

# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Islamabad, the 18<sup>th</sup> June, 2012

## NOTIFICATION

**S.R.O. 750(I)/2012.-** In exercise of its powers under Section 23 of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012, the Securities and Exchange Commission of Pakistan hereby makes the following regulations namely:-

**1. Short title and commencement.-** (1) These Regulations may be called the Stock Exchanges (Corporatisation, Demutualization and Integration) Regulations, 2012.

(2) They shall come into force at once.

**2. Definitions.-** (1) In these Regulations, unless there is anything repugnant in the context or subject:

(a) "Act" means the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012; and

(b) "Clearing House" includes any company formed and established to provide facilities for the clearing or settlement of securities traded on a securities market registered outside Pakistan.

(2) Words and expressions not defined herein shall have the same meaning as ascribed thereto in the Act, the Securities and Exchange Ordinance, 1969, the Companies Ordinance, 1984 and the Central Depositories Act, 1997 or any rules and regulations made thereunder.

**3. Criteria for approving a strategic investor.-** (1) A strategic investor desirous of acquiring the shares of a stock exchange shall fulfil the following minimum criteria:

i) In the case of a stock exchange or a derivative exchange:

a) is registered as a stock exchange or a derivative exchange;

Provided that in the case of a stock exchange, the companies listed on the stock exchange have a total market capitalization of at least five times of the total market capitalization of companies listed on the stock exchange, shares of which it is desirous of acquiring;

- b) has a net equity equivalent to at least Rs. 20 billion;
  - c) has experience of at least five years as a demutualized exchange;
  - d) is in operation since last ten years;
  - e) has profit after tax in at least three of the last five years as per the audited financial statements;
  - f) has a diverse range of actively traded products which may include futures, options and other internationally acceptable derivative instruments recognized by the Commission for this purpose;
  - g) has a robust risk management system and default handling mechanism and good track record of handling market settlements; and
  - h) has been provided such classification by an international index provider as acceptable by the Commission for this purpose.
- ii) In the case of a depository company or a clearing house:
- a) is registered as a depository company or a clearing house in the country in which it operates;
  - b) has a net equity equivalent to at least Rs. 20 billion or is a wholly owned subsidiary of a stock exchange which fulfills the criteria mentioned in sub-regulation 3(1)(i) above;

- c) has for, at least the past five years, been associated with a stock exchange or a derivative exchange which fulfills the criteria mentioned in sub-regulation 3(1)(i) above; and
  - d) has profit after tax in at least three of the last five years as per the audited financial statements.
- iii) has sufficient operational and technical resources to assist in the development and promotion of the stock exchange shares of which it is desirous of acquiring;
  - iv) any other condition as may be specified by the Commission at the time of granting the approval:

Provided that the Commission may relax any of the conditions as contained in regulation 3(1)(i) and 3(1)(ii) except regulation 3(1)(i)(c) after taking into consideration the reputation, past track record, overall financial and operational strengths and expected benefits from a stock exchange, derivative exchange, clearing company or a depository company.

(2) Notwithstanding anything contained in sub-regulation (1) above, a registered stock exchange, derivative exchange, depository company or clearing house, as the case may be, shall not be approved as a strategic investor if it is a connected person of the trading right entitlement certificate (“TREC”) holder(s) of the stock exchange shares of which it is desirous of acquiring.

**4. Criteria for approving a firm of Chartered Accountants.-** The Commission shall approve a firm of Chartered Accountants for the purposes of revaluation of the assets and liabilities of a stock exchange in accordance with section 4(1)(b) of the Act, in consideration of the following:

- (a) the partners or directors of the entity must not be a ‘connected person’ of the stock exchange or directors of the stock exchange of which the revaluation is to be carried out;
- (b) it must not be engaged either in the external or internal audit of the stock exchange of which the revaluation is to be carried out.

*Explanation.*- For the purpose of this regulation the firm of Chartered Accountant shall include an entity providing audit services or an entity holding license for management consultancy from the Institute of Chartered Accountants of Pakistan.

**5. Manner of operating the blocked account.**- The Board of Directors of a stock exchange operating a blocked account in pursuance of section 9(2) of the Act, shall do so in the following manner:

(a) A CDC Participant account shall be opened by the stock exchange under which separate sub-accounts for each initial shareholder shall be opened. The account shall be opened on the basis of a resolution of the Board of Directors of the stock exchange;

(b) Sixty percent of the total shares of the stock exchange shall be held in the sub-accounts of the initial shareholders in a manner that each sub-account shall hold sixty percent of the shares allotted to each initial shareholder.

(c) No movement or pledging of shares held in the sub-accounts shall be allowed except the transfer pursuant to the sale of shares to the strategic investor, the general public and the financial institutions in accordance with the Act and requirements of these regulations;

(d) When the stock exchange reaches an agreement for the sale of not more than forty percent shares to the strategic investor in accordance with the requirements of section 12(1)(a) of the Act, the shares may be transferred in the name of strategic investor subject to the following conditions:

- i) The stock exchange shall provide a copy of the agreement executed with the strategic investor to the Commission, showing the number of shares to be sold and the price at which the sale is agreed;
- ii) The agreement shall describe among other matters the terms and conditions for payment and transfer of shares;
- iii) Evidence regarding the sufficient funds available with the strategic share holder to execute the transaction including but not limited to account statement; and

- iv) Any other condition as may be imposed by the Commission at the time of granting approval.
- (e) After completion of the conditions provided in sub-regulation (d) and obtaining prior approval of the Commission in writing, the Board of Directors of the stock exchange shall issue instructions to the CDC to transfer the shares to the strategic investor.

Provided that no shares shall be transferred unless the payment for the same is received from the strategic investor and confirmation of the same is provided to the Commission by the stock exchange.

**6. Manner of issuance of TREC.-** (1) The TREC shall be issued in physical form in accordance with the format prescribed in Annexure-I.

(2) Each TREC shall:

(a) be allotted a distinctive number.

(b) be prepared and delivered by the stock exchanges to the initial shareholders within thirty days of the grant of the Commission's approval under section 4(2) of the Act.

(3) The stock exchanges shall confirm in writing to the Commission the issuance of TRECs along with the names of initial shareholders and the distinctive numbers of the TREC so issued.

(4) The TREC to be issued under section 16(5) & (6) of the Act shall be issued by the stock exchange within fifteen days of completion of all procedures/requirements for issuance of TREC in accordance with the requirements of these regulations and any other regulations of the stock exchange(s).

(5) The stock exchanges shall maintain a register of TREC holders which shall contain the name, CNIC/Company Registration Number, address of the TREC holder and any other matters as may be specified by the Commission from time to time.

(6) A stock exchange shall issue a TREC under section 16(5) & (6) of the Act on the basis of a written application which shall be accompanied by such documents as a stock exchange may specify from time to time.

(7) The TREC under section 16(5) & (6) of the Act shall only be issued to a person upon satisfaction by the Exchange that the applicant fulfills the fit and proper criteria specified by the Commission from time to time for registration as a broker and the stock exchange shall obtain such documents from the applicant as may be necessary for this purpose.

#### **7. Manner of Transfer of TREC.-**

(1) The stock exchanges shall ensure that not more than one transfer is registered in respect of a TREC issued under section 5 of the Act:

Provided that no transfer shall be executed or registered in respect of TREC issued under section 16(5) & (6) of the Act:

Provided further that any change in the name of TREC holder as a result of conversion of status from an individual TREC holder to a corporate TREC holder shall not be considered as a transfer of TREC, if the concerned individual member retains the majority shareholding and management control of the company.

(2) A TREC holder who has been issued a TREC under section 5 of the Act shall request the stock exchange to provide a no objection certificate (NOC) before entering into any transaction for the transfer of TREC.

(3) Any TREC issued under Section 5 of the Act by the stock exchanges shall only be transferred to a person who fulfills the fit and proper criteria for the brokers as specified by the Commission from time to time and before registering any transfer of TREC, the stock exchange shall ensure that the transferee fulfills the fit and proper criteria.

(4) The stock exchanges may require transferor and transferee of the TREC issued under Section 5 of the Act to provide such information as may be required for determining the fit and proper status for registering a transfer of TREC or for issuing a NOC for such transfer.

(5) The TREC issued under Section 5 of the Act shall only be transferred on the basis of a written application signed by both the transferor and transferee, the contents of which and the signatures of the transferor shall be verified by the stock exchange before registering the transfer.

**8. Manner of disposal of shares of a stock exchange.-** After demutualization, shares of a stock exchange held in the blocked account may be disposed in the following manner:

(a) The Demutualization Committee of a stock exchange shall exercise its best efforts to attract a strategic investor which fulfills the eligibility criteria prescribed in these Regulations:

Provided that the stock exchange shall take all necessary steps for the implementation of necessary reforms and upgrading its systems to fulfill this objective;

(b) If, as a result of negotiation, the Demutualization Committee of a stock exchange receives multiple offers which are above the valuation of such stock exchange, it shall accept the highest offer:

Provided that, it may grant any other offerors the opportunity to match the highest offer:

Provided further that the Demutualization Committee of a stock exchange may accept an offer which is not the highest offer but is greater than the valuation of the stock exchange after considering the reputation, past track record and expected future benefits from the participation of such offeror;

(c) Shares sold to a strategic investor shall be held in a blocked account in the name of such strategic investor and shall only be transferred with the prior written approval of the Commission.

**9. Allotment of shares of stock exchange to the initial shareholders.-** (1) Within 30 days of receiving approval under section 4(2) of the Act, or a determination under section 4(6) of the Act, the stock exchange shall forward to the CDC the list of initial shareholders, submitted to the

Commission under section 4(1)(d) of the Act, with the instructions to credit forty percent shares out of total shares allotted to such initial shareholder in the account of each initial shareholder;

(2) On the basis of instructions of the stock exchange, CDC shall credit in the account of each initial shareholder, forty percent shares out of total shares allotted to such initial shareholder.

**10. Segregation of Commercial and Regulatory Functions.-** (1) Each stock exchange shall ensure compliance with the plan for segregation of commercial and regulatory functions approved by the Commission under Section 4(2)(f) of the Act in accordance with the timelines provided in the plan.

(2) Any modifications to address foreseeable events of non-compliance with the approved plan must be submitted to the Commission for approval along with detailed rationale, well in advance of occurrence of any such event/modification.

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**ANNEXURE-I**  
**[See regulation 6(1)]**

\_\_\_\_\_ **STOCK EXCHANGE**

**TRADING RIGHT ENTITLEMENT (TRE) CERTIFICATE**

The \_\_\_\_\_ Stock Exchange, in pursuance of section 5 or section 16, whichever applicable, of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012 read with regulation 6 of the Stock Exchanges (Corporatisation, Demutualization and Integration) Regulations, 2012 hereby grants a TRE Certificate to \_\_\_\_\_, subject to the requirements of the Regulations of the \_\_\_\_\_ Stock Exchange, where applicable.

2. TRE Certificate number: \_\_\_\_\_

Dated: \_\_\_\_\_

Place: \_\_\_\_\_

By order

Sd/-

For and on behalf of

\_\_\_\_\_ **STOCK EXCHANGE**

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[No. SMD/SE/2(57)/2002]

Sd/-  
Bushra Aslam  
**Secretary to the Commission**