



Securities Brokerage

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November 2018



Capital Market Institutions

1) Pakistan Stock Exchange (PSX) –

- In January 2016 all three (Karachi, Lahore & Islamabad) exchanges were merged under “Demutualization Act” and called Pakistan Stock Exchange.
- In December 2016, Chinese bought 40% stake in PSX whereas 20% of total shares were offered to the local public
- MSCI reclassified Pakistan as emerging market in CY17.

2) Pakistan Mercantile Exchange Ltd (PMX) – In operations since 2007: Provides Futures contracts in commodities, currencies and Indexes.

Regulatory Framework	
Apex Regulator	Securities and Exchange Commission of Pakistan Limited
Exchanges	PSX and PMEX
Depository	Central Depository Company of Pakistan Limited
Clearing	National Clearing Company of Pakistan Limited



Market Statistics

Participants	30-Jun-18	30-Jun-17
Total Broker Clearing Members	234	255
Total Non Broker Clearing Members	176	170
Total IAS Account Clearing Members	1	1
Total Custodian Clearing Members	8	7
Total MF Finanee Clearing Members	74	61
Total MF Financier Clearing Members	72	57
Settling Banks	22	21

Number of UINs	30-Jun-18	30-Jun-17
Individual	225,354	233,327
Corporate Company	1,719	1,685
Corporate / Individual Broker	263	302
Fund / Others	1,362	1304
Foreign Individual	10,065	9140
Total Number of UINs Registered	238,763	245,758



Broker Activities

Brokerage	Financing	Advisory & Others
<ul style="list-style-type: none">• Equity Brokerage (Listed and Unlisted Securities)• Money Market• Commodity Brokerage	<ul style="list-style-type: none">• Corporate Finance• Leverage products (Margin Financing, Margin Trading and Security Lending & Borrowing)• Treasury Operations (Fixed Income & Money Market)	<ul style="list-style-type: none">• Underwriting• Research• Financial Advisory

- 1) **Ready Market:** All listed companies shares traded during regular market time. Regular market works on T+2 settlement system.
- 2) **Futures Market:** Involves purchase and sale of securities at some future date (normally within one calendar month), at a price fixed today.
- 3) **Margin Trading System:** Purchase of securities in ready market by equity participation.
- 4) **Margin Financing:** Financing against net ready market purchases and may be obtained as per agreed Financier Participation Ratio.
- 5) **Securities Lending & Borrowing (SLB):** Temporary exchange of securities with an obligation to re-deliver the same securities in the same number and at an agreed premium on a future date.



Leveraged Products

	Margin Trading System (MTS)	Margin Financing System (MF)
<i>Mark-up rate (Maximum)</i>	KIBOR+8%	KIBOR+8%
<i>Eligible Financees</i>	All Broker Clearing Members	All Broker Clearing Members
<i>Eligible Financiers</i>	A member of a Stock Exchange; a banking company; and a company, corporation or institution	A member of a Stock Exchange; a banking company; and a company, corporation or institution
<i>Equity participation</i>	Finanee 15%, Financier 85%	Finanee minimum of 25% or VaR whichever is higher, Financier 75%
<i>Mark-to Market (MtM)</i>	Losses on daily basis in cash till the settlement of the entire MT Contract	No MtM losses procedure
<i>Rollover</i>	Allowed	No rollover
<i>Contract Period</i>	Contract cannot exceed from 60 calendar days, every 15th calendar day MTS will automatically release one 4th quantity of the MT Contract Value	120 days

Securities Lending & Borrowing (SLB)

- May be utilized by the borrowers to avoid delivery failure in ready market or to make a short sale.
- SLB is done through an automated platform provided by NCCPL to lenders and borrowers for placing offers and bids on undisclosed manner.
- Eligible Participants: A member of a Stock Exchange; a banking company; and a company, corporation or institution.
- Max Premium of SLB KIBOR+8%.
- Contract period is maximum for 22 working days.
- On Settlement Day, the lender delivers the securities lent and borrower pays the total amount of borrowed securities.



Equity Market - Analysis

	Sep-18	Jun-18	Jun-17
KSE All (Average Daily Volume)	172,052,864	173,539,389	348,149,086
KSE 100 (Average Daily Volume)	93,220,904	83,873,576	140,349,539
KMI 30 (Average Daily Volume)	50,935,634	44,568,019	71,691,643
Listed Companies	559	558	560
Listed Capital (PKR bln)	1,308	1,297	1,317
Market Capitalization (PKR bln)	8,506	8,740	9,522
Price to Earnings (KSE-100)	9.8	10.2	10.4
Dividend yield (KSE-100)	5.5	5.2	4.7



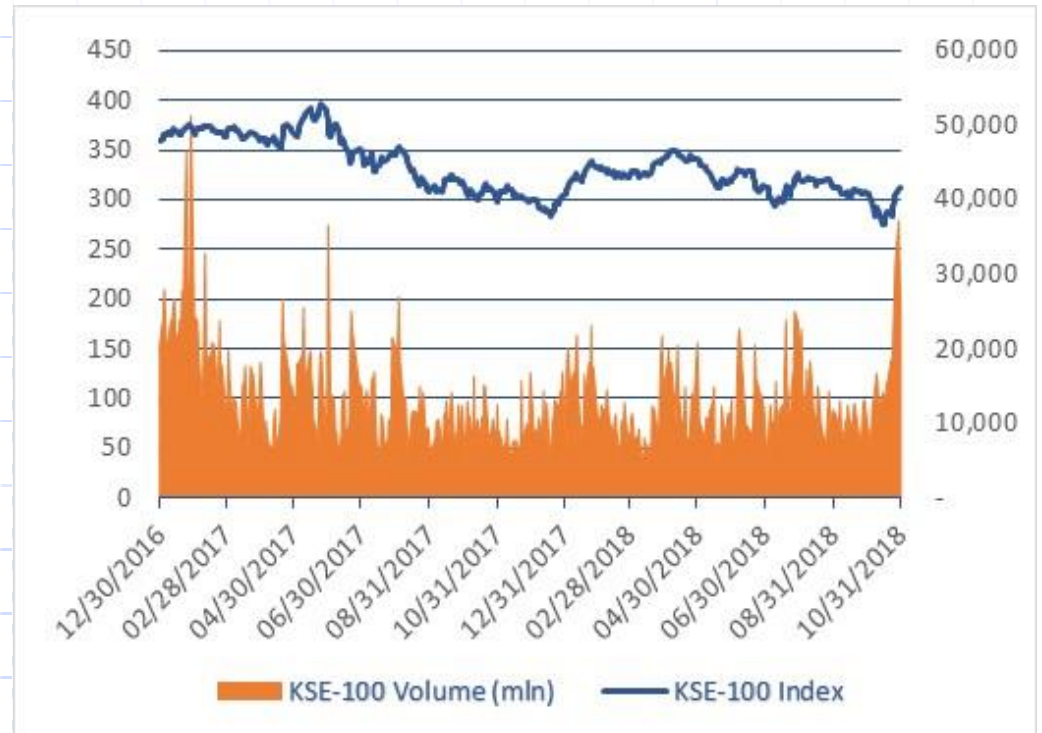
Foreign and Local Investment Portfolio

Participants	1QFY19				FY18				FY17			
	Gross Buy (mln)	Gross Sell (mln)	Net Buy / (Sell) (mln)	Net Buy / (Sell) USD (mln)	Gross Buy (mln)	Gross Sell (mln)	Net Buy / (Sell) (mln)	Net Buy / (Sell) USD (mln)	Gross Buy (mln)	Gross Sell (mln)	Net Buy / (Sell) (mln)	Net Buy / (Sell) USD (mln)
Individuals	357,966	346,397	11,569	97	1,723,841	1,723,261	580	5	2,918,454	2,923,979	(5,526)	(53)
Companies	24,839	23,026	1,813	16	154,098	143,245	10,853	100	194,499	181,145	13,354	127
Banks / DFI	17,842	18,397	(555)	(4)	86,293	87,432	(1,139)	(10)	161,052	180,701	(19,648)	(187)
NBFC	1,161	1,420	(259)	(2)	4,718	5,625	(907)	(8)	9,586	10,217	(631)	(6)
Mutual Funds	37,913	40,596	(2,683)	(24)	183,247	186,797	(3,550)	(35)	328,464	268,004	60,460	576
Other Organizations	8,621	6,102	2,519	21	44,565	36,018	8,547	78	45,261	47,305	(2,043)	(19)
Broker Proprietary Trading	101,446	103,465	(2,019)	(17)	437,845	442,697	(4,852)	(44)	638,919	639,544	(626)	(6)
Insurance Companies	24,882	12,763	12,119	102	102,656	79,839	22,817	204	79,198	56,055	23,142	220
LIPI NET	574,671	552,166	22,505	189	2,737,263	2,704,914	32,349	290	4,375,433	4,306,950	68,483	652
FIPI NET	45,721	(68,226)	(22,505)	(189)	287,435	(319,765)	(32,330)	(289)	488,115	(556,584)	(68,470)	(652)



KSE – 100 | Index | Volume

- During CY17, KSE-100 index posted a negative return of ~15%, due to political noise, poor economic condition and foreign selling.
- 1HCY18 started off with a bull which led to a positive return of ~4% of the KSE-100 index. However, market participants remained cautious due to economic turmoil (falling central bank reserves, balance of payment crises) and political uncertainty in the country.



- After general elections in July 2018, the new government took almost two months to provide clarity on measures to reduce twin deficits. In response, KSE-100 witnessed continuous selling and posted a low of 36,663 index points in Oct-18 and negative return of ~3% in 1QFY19.
- Lately, government successfully secured \$3bln loan for one year from Saudi Arabia and in addition to this, a \$3 bln deferred payment facility for oil import from Saudi Arabia for three years (renewable at each year) that brought investor confidence. Thereby, KSE-100 revived and entered the 40,000 terrain. Participants are eyeing on economic relief package from china and IMF bail out package, which will further decide the fate of country's economy.



KSE-100 Returns

1-Year (FY18)	3-Years (FY)	5-Years (FY)
-10%	22%	100%

1QFY19	FY18	FY17	FY16	FY15
-3%	-10%	23%	8%	16%

9MCY18	1HCY18	CY17	CY16	CY15	CY14	CY13
1%	4%	-15%	46%	2%	26%	49%

FY18	FY17	FY16
84 million	140 million	114 million



Order / Transaction Types

- 1) **Market Order:** Only order quantity is sent and trade is executed at the market price.
- 2) **Limit Order:** Limit price and order quantity are sent by the investor and trade is executed by the exchange when the market price reaches the price specified.
- 3) **Stop Loss Order:** A request to sell a security once the market price reaches or falls below a customer-specific price. Once the target price has been reached or surpassed, the order becomes a “market” order. Stop-loss orders are only available when selling a security to close a position.
- 4) **Short sell:** Selling securities owned by the seller in anticipation of repurchasing them at a lower price.



Licensing Requirements

- During the year, the regulations have been updated to reduce regulatory burden and to promote the ease of doing business of brokerage industry and under the new regime, now the securities broker has to obtain a single license to undertake brokerage activity in the capital market.
- Single expiry date for licenses of the entire brokerage industry has been introduced. Consequently, the validity date for the existing brokerage licenses have been extended to December 31, 2018, and the securities brokers may apply for renewal of licenses for the next calendar year by November 30, 2018.
- License renewal process has also been simplified and the annual renewal would be processed upon submission of PSX's recommendation along with an undertaking by the securities broker that he is compliant with all the regulatory requirements and deposit of regulatory fee.
- Since non-custodial model to carry out securities broker business does not exist, the concept of categorization of securities brokers for licensing purposes has been eliminated. In order to facilitate the brokerage industry participants, the time line to comply with the existing financial resource requirements has been extended from June 30, 2018 to June 30, 2019.
- Securities broker deemed licenced under regulation, applying for fresh licence in accordance with the requirement under the "Trading Only" category shall be required to transfer its clearing, settlement and custody functions within a transition period of six months or an extended time period as may be allowed by the Commission. Such securities broker, during the transition period, shall comply with the requirements applicable to the "Trading and Self-Clearing" category.
- An applicant for a licence as a securities broker shall comply with and ensure ongoing compliance with minimum paid up capital and net worth of Rupees thirty five (35) million and net capital balance of Rupees five (5)million



Management Rating

The securities brokers licensed under Securities Brokers Reg. 2016 (updated up to Jan. 29 2018), may obtain management rating on annual basis from a credit rating company licensed by the Commission and disclose such rating at all times on their websites and all advertisements.



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