



Institute of Capital Markets

NEWSLETTER

OCTOBER 2015

Message from the Chief Executive

The last few years have seen a progressive change in size, quality and sophistication of capital markets. The rapid growth has taken place because of modifications in policy and regulatory environment, the entrepreneurial initiatives of individuals and institutions, and availability of trained manpower. The continual growth of capital markets demands for qualified and well-trained professionals.

Institute of Capital Markets (ICM) is Pakistan's first specialized institution dedicated to the professional development, research and well-being of capital markets by educating the professionals about the norms and ethics being practiced. The institute's main activities are (1) Licensing the professionals working in the capital markets by certifications in order to educate and examine knowledge of professionals working in relevant fields; (2) studying the latest developments in the capital markets in order to discover whether there is such a thing as an ideal market economy; and (3) contributing to the development of capital markets in Pakistan. By means of these three activities, ICM seeks to communicate its ideas to the audience at both, home and overseas.

ICM plays a pioneering role in meeting the demand of the educated manpower required for specialized capital markets. It is devoted to educate and update knowledge of capital markets participants such as investors, brokers, mutual funders, investment bankers and policy makers by following high-quality educational standards.

The institute's research is intended, first and foremost, to be neutral, professional and practical. Rooted in practice, research aims to contribute to the healthy development of Pakistan's capital markets as well as to related policies by conducting professional studies of how these markets and the financial system are regulated, organized and how they perform.

The Institute hopes that, by responding positively to the rapid changes in economy, it can contribute to the dynamic development of the country's capital markets as well as of the economy itself.

Subsidized Fee Structure

- * Candidate Registration: PKR 5,000/-
- * Examination Registration: PKR 5,000/-
Effective till 30th June, 2016]
- * Grandfathering
PKR 30,000/- (for 3 certifications)
PKR 20,000/- (for 1 & 2 certifications)
[Effective till 31st December, 2015]

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INSTITUTE OF CAPITAL MARKETS

BROKERAGE HOUSES

A brokerage firm, or simply brokerage, is a financial institution that facilitates the buying and selling of financial securities between a buyer and a seller. Brokerage firms serve a clientele of investors who trade public stocks and other securities, usually through the firm's agent stockbrokers. A traditional, or "full service," brokerage firm usually undertakes more than simply carrying out a stock or bond trade. The staff of this type of brokerage firm is entrusted with the responsibility of researching the markets to provide appropriate recommendations and in so doing they direct the actions of pension fund managers and portfolio managers alike. These firms also offer margin loans for certain approved clients to purchase investments on credit, subject to agreed terms and conditions.

Brokerage firms derive their profit from commissions on orders given. That is, they usually collect a percentage of the value of each transaction, though some charge flat fees. Clients may give orders in a variety of ways. One may meet with a broker, call on

the telephone, or give orders over the Internet. Brokerage firms handle two main types of brokerage accounts: advisory accounts and discretionary accounts. Brokers are only allowed to conduct transactions on advisory accounts on the specific orders of the account holder, or under very specific instructions. Brokerages have much more leeway over discretionary accounts, conducting transactions not prohibited by the account holder in accordance with the holder's goals and the prudent man rule. In practice, most brokerage firms are in fact broker-dealer firm.

There are hundreds of brokerage firms registered in Pakistan under Karachi Stock Exchange (175), Lahore Stock Exchange (102) and Islamabad Stock Exchange (68). On the other hand there are 185 brokers registered under Pakistan Mercantile Exchange which is the exclusive platform to sell buy, sell and trade commodities such as gold, silver, crude oil, agriculture and financial futures.



GUIDELINES FOR BROKERS AND AGENTS' REGISTRATION

Application for Registration

A member desirous of acting as broker shall make an application to the SECP in Form as set out in the First Schedule of the Brokers and Agents Registration Rules 2001 for grant of a certificate of registration through the stock exchange of which he is a member. The exchange shall forward the application to the SECP within 14 days from the date of its receipt.

Eligibility for Registration

- ◇ A person is eligible for registration as a broker, if he - is a member of the stock exchange;
- ◇ is not less than twenty one years of age;
- ◇ is a citizen of Pakistan;
- ◇ That promoters of such house are persons of means and integrity and have special knowledge of matters which the house may have to deal with as a clearing house; and
- ◇ That such person has complied with such other conditions as may be required by the SECP in the interest of the capital market.
- ◇ has at least passed graduation or equivalent examination from an institution recognized by the Government;
- ◇ Provided that the SECP may relax the educational qualification in suitable cases on merit having regard to the applicant's experience;
- ◇ is not a lunatic or a person of unsound mind;
- ◇ has not been convicted of an offence involving fraud or breach of trust;
- ◇ has not been adjudicated as insolvent or has suspended payment or has compounded with his creditors ;

- ◇ has experience of not less than five years in the business of buying selling or dealing in securities;
- ◇ has not been a partner of a brokerage firm or a director of a brokerage company which has been convicted of an offence concerning brokerage;
- ◇ has not defaulted in payment of dues at clearing house;

Grant of Certificate of Registration

The SECP, if it is satisfied that the applicant is eligible for registration as a broker, and that it is in the interest of the stock market to do so, may grant certificate of registration to the applicant. The certificate of registration of a broker shall be valid for one year from the date of issue.

Renewal of Registration

The certificate of registration is renewable on payment of fee as prescribed in the Second Schedule of the Rules. Requirements of initial registration are applicable to renewal of the registration.

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For more information: http://www.secp.gov.pk/corporatelaws/pdf/2015/SecuritiesAct_2015.pdf

INVESTOR'S TERM OF THE MONTH

NAMED BENEFICIARY

This term refers to any beneficiary named in a will, a trust, an insurance policy, pension plan accounts, IRAs, or any other instrument, to whom benefits are paid. Named beneficiaries are the beneficial owners of the property and will share in the proceeds at the time of disposition. In an annuity policy, for example, the policyholder and the named beneficiary may be the same person.

DISTRIBUTION STOCK

It is often necessary for large investment funds to employ traders to watch the market and gradually liquidate significant holdings of securities at the best prices possible. These traders employ a number of techniques to sell distribution stock over time. If a trader is successful, he or she can sell a large position over a period of days, weeks or months without depressing prices or tipping off others to the presence of a large seller in the market.

MUTUAL FUND

An investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

EASY MONEY

In the most literal sense, money that is easily acquired. Academically speaking, the term specifically denotes a condition in the money supply. Easy money occurs when the Federal Reserve allows cash flow to build up within the banking system. This lowers interest rates and makes it easier for banks and lenders to loan money. Money is therefore easily acquired by borrowers.

CLEARING HOUSE

An agency or separate corporation of a futures exchange responsible for settling trading accounts, clearing trades, collecting and maintaining margin monies, regulating delivery and reporting trading data. Clearing houses act as third parties to all futures and options contracts - as a buyer to every clearing member seller and a seller to every clearing member buyer.

BROKERAGE ACCOUNT

An arrangement between an investor and a licensed brokerage firm that allows the investor to deposit funds with the firm and place investment orders through the brokerage, which then carries out the transactions on the investor's behalf. The investor owns the assets contained in the brokerage account and must usually claim as income any capital gains he or she incurs from the account.

E-CASH

An Internet-based system that allows funds to be transferred anonymously. Similar to credit cards, eCash was free to users, while sellers paid a fee. Because of security concerns, eCash remains more of an idea and less of an actual payment system.

INHERITED STOCK

A stock that an individual obtains through an inheritance after the original holder has died. The cost basis for the stock is based on the market value of the security upon the donor's death. If the stock value increased during the time it was held by the deceased, its cost basis is "stepped up" when ownership is transferred.

FOLIO

A personalized basket of investments that is traded as one issue, giving investors the ease of investing in a mutual fund without the tax penalties associated with them.

BUSINESS AND ECONOMIC NEWSFLASH

DOMESTIC NEWSFEED

Ease of Doing Business: Pakistan Slips Down In Global Rankings

According to a World Bank report, Pakistan's global ranking has slipped by 10 places in ease of doing business, standing at 138th position among 189 countries, as the country's performance deteriorated on almost all indicators, particularly on benchmarks of getting an electricity connection and paying taxes.

The Bank annual report "Doing Business 2016, "measuring regulatory quality and efficiency" states that businesses in Pakistan estimated losses due to power outages at up to 34 percent of annual revenue, while capital (domestic and foreign) tends to be attracted to countries that are able to offer a reliable and competitively priced supply of electricity.

The report ranks Pakistan sixth amongst South Asian countries, below Sri Lanka, Maldives, Nepal, India and Bhutan with Bangladesh and Afghanistan trailing behind. India moved up by 12 places from 142 to 130, Sri Lanka moved up from 113 to 107, Maldives ranks at 125, up from 128, Bangladesh down at 174 against 173 and Afghanistan moved up to 177 in 2015 against 183 in 2014. Nepal and Bhutan are the only South Asian countries ranked within the first 100. Nepal dropped five places over last year from 94 to 99 and Bhutan climbed from 71 to 70.

Pakistan Stock Exchange: SECP Approves Integration Process

The Securities and Exchange Commission of Pakistan (SECP) has granted, in principle, its approval to the schemes of integration of the Karachi Stock Exchange Limited (KSE), Lahore Stock Exchange Limited (LSE) and Islamabad Stock Exchange Limited (ISE) under the name

of the Pakistan Stock Exchange (PSE).

According to a statement the commission, in exercising powers conferred to it under section 18 of the Stock Exchanges (Corporatisation, Demutualisation and Integration) Act 2012, granted the approval in its meeting.

The KSE, LSE and ISE had earlier entered into an MOU on August 25, 2015 for their integration into one single trading platform. Following receipt of the SECP's approval, the stock exchanges shall now be publishing the schemes of integration in at least two English and two Urdu daily newspapers of national coverage. Stakeholders would have 15 days from the date of publication of the schemes to submit objections, if any, along with reasons as to why the SECP should not approve them.

FDI Falls 24pc In July-Oct

Foreign direct investment (FDI) fell 24 per cent year-on-year to \$350.8 million during the four months to October, the State Bank of Pakistan reported. What is more worrying was the size of overall foreign private investment which fell by 67pc in the same period since the portfolio investment witnessed a net outflow of \$144m.

FDI from China stood at \$272m, or 78pc of the total amount received during July-October. The investment pattern reflects government's failure to attract foreign investment despite a relatively peaceful environment in the country. The outflows of \$144m portfolio investment cut size the overall foreign private investments to just \$206m, lower than Chinese investment.

The government's economic team seems to have pinned all its hopes on Chinese investment, leaving other options for improvement.

BUSINESS AND ECONOMIC NEWSFLASH

INTERNATIONAL NEWSFEED

People's Bank Of China Cuts Interest Rates For Sixth Time In A Year Amid Economic Slowdown

China's central bank said it is cutting interest rates for the sixth time since last November in a bid to slow the contraction of its economy and maintain stable credit growth. In addition, the People's Bank of China (PBOC) is cutting its one-year lending rate from 4.6 percent to 4.35 percent and lowering the one-year deposit rate from 1.75 percent to 1.5 percent, the Wall Street Journal reported.

Reuters reported that the past year has seen the most aggressive series of actions loosening policies in China since the 2008 international economic crisis. All measures, including eliminating a cap on deposit rates, are to take effect and reflect the government's determination to lower the cost to businesses of borrowing and make it easier for banks to lend.

The PBOC will reduce commercial banks' so-called reserve requirement ratio by 0.5 percent percentage points. The upshot for big banks will be a reserve ratio of 17.5 percent. That ratio, which has been cut four times so far this year, is the minimum fraction of cus-

tomers deposits and notes that must be held as reserves. Lowering that ratio frees up bank reserves for lending.

Biggest Threat To Global Economy Today

The build-up of debt in emerging markets poses the "most meaningful risk" to the global financial system right now, according to the former chairman of the Federal Reserve.

Ben Bernanke said the world had failed to learn lessons from the Asian crisis in the 1990s when local banks and non-banks borrowed in dollars but lent to domestic projects in local currencies.

Speaking at an event organized by the Spectator in London, Mr Bernanke said: "One thing that puzzles me a bit is that we thought we learned in the Nineties that currency mismatches - that borrowing in dollars and then lending in whatever the local currency was - was a dangerous thing."

Emerging markets enjoyed huge capital inflows after central banks in advanced economies such as the Fed slashed rates and investors sought higher returns.

Markets in Review

Monthly Review	Crude Oil (WTI) (US\$)	Foreign Exchange Rates			KSE	Gold Rate (PKR)
		GBP(£)	EURO(€)	USD(\$)	100 Index	(10 gm)
Beginning	45.06	PKR 158.37	PKR 117.28	PKR 104.48	33,214	37444
Ending	46.6	PKR 162.94	PKR 116.04	PKR 105.4	33,954	38761
Change	+1.54	+4.57	-1.24	+0.92	+740	+1317