REGULATIONS, 2018**
- **COMMON OBSERVATIONS/NON-COMPLIANCES**

Futures Brokers (Licensing & Operations) Regulations, 2018

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
Eligibility Criteria for Licensing of a Futures Broker		
4	Identification of Sponsors required to hold at least 51%/25% shares in case of unlisted/listed company.	At all Times
	SECP prior written approval required for change in Sponsors.	
	Applicant and Sponsors barred from holding more than one license or controlling interest in any other company holding license as a Futures Broker.	
	Applicant, Sponsors, Directors & Senior Management Officers (SMOs) to comply with Fit & Proper Criteria .	
	Director/Employee cannot hold the position of Director or any other position in any other company licensed as a Futures Broker.	

Futures Brokers (Licensing & Operations) Regulations, 2018

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
Eligibility Criteria for Licensing of a Futures Broker		
4	Sponsors to have at least 20% representation on its Board of Directors.	At all Times
	<ul style="list-style-type: none"> ▪ Meets minimum Net Worth requirement: <ul style="list-style-type: none"> - Rs. 10 Million for Futures Broker - Rs. 5 Million for Agri-Only Futures Broker 	
	Have requisite number of personnel/employees having mandatory certification.	
Application and procedure for granting a licence		
6	Any subsequent change in the information shall be communicated to the Commission within five working days from the date of such change.	Within 5 Working Days

Futures Brokers (Licensing & Operations) Regulations, 2018

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
Financial Resources Requirement		
7	Comply with minimum Net Worth of Rs. 10/5 Million	At all Times
Renewal of licence		
9	Broker shall 30 days prior to expiry of its license apply to SECP through PMEX.	30 Days before Expiry
Invitations, Advertisements and Publications		
12	Restriction on false, misleading or deceptive advertisement.	At all Times
	Restriction on advertisement promising or guaranteeing any return.	
Disclosure of financial risks		
13	Restriction to commence business unless RDD is provided and obtain a written acknowledgement from customer.	At all Times

Futures Brokers (Licensing & Operations) Regulations, 2018

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
Duties and obligations of a futures broker		
16(1)	Abide by the Corporate Governance Code .	At all Times
	Ensure compliance with all legal and regulatory requirements.	
	Inform the Commission immediately when the broker is non-compliant with the licensing requirements.	Immediately
	KYC and CDD of customers.	At all Times
	Maintain a functional & accessible website and submit quarterly compliance report to PMEX.	Quarterly
	Not encourage trading solely to generate commission or other monetary gain .	At all Times

Futures Brokers (Licensing & Operations) Regulations, 2018

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
Duties and obligations of a futures broker		
16(2)	Do not maintain anonymous or fictitious persons accounts.	At all Times
	Do not operate any branch without registration with PMEX.	
	Not accept money against a promised or guaranteed return .	
16(3)	Prescribe policies for employees / directors trading .	
16(8)	Have internal control policies and framework duly approved by the Board.	
16(10)	Establish and implement contingency plan to ensure continuity of its operations in the event of a disaster/crisis.	

Futures Brokers (Licensing & Operations) Regulations, 2018

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
Execution of customer orders		
19	<ul style="list-style-type: none"> Restriction to execute discretionary trades on behalf of customers. Restriction to take or use the password on behalf of customers. 	At all Times
26	Redress customer grievance within 30 days of receipt or as specified by PMEX/SECP.	Within 30 Days
	Submit quarterly customer grievance report to PMEX.	Quarterly
Appointment and functions of Compliance Officer		
27	<ul style="list-style-type: none"> C.O to immediately report non-compliance to the Broker. In case of no or inadequate action, CO to immediately inform PMEX and SECP of such non-compliance. 	Immediately

Futures Brokers (Licensing & Operations) Regulations, 2018

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
Maintenance of books of accounts and other records		
29	Keep accounting and other records for a minimum period of 10 financial years.	10 Years
Preparation and submission of financial statements (FS)		
30 CGC(9)	FS to be prepared quarterly, half-yearly and annually.	Quarterly, Half-yearly & Annually
	Submission of annual audited FS to PMEX and SECP within 4 months of close of financial year.	Within 4 Months

Futures Brokers (Licensing & Operations) Regulations, 2018

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
Appointment of auditor and related matters		
31(2)	Notify SECP in writing within 14 days of appointment, removal or resignation of an auditor.	Within 14 days
31(8)	Where auditor is removed during their tenure, the broker shall appoint the auditor with prior approval of SECP.	At all Times
CGC (7)	Have its statutory audit conducted from ICAP QCR rated audit firm.	

Common Observations/Non-Compliances

CLAUSE	OBSERVATIONS	CORRECTIVE MEASURES
4(1)(e)	Sponsors changed without prior written approval of SECP.	SECP prior written approval should be obtained for change in Sponsors.
4(1)(n)	Mandatory certification of personnel/employees are not available.	Have mandatory certification of relevant employees.
6(6)	Any subsequent change in the information not communicated to the SECP within five working days.	Change in information should be communicated within the specified time.
16(1)(h)	Inform SECP immediately upon non-compliance with licensing requirements.	SECP should be informed immediately upon non-compliance.
26(4)	Non/Delayed submission of quarterly customer grievance report to PMEX.	Customer grievance report should be submitted quarterly within timeline.

Common Observations/Non-Compliances

CLAUSE	OBSERVATIONS	CORRECTIVE MEASURES
4(1)(g)	Sponsors, Directors and SMO's to meet fit and proper criteria at the time of licensing/renewal.	Sponsors, Directors and SMO's should fulfil fit and proper criteria at all times.
16(1)(g)	Statutory filing requirements to SECP not complied.	At all Times
30(3)	Non-filing of annual audited financial statements to the SECP & PMEX within four months after the end of financial year.	Annual audited financial statements should be submitted to the SECP & PMEX within four months after the end of financial year.

Thank You

Q & A