



Stock Brokers' Certification

Summary of the Syllabus

OBJECTIVE OF THE EXAMINATION

This Certification Exam is specifically designed to meet the minimum qualification needs of the financial market participants at brokerage houses with client interaction and to ensure that they are competent to provide buying & selling services to stock market investors.

TARGET AUDIENCE

This exam is by and large mandated for Brokers, Agents of Brokers, Equity Traders and Sales Staff of Brokers and Brokerage Firms.

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.

Examination Specification		
100 multiple choice questions		
Element No.	Elements	Questions
1	Introduction to Financial Markets	10
2	Regulatory Framework	20
3	Primary Market	10
4	Secondary Market	10
5	Clearing, Delivery, Settlement and Depository	10
6	Stock Brokers and their Clients	10
7	Commodity Exchange and Derivatives	10
8	Investor Protection	10
9	Economics and Finance	10
	Total	100

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

ELEMENT 1

Introduction to Financial Markets

On completion, the candidate should:

- 1.1 *know* the Products, Participants and Functions of the capital markets
- 1.2 *know* the role of the Securities Market and Financial System including:
 - Stock Exchanges
 - Stock Brokers
 - Retail / Commercial banks
 - Investment Banks
 - Pension / Mutual funds
 - Insurance Companies
 - Fund Managers / Asset Management Companies
 - Custodians
 - Industry Trade Bodies
 - Authorized Intermediaries (in Leverage Market Contracts)
- 1.3 *understand* the relationship of Securities Market and Economic Development
- 1.4 *know* the Investor Population including retail and institutional investors
- 1.5 *understand* the role and functions of Primary Market
- 1.6 *understand* the role and functions of Secondary Market

ELEMENT 2

Regulatory Framework

On completion, the candidate should:

- 2.1 *understand* the scope, core functions and powers of the Securities and Exchange Commission of Pakistan (SECP) as conferred in SECP Act, 1997
- 2.2 *understand* the SECP Regulations, Rules and Procedures, Powers and Functions, Appeals, Jurisdictions including:
 - Functional responsibility and powers
 - Approval according body
 - Power to call for information
 - Enforcement and investigative powers
- 2.3 *understand* the key elements of the Securities Act, 2015
- 2.4 *know* the Securities and Exchange Rules, 1971
- 2.5 *understand* and interpret the SECP Directives to Brokers on Conduct of Business, Investor Warnings, etc.
- 2.6 *know* the sections of the Companies Ordinance, 1984 that are relevant to capital markets
- 2.7 *know* the SECP Code of Corporate Governance 2012 in the light of listing regulations of stock exchanges
- 2.8 *know* the listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges and *should be able to apply* the differences in these regulations
- 2.9 *know* the Central Depositories Act, 1997 and Regulations
- 2.10 *know* the National Clearing Company of Pakistan Limited Regulations
- 2.11 *know* the Securities (Leveraged Markets and Pledging) Rules, 2011

ELEMENT 3

Primary Market

On completion, the candidate should:

- 3.1 *understand* the functions and processes of the Primary Market including
 - Issue of Shares
 - Prospectus/Offering Documents
 - Pre-Initial Public Offer and Private Placement
 - Initial Public Offering
- 3.2 *know* the general requirements and procedure for companies to list shares on the Karachi, Lahore and/ or Islamabad Stock Exchanges
- 3.3 *know* the requirements for delisting from the stock exchanges
- 3.4 *understand* the factors leading to listed companies being suspended or placed on the Defaulters' Counter

ELEMENT 4

Secondary Market

On completion, the candidate should:

- 4.1 *know* the role and importance of the Stock Exchanges
- 4.2 *understand* the Stock Trading process through stock exchanges including:
 - Electronic Trading Terminals
 - Entry of Quotes and Orders
 - Price/Time Priority
 - Order Types
 - Transaction and Order Reports
- 4.3 *know* the Trading Cycle
- 4.4 *understand* the Products available on the stock exchanges including:
 - Equity Instrument
 - Debt Instrument
- 4.5 *understand* the Derivatives/Futures Contracts available on the stock exchanges including:
 - Deliverable Futures contracts
 - Cash Settled Futures
 - Index Futures contracts
- 4.6 *know* the composition and types of the Indexes
- 4.7 *know* the process of disseminating and dealing with Corporate Actions and Announcements
- 4.8 *know* the Stock and Market Indicators and Outcomes including:
 - Turnover, growth and distribution
 - Market Capitalization
 - Liquidity and Financing
 - Transaction Costs

ELEMENT 5

Clearing, Delivery, Settlement and Depository

On completion, the candidate should:

- 5.1 *know* the role, functions and working of a Clearing House of an Exchange
- 5.2 *know* the Risk Management and Types of Risks in Clearing & Settlement
- 5.3 *know* the process of Clearing House Deposits and Credit Risk including the Capital Adequacy requirements and Exposure Limits
- 5.4 *understand* the Margin requirements and should *be able to calculate*
 - V-a-R (Value-at-Risk) - Market Risk
 - Impact Cost - Liquidity Risk
 - Acceptable Collateral to meet Margin Requirements
 - Haircuts
 - Mark-to-Market (Variation Margin) & Margin Calls
 - Special Margins
- 5.5 *know* the role and functions of Depository, the book-entry system and its advantages to the capital market
- 5.6 *know* the different services offered by a Depository and Types of Accounts
- 5.7 *understand* the working mechanism, benefits, elements and account structure of Central Depository System (CDS)
- 5.8 *know* the maintenance of sub-accounts, investor accounts and participant account in CDS
- 5.9 *understand* the functions and process of Settlement including:
 - Settlement Cycle
 - Delivery versus Payment
 - Institutional Delivery System (IDS)
 - Settlement of Futures Contracts including Deliverable and Cash Settled Futures

ELEMENT 6

Stock Brokers and Their Clients

On completion, the candidate should:

6.1 *know* the Brokers and Agents Registration Rules, 2001 including:

- Brokers Eligibility Requirements
- Broker Registration process with SECP
- Code of Conduct of Brokers including Duty to the Investor and vis-à-vis other Brokers

6.2 *understand* the Broker Prohibitions and Restrictions related to:

- Clients' Assets
- Confidentiality
- Material information
- Insiders and Non-public Information
- Front running

6.3 *know* the requirements and procedures of:

- Suspension and cancellation of Registration of Brokers
- Enquiries and Penalties for Offences related to Brokers

6.4 *know* the Orders and Appeals procedures of SECP

6.5 *know* the relevant sections of Anti Money Laundering Ordinance and KYC requirements under AML Ordinance

6.6 *understand* the requirement and working of Universal Identification Number

6.7 *know* the definition, law, regulation and penalties of Insider Trading while understanding the meaning of:

- an 'insider'
- 'connected person'
- 'unpublished price sensitive information'

6.8 *understand* the prohibition on insiders covered by the rules and guidelines including dealing, communicating and counselling

6.9 *know* the liability in respect of insider trading and identify the defence to insider trading

6.10 *know* the powers available to SECP to prosecute insider trading

ELEMENT 7

Commodity Markets and Products

On completion, the candidate should:

- 7.1 *understand* the functioning of a regulated commodities market
- 7.2 *know* the Pakistan Mercantile Exchange Limited and its listed products
- 7.3 *understand* the basic features and pricing mechanism of the different types of contracts traded on the PMEX, including delivery and settlement
- 7.4 *understand* the requirements for becoming a broker at the PMEX
- 7.5 *know* the acts that may lead to suspension or cancellation of registration

ELEMENT 8

Investor Protection

On completion, the candidate should:

- 8.1 *know* the requirements of Fair Dealing including:
 - Risks & Rewards of Investing
 - Best Price
 - Maintenance of Records
 - Time Stamps
 - Recording of Telephone Calls
 - Account Statements & Contract Notes
 - Misstatements & Mis-selling/ False Selling
- 8.2 *know* the process and handling of Investor Complaints
- 8.3 *know* the Investor Protection Fund of stock exchanges

ELEMENT 9

Economics and Finance

On completion, the candidate should:

- 9.1 *know* the Taxation laws relevant to capital markets including:
- Income Tax
 - Capital Gain Tax
 - Capital Value Tax
 - Corporate Tax
- 9.2 *understand* and interpret the Financial Statements and conduct basic Financial Statement Analysis including:
- Revenue and profit growth
 - Earnings and Distributions
 - Book value and Intrinsic value
- 9.3 *understand* and *be able to apply* basic mathematics and statistics including:
- Mean, Median and Mode
 - Dispersion and regression analysis
- 9.4 *understand* and *be able to apply* basic financial mathematics including:
- Time value money, annuities and perpetuities
 - Calculations of annuities and perpetuities
 - Present & future value of cash flows
- 9.5 *know* Principal Factors Affecting Stock Markets & Prices including:
- Business Cycles and its Indicators
 - Effect of the Business Cycle
 - Money Markets
 - Equities Markets
 - Price/ Earnings & Price/ Book value multiples
 - Dividend/Capital gain Yield
- 9.6 *know* the Macroeconomic indicators including:
- GDP

- Money Supply
- The Role of State Bank of Pakistan
- International/ Regional Economies and Markets

RECOMMENDED READINGS

The next section of this study guide covers a brief extract from some of the below mentioned documents. Candidates are advised to study the respective documents (in detail and original) which are available free-to-download from IFMP's website and / or the respective organization's websites.

1. Anti-Money Laundering Act, 2010
2. Anti-Money Laundering Ordinance, 2009
3. Anti-Money Laundering Regulations, 2008
4. Anti-Money Laundering Rules, 2008
5. Pakistan Stock Exchange (PSX) Rule Book
6. Book Building Regulations, 2015
7. Broker Agents Registration Rules, 2001
8. CDC Act, 1997
9. CDC Regulations
10. Code of Corporate Governance, 2012
11. Commodity Exchange and Futures Contracts Rules (March, 2005)
12. Debt Securities Trustee Regulations, 2012
13. Directive to Brokers on Conduct of Business (February 7, 2003)
14. Income Tax Ordinance, 2001
15. NCCPL Procedure, 2003
16. NCCPL Regulations, 2003
17. NCEL General Regulations (May, 2007)
18. Real Estate Investment Trust Regulation, 2015
19. Research Analysts Regulations, 2015
20. SECP Act, 1997
21. Securities (Leveraged Market and Pledging) Rules, 2011
22. Securities Act, 2015
23. Securities and Exchange Rules, 1971
24. Stock Exchange Members (Inspection of Books and Record) Rules, 2001