



Institute Of Financial Markets Of Pakistan

(Formerly Institute of Capital Markets)

# PAKISTAN'S MARKET REGULATIONS

CERTIFICATION

## Certification Outline

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## OBJECTIVE OF THE EXAMINATION

This Certification Examination is specifically designed to meet the certification needs of the financial market participants at brokerage houses and asset management companies providing investment advice. It is ensure that all such intermediaries have an understanding of Pakistan Markets and the rules and regulations governing them.

## TARGET AUDIENCE

This certification is mandated for all the intermediaries in the financial market of Pakistan.

## SYLLABUS STRUCTURE

The unit is divided into elements. These are broken down into a series of learning objectives. Each learning objective begins with one of the following prefixes: **know**, **understand**, **be able to calculate** and also **be able to apply**. These words indicate the different levels of skill to be tested. Learning objectives prefixed:

- **know** require the candidate to recall information such as facts, rules and principles
- **understand** require the candidate to demonstrate comprehension of an issue, fact, rule or principle
- **be able to calculate** require the candidate to be able to use formulae to perform calculations
- **be able to apply** require the candidate to be able to apply their knowledge to a given set of circumstances in order to present a clear and detailed explanation of a situation, rule or principle

## EXAMINATION SPECIFICATIONS

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element will not change by more than plus or minus 2.

<b>Examination Specification</b> <b>100 multiple choice questions</b>		
<b>Exam Section</b>	<b>Elements</b>	<b>Questions</b>
1	<b>1. History of Pakistan's Capital Markets</b>	<b>20</b>
	<b>2. SECP Role and Functions</b>	
	<b>3. SBP Role and Functions</b>	
2	<b>4. Stock Exchange Regulations</b>	<b>15</b>
3	<b>5. Central Depository Company of Pakistan (CDC) and NCCPL regulations</b>	<b>10</b>
4	<b>6. Commodities Exchange and Future Contracts Rules regulation</b>	<b>10</b>
5	<b>7. Laws/Guidelines related to Capital Markets</b>	<b>15</b>
6	<b>8. Laws/Guidelines related to Capital (Equity, TFCs, and other Fixed Income Securities)</b>	<b>20</b>
7	<b>9. Ethics and Professional Standards</b>	<b>10</b>
	<b>10. Income Tax Regime in Pakistan</b>	
	<b>11. Foreign Exchange Regulations; Foreign Exchange Manual 8<sup>th</sup> Edition</b>	
	<b>Total</b>	<b>100</b>

## ASSESSMENT STRUCTURE

- This will be a 150 minutes examination of 100 Multiple Choice Questions.
- All questions will carry equal marks.
- There will be no negative marking.

# **SUMMARY OF THE SYLLABUS**

# **PAKISTAN'S MARKET REGULATIONS CERTIFICATION**

## **Element 1: History of Pakistan's Capital Markets**

- a. Stock Exchanges
- b. Establishment of Central Depository
- c. Establishment of National Clearing and Settlement System
- d. Regulatory Reforms

## **Element 2: SECP Role and Functions**

General knowledge and understanding of the scope, functions and powers of the Securities and Exchange Commission of Pakistan (SECP)

The candidate should be able to:

- i. Explain, in outline, the organizational structure and functioning of the SECP:
  - The Securities and Exchange Policy Board;
  - The Chairman;
  - The Commissioners and Divisions.
- ii. Explain the functional objectives of the Commission and the Board and be able to identify the powers and functions as divided between:
  - Functional Objectives of SECP Power to call for information;
  - Enforcement And Investigative Powers
  - Scope and responsibilities of the Policy Board;
  - Board oversight responsibilities;

## **Element 3: SBP Role and Functions**

General knowledge and understanding of the scope, functions and powers of the SBP.

Candidate should know the functions of the SBP;

- i. Primary Functions
  - Issuance of Notes
  - Conduct of Monetary and Credit Policies
  - Regulation and Supervision of the Financial System
  - Bankers' Bank
  - Lender of the Last Resort
  - Banker to Government

## ii. Secondary Functions

- Public Debt Management
- Foreign Exchange Management

### **Element 4: Stock Exchange Regulations**

General knowledge of regulations and understanding of the functioning of the Pakistan Stock Exchange

The candidate should be able to:

- Explain the current organization and legal setup of the stock exchanges with an understanding of the need and advantages of the move towards demutualization;
- Interpret the “Directive to Brokers on Conduct of Business”;
- Have knowledge and understanding of the characteristics of the Stock Exchange, including exchange membership, types of orders, instruments traded and types of indices used;
- Have basic knowledge regarding the trading and settlement process;
- Explain the need for Investor Protection and Clearing House Funds and be aware of limits of application of both funds in case of broker default.
- Have knowledge and understating of the regulations governing Leverage products, available in the market, under Securities (Leveraged Markets and Pledging) Rules, 2011

### **Element 5: Central Depository Company of Pakistan Limited (CDC) Regulations**

General knowledge and understanding of the depository function, the book-entry system and the advantages to the capital market of a depository.

The candidate should be able to:

- Explain the function of a depository institution, distinguish between different services offered by a depository and identify
- Define the meaning of a ‘book-entry security’ and ‘participant’;
- Identify the advantages of a depository organization and explain how market efficiency increases as a consequence of a depository institution.

### **Element 6: Commodities Exchange and Future Contracts Rules regulation**

General knowledge and understanding of the functioning’s of the regulated Commodities Market.

The candidate should be able to.

- i) Explain basic features and pricing mechanism of the different types of contracts traded on the PMEX, including delivery and settlement;
- ii) Identify eligibility criteria for becoming a broker at the commodities exchange;
- iii) Explain acts that may lead to suspension or cancellation of registration.

## **Element 7: Laws/Guidelines related to Capital Markets**

### **a) Securities Act, 2015**

The candidate should be able to

- i) explain the requirements set out in the Act for additional acquisition of voting shares; and be able to identify instances for which the Ordinance does not apply;
- ii) Explain the procedure for public offer, modes of payment and establishment of minimum offer price;
- iii) Explain the obligations of acquirer, obligations of BOD of Target Company and the manager to the offer

### **b) The Listing Regulations of the Stock Exchanges (Guarantee) Limited**

The candidate should be able to

- i) explain the general requirements and procedure for companies to list shares on the PSX
- ii) *know* the requirements for delisting from the Pakistan Stock Exchange
- iii) understand the factors and effects leading to placement of companies on defaulters' segment and suspension of trading in the shares of listed companies and placement of such companies on the defaulters' segment of PSX

### **c) Listed Companies (Prohibition of Insiders Trading) Guidelines**

General knowledge and understanding of the definition, law, regulation and penalties of insider dealing

The candidate should be able to

- i) explain the meaning of an 'insider', 'connected person' and 'unpublished price sensitive information'
- ii) explain the prohibition on insiders covered by the Guidelines:
  - dealing
  - communicating, or;
  - counselling
- iii) explain the liability in respect of insider trading and identify the defence to insider trading
- iv) explain the powers available to SECP to prosecute insider trading

### **d) Code of Corporate Governance and FAQs thereon**

The candidate should be able to

- i) explain the disclosures required under the Securities Act, 2015 regarding:
  - directors' interests
  - major shareholdings;
- ii) explain the purpose of corporate governance regulation;
- iii) explain, in outline, the scope and content of corporate governance regulation in Pakistan;
- iv) describe the elements of a company's statement of corporate governance policies that investment analysts should assess;
- v) explain the PSX requirements for listed companies to disclose corporate governance compliance;
- vi) explain the continuing obligations of listed companies regarding information disclosure and dissemination
- vii) Apply the understanding of the FAQs to the Code to specific situations

### **Element 8: Laws/Guidelines related to Capital (Equity, TFCs, and other Fixed Income Securities)**

#### **a. Sections 82 – 87 and Sections 89 – 120 of the Companies Ordinance, 1984**

The candidate should be able to

- i) explain the nature, classes and kinds of shares and certificate of shares;
- ii) know the general provisions relating to share capital, explain procedures relating to a reduction in share capital, variation in shareholders' rights, limiting liability of an unlimited company and process of creating unlimited liability for directors;
- iii) explain the provisions of debentures and issue of securities and redeemable capital not based on interest

#### **b. The Companies (Issue of Capital) Rules, 1996**

The candidate should be able to

- i) Identify between policies related to the issue of capital for loan- and equity-based projects/companies;
- ii) Identify conditions for issue of shares on premium, issuance of right and bonus shares by a listed company, issuance of shares for consideration other than cash and offer for sale of shares by a person holding more than ten percent shareholding in a company;
- iii) Explain the methodology for calculating "free reserves"

#### **c. Guidebook on Issue of Preference Shares**

The candidate should be able to



- i) Define and identify differences between “Preference shares”, “Cumulative Preference Shares”, “Non-cumulative preference shares”, “Participatory preference shares”, “Convertible preference shares”, “Redeemable preference shares”, “Irredeemable preference shares”, “Stepped preference shares” and “Zero dividend preference shares”;
- ii) explain the procedure of obtaining approval from existing shareholders for issue preference shares;
- iii) explain the minimum level of information required to be disclosed to shareholders for issue of any kind of preference shares

**d. Guidebook on Issue of Shares Otherwise Than Rights**

The candidate should be able to

- i) explain the procedure of obtaining approval from existing shareholders for issue of shares other than rights;
- ii) explain the minimum level of information required to be disclosed to shareholders

**e. The Companies (Buy Back of Shares) Rules, 1999**

The candidate should be able to

- i) explain the minimum financial ratio and cash requirements for share buyback;
- ii) Explain the share repurchase and disclosure procedure.

**f. The Companies (Variation in Rights and Privileges) Rules, 2000**

The candidate should be able to

- i) explain the requirements preceding variation, nature of rights and privileges of each kind of share capital and class or classes of shares and conditions to variation in rights and privileges;

**g. Guidelines for the Issue of Term Finance Certificates (TFCs) to General Public**

The candidate should be able to

- i) Define, “Green Shoe Option”, “Shelf Registration”, “Term Finance Certificate” and “Tranche”;
- ii) explain the eligibility and procedural requirements prior to applying for permission to issue TFCs, and be familiar with the information to be provided in the Prospectus;
- iii) explain the requirements for risk analysis, categorisation of TFCs and conditions for issue under tranches;
- iv) identify the requirements pertaining to underwriting, listing, credit rating, creation of redemption fund, market making, trustee, and features of TFCs
- v) Calculate the value of TFC instruments given different characteristics, such embedded options, varying interest and prepayment options, etc.;
- vi) Calculate and prepare amortization schedules for TFCs under various assumptions;
- vii) Explain the price behaviour of TFCs under different interest rate scenarios/expectation;

viii) Calculate and gross and net of tax yields on TFCs across different categories of investors;

#### **h. Guidelines for the Issue of Commercial Paper**

The candidate should be able to

- i) Define “working capital limit” and identify the parties to the issue of commercial paper;
- ii) Explain the eligibility requirement pertaining to the period (tenor) and size of commercial papers;
- iii) Understand the issuance procedure, roles and responsibilities of issuer, issuing and paying agent and credit rating agencies;
- iv) Explain redemption and other regulations relating to commercial paper.

#### **i. Book-building Regulations, 2015**

The candidate should be able to

- i) Explain the key differences between the previous methodology of issuing shares to the public and the book-building process;
- ii) Explain the broad methodology of issuing shares under the book-building process.

#### **j. Real Estate Investment Trust Regulations, 2015**

The candidate should be able to

- i) Define, “Connected Person”, “Developmental REIT Scheme”, “Key Executives”, “Net Assets/NAV”, “Project”, “Property Manager”, “Quality Assurance Manager”, “Real Estate”, “REIT Scheme”, and “Rental REIT Scheme”;
- ii) Explain the conditions and obligations of the REIT Management Company;
- iii) Explain the methodology for establishment of the REIT Scheme;
- iv) Explain the key elements mandating the requirement, qualification and obligations of the Trustee
- v) Explain the key elements of the conditions applicable, obligations of and remuneration of Valuers;
- vi) Explain the investments, borrowing and dividend policies of the REIT Scheme;
- vii) Explain the requirements in respect of related party transactions;
- viii) Calculate and know the requirements for various fee payable by the REIT Scheme to the RMC, Trustee, Quality Assurance Manager or Property Manager, and in respect of annual monitoring

### **Element 9: Ethics and Professional Standards**

The candidate should be able to

- i) know the Institute’s Code of Conduct and its Scope
- ii) know the Institute’s members and candidates duties to clients

- iii) Define “Research Analyst”, “Independent Research Analyst”, “Inspecting Authority”, “Investment Advisor”, “Research Report”, “Research Entity”, “Public Appearance”, “Subject Company” and “Third Party Research Report”.
- iv) understand the key elements of the Securities Act, 2015
  - Section 127-131 (Part X): Insider Trading
  - Section 132: False trading and market rigging transactions
  - Section 133: Market manipulation
  - Section 134: Fraudulently inducing trading in securities
  - Section 135: Employment of fraudulent or deceptive devices
  - Section 136: False or misleading statement inducing securities transactions
- v) know and be able to apply the Research Analysts Regulations, 2015
  - Registration
  - Eligibility criteria for registration
  - Qualification, experience or certification requirement
  - Establishing Policies and Procedures
  - Limitations on Trading by the Research Analyst
  - Content in Research Reports
  - Distribution of Research Reports

### **Element 10: Income Tax Regime in Pakistan**

The candidate should be able to identify key characteristics of Income Tax Ordinance, 2001 with particular reference to the taxation regime relating to the capital markets.

### **Element 11: Foreign Exchange Regulations; Foreign Exchange Manual 8<sup>th</sup> Edition**

- a) Trading of Quoted Shares by Non-Residents [XX-9(A)]
  - i) Opening of an Account with an Authorized Dealer
  - ii) Operations
  - iii) Transfers
- b) Shares Transferred under CDS [XX-10(A)]
  - i) Initial Transfer
  - ii) Subsequent Transfer i.e. Deposits/Withdrawals
  - iii) Dividend Payment/Allotment of Bonus and Right Shares