
COMMODITY EXCHANGE AND FUTURES CONTRACTS RULES

SRO279 (I)/2005, Islamabad, the 15th March, 2005.- In exercise of the powers conferred by section 33 of the Securities and Exchange Ordinance, 1969 (XVII of 1969), Federal Government, is pleased to make the following rules, namely.-

1. Short title and commencement.- (1) These rules may be called the Commodity Exchange and Futures Contracts Rules, 2005

(2) They shall come into force at once.

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

(a) "Act" means the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997)

(b) "Broker" means any person who is registered with the Commission for the purpose of engaging in the business of effecting transactions in Commodity Futures Contract for the account of others;

(c) DELETED

(d) "Exchange" means a Commodity Exchange as defined in the Securities and Exchange Ordinance, 1969 (XVII of 1969);

(e) "Member" means a person admitted by the Exchange as a Member of the Exchange but it does not denote a shareholder or equity holder of the Exchange;

(f) "Ordinance" means the Securities and Exchange Ordinance, 1969 (XVII of 1969).

(2) The words and expressions used but not defined in these rules shall have the same meaning as are assigned to them in the Ordinance, the Act and the Companies Ordinance, 1984 (XLVII of 1984).

3. **No person to operate without registration - DELETED**
4. **Cancellation of registration, etc. - DELETED**
5. **Audit of accounts of the Exchange.- DELETED**
6. **Books of account and other documents to be maintained and preserved by the Exchange.- DELETED.**
7. **Submission of annual report by an Exchange.- DELETED.**
8. **Submission of periodical returns.-DELETED**
9. **Members not to engage in business without registration.** - No member shall act as a broker to deal in the business of effecting transactions in the Commodity Futures Contract unless he is registered with the Commission under these rules.
10. **Application for registration as a broker.** - (1) A Member desirous of acting as a broker shall make an application to the Commission in a form specified by the Commission from time to time, for grant of a certificate of registration through the Exchange of which he is a Member.

(2) An application for registration under sub-rule (1) shall be submitted along with a fee as specified by the Commission from time to time

(3) The Exchange shall forward the application to the Commission within fourteen days from the date of its receipt.
11. **Eligibility for registration.** – (1) A person shall be eligible for registration as a broker under these rules, if he-
 - (a) is a Member of the Exchange;
 - (b) is not less than twenty-one years of age;
 - (c) is a citizen of Pakistan;
 - (d) has at least passed graduation or equivalent examination from an

institution recognized by the Government; Provided that the Commission may relax the educational qualification in suitable cases on merit having regard to the applicant's experience;

- (e) is not a lunatic or a person of unsound mind;
 - (f) has not been convicted of an offence involving fraud or breach of trust;
 - (g) has not been adjudicated as insolvent or has suspended payment or has compounded with his creditors;
 - (h) has experience of not less than five years in the business of buying, selling or dealing in commodities, Commodity Futures Contracts or other securities;
 - (i) has not been a director of a brokerage company which has been convicted of an offence concerning brokerage;
 - (j) has not defaulted in payment of dues at a clearing house;
 - (k) has not defaulted in compliance with the provisions of the Ordinance, the Act, and the rules and regulations made hereunder;
 - (l) is not in default on settlement of an investor complaint where such complaint has been adjudicated by an exchange or a committee of an exchange or the Commission;
 - (m) has complied with the directives of the Commission in respect of business conduct, dealings with clients and financial prudence; and
 - (n) has the minimum net capital and minimum net worth as determined by the Exchange and approved by the Commission from time to time.
- (2) The applicant shall remain in compliance with the requirements of sub-rule (1) at all times and inform the Commission immediately when he is non-compliant with any of the terms and conditions.

- (3) Every applicant which is a corporate entity shall have at least one director who will satisfy the requirements set forth under sub-rule (1) above, provided that net worth and net capital of the corporate entity are used to fulfill the requirements set out under sub-rule (1) n.

12. Certificate of registration. - (1) The Commission, if it is satisfied that the applicant is eligible for registration as a broker, and that it shall be in the interest of the commodity market to do so, may grant certificate of registration to the applicant in accordance with a format specified by the Commission from time to time.

- (2) The certificate of registration of a broker shall be valid for one year.
- (3) The Commission shall send an intimation of registration under sub-rule (1) to the concerned Exchange.
- (4) No application made under sub-rule (1) of rule 11 shall be refused except after giving an applicant a reasonable opportunity of being heard.
- (5) In case the Commission refuses the grant of certificate of registration to an applicant after providing an opportunity of being heard under sub-rule (4), the decision shall be communicated to the applicant as well as the concerned Exchange within fourteen days of the last hearing given to the applicant, stating therein the grounds for refusal.
- (6) An applicant aggrieved by the decision of the Commission under sub-rule (5) may apply, within a period of thirty days from the date of receipt of such intimation, to the Commission for review of its decision.

13. Effect of refusal for registration. - A person whose application for grant of a certificate of registration as a broker has been refused by the Commission from and on the date of receipt of the decision under sub-rule (5) of rule 13 shall not deal in Commodity Futures Contracts as a broker.

14. Renewal of registration.-(1) the certificate of registration shall be renewable on payment of fee as specified by the Commission from time to time.

(2) The broker desiring renewal of his registration with the Commission, for this purpose shall submit an application through the Exchange along with a net capital certificate and an undertaking confirming that the broker remains compliant with the requirements provided under rule 11.

(3) A member whose certificate of registration expires shall not deal in Commodity Futures Contracts as a broker.

(4) A member whose application for renewal has been refused by the commission shall not deal in Commodity Futures Contracts as a broker from and on the date of receipt of the decision under sub-rule (5) of rule 12.

15. Suspension of registration. - Where the Commission is of the opinion that a broker-

(a) Has failed to remain in compliance with any conditions subject to which certificate of registration was granted under these rules;

(b) has otherwise failed to comply with any requirement of the Act or the Ordinance or of any rules or directions made or given thereunder;

(c) has contravened the rules and regulations of the Exchange;

(d) has failed to follow any requirement of the code of conduct as laid down under these rules;

(e) has failed to comply with the directives of the Commission in respect of business conduct, dealings with clients and financial prudence;

(f) has failed to furnish any information related to his transactions in Commodity Futures Contract as may be required by the Commission;

(g) has failed to submit periodical returns as required by the Commission;

- (h) has furnished wrong or false information;
- (i) has failed to settle an investor complaint where such complaint had been adjudicated by an Exchange or a committee of an Exchange or the Commission;
- (j) has not co-operated in any enquiry or inspection conducted by the Commission;
- (k) has indulged in manipulating price rigging or cornering activities in an Exchange;
- (l) his financial position has deteriorated to such an extent that the Commission is of the opinion that his continuance in the business of dealing in Commodity Futures Contracts shall not be in the interest of investors; or
- (m) has been suspended by an Exchange,

The Commission may, if it considers necessary in the public interest so to do, by order in writing:-

- (i) suspend the registration of a broker for such period as may be specified in the order; or
- (ii) impose on a broker a fine not exceeding one hundred thousand rupees:

Provided that the broker shall be provided an opportunity of being heard before passing order under sub-clause (i) or sub-clause (ii).

16. Cancellation of registration. - Where the Commission is of the opinion that (a) the cause of suspension of registration under rule 15 continues during the period of such suspension, or (b) a broker whose registration has been suspended-

- (i) is engaged in insider trading, market manipulation or any other unfair practice or market abuse;

- (ii) has been found guilty of fraud, or convicted of a criminal offence;
- (iii) has his membership cancelled by an Exchange; or
- (iv) has not complied with a directive of the Commission.

The Commission may, if it considers necessary for the protection of investors so to do, by order in writing, cancel the registration of the broker;

Provided that no such order shall be made except after giving the broker an opportunity of being heard.

17. Automatic cancellation of registration.- (1) A certificate of registration granted to a broker under rule 12 shall stand cancelled automatically if he, -

- (a) ceases to be a Member of an Exchange;
- (b) is declared defaulter by an Exchange and is not re-admitted to Membership within a period of six months from such declaration;
- (c) surrenders Membership of an Exchange;
- (d) is declared insolvent by a Court;
- (e) voluntarily surrenders certificate of registration to the Commission; or
- (f) is wound up by an order passed by a Court.

(2) Where a certificate of registration stands cancelled under sub-rule (1),

the concerned Exchange or clearing house shall intimate the Commission immediately about such cancellation.

18. Broker, etc., to clear liabilities.- Notwithstanding the refusal, suspension or cancellation of a certificate of registration under rules 13, 15, 16 or 17, a broker shall be responsible for clearing all his obligations upto the date on which he has been working as broker.

19. General obligations and responsibilities.- The brokers shall be responsible to keep and maintain the books of accounts, records and documents as specified in the Ordinance, the Act, and rules.

- 20. Brokers to abide by code of conduct.** - A broker holding a certificate of registration under these rules shall abide by the following code of conduct as provided in the Schedule.
- 21. System Audit.** - A broker shall undergo an annual system audit in accordance with the directions issued by the Commission from time from time.
- 22. Maintenance of Books of account, etc by brokers.-** (1) Every broker shall prepare and maintain the following books of account and other documents, in electronic or manual form, that will disclose a true, accurate and up to date position of the business namely;
- (a) journal (or other comparable record), cash book and any other books of original entry, forming the basis of entries into any ledger, the books of original entry being such as containing daily record of all orders for purchase or sale of Commodity Futures Contracts, all purchases and sales of Commodity Futures Contracts, all receipts and deliveries of a commodity and all other debits and credits;
 - (b) ledgers (or other comparable records) reflecting asset, liability, reserve, capital, income and expense accounts;
 - (c) ledgers (or other comparable records) reflecting securities in transfer, securities borrowed and securities loaned and Commodity Futures Contracts bought or sold, of which the delivery is delayed;
 - (d) record of all balance of all ledger accounts in the form of trial balances to be prepared at least once at the end of the six months of every year of account;
 - (e) record of transactions with the banks;

- (f) written consent of customers in respect of contracts entered;
- (g) duplicates or counterfoils of memos of confirmation or contract notes issued to customers.

(2) The books of accounts and other documents referred to in sub-rule (1) shall be preserved for a period of not less than five years.

23. Registration of Commodity Futures Contract.- (1) Every Commodity Futures Contract shall be registered with the Commission under these rules to become eligible for dealing on an Exchange.

- (2) An Exchange shall submit an application for registration of a standardized Commodity Futures Contract with the Commission.
- (3) Upon receipt of an application under sub-rule (2) the Commission, if it is satisfied after making such inquiry, as it may consider necessary that the application fulfills the conditions as it may specify in this behalf, register the standardized Commodity Futures Contract for dealing on the Exchange.
- (4) If after the registration of the standardized Commodity Futures Contract the Commission finds the application is deficient in any material respect or that the Exchange has failed to comply with any prescribed condition or requirement and/or that the continued registration of the standardized Commodity Futures Contract would not be in the public interest, the Commission may by order either require the Exchange to correct the deficiency or comply with the prescribed condition or requirement within the time specified in the order or amend the specification of any standardize Commodity Future Contract.
- (5) No application submitted under sub-rule (2) shall be refused and no registration of standardized Commodity Futures Contract shall be revoked unless the Exchange has been given the opportunity of being heard.

(6) The Commission or an Exchange may, if it considers it to be in the interest of the trade or in the public interest so to do, by order recording the reasons, suspend for a period not exceeding sixty days, the trading of any Commodity Futures Contract and may from time to time, for the said reasons and in the said manner extend the suspension for further period not exceeding sixty days at any time.

24. Restriction on dealings in Commodity Futures Contracts.- (1) No person shall transact any business in Commodity Futures Contract on any Exchange unless he is a broker thereof.

(2) No member shall act as a broker in a Commodity Futures Contract on an Exchange outside such Exchange.

(3) Nothing in this rule shall be deemed to prohibit an Exchange from acting as a central counterparty to trades on the Exchange.

25. Prohibition of fraudulent acts, etc._ (1) No person shall, for the purpose of inducing, dissuading, effecting, preventing or in any manner influencing or turning to his advantage, the sale or purchase of any Commodity Futures Contracts, directly or indirectly,-

(a) employ any device, scheme or artifice, or engage in any act, practice or course of business, which operates or is intended or calculated to operate as a fraud or deceit upon any person; or

(b) make any suggestion or statement as a fact of that which he does not believe to be true; or

(c) omit to state or actively conceal a material fact having knowledge or belief of such fact; or

(d) induce any person by deceiving him to do or omit to do anything which he would not do or omit if he were not so deceived; or

- (e) do any act or practice or engage in a course of business, or omit to do any act which operates or would operate as a fraud, deceit or manipulation upon any person, in particular-
- (i) make any fictitious quotation;
 - (ii) create a false and misleading appearance of active trading in any Commodity Futures Contracts; or
 - (iii) directly or indirectly effect a series of transactions in any Commodity Futures Contracts creating the appearance of active trading therein or of raising of price for the purpose of inducing its purchase by others or depressing its price for the purpose of inducing its sale by others.

26. Prohibition of false statements, etc. - No person shall, in any document, paper, accounts, information or explanation which he is, by or under these rules, required to furnish, or in any application made under these rules, make any statement or give any information which he knows or has reasonable cause to believe to be false or incorrect in any material particular.

27. Maintenance of secrecy. - No person shall, except with the permission of the Commission, communicate or otherwise disclose to any person not legally entitled thereto any information which has been entrusted to him or which he has obtained or to which he had access in the course of the performance of any functions under these rules.

28. The Commission's power to call for information. - Every Exchange and every director, officer, members or brokers thereof shall furnish such documents, information or explanation relating to the affairs of the Exchange, or as the case may be, relating to the business on the Exchange of such director, officer, member or broker as the commission may, at any time, require in order by writing.

29. The Commission's power to give directions.- The Commission may, if it is satisfied that it is necessary or expedient so to do in the public interest or in the interest of the capital market, by order in writing, give directions to the Exchange, any director, officer, member or broker thereof.

30. Enquiry.-DELETED.

31. Advisory Committee.- DELETED

32. Prohibition on Exchange Deals.- (1) No person who is employed by an Exchange or who has been so employed by an Exchange at any time during the preceding six months shall, directly or indirectly, deal in any Commodity Futures Contract traded on or cleared by the Exchange of which he or she is or has been at any time during the preceding six months, an employee.

(2) No person shall deal on an Exchange in any commodity underlying Futures Contract or cause any other person to deal in any commodity underlying Futures Contract, if he or she has information which

(a) is not generally available ;

(b) Would if it were so available, be likely to materially affect the price of such Commodity Futures Contract; or

(c) relates to any transaction (actual or contemplated) involving such Commodity underlying Futures Contracts.

(3) The Commission or the Exchange may, from time to time, prohibit any person from such dealings in Commodity Futures Contract, which the Commission or the Exchange determines to be detrimental to the interest of the investors in general. Such dealings if the Exchange so prohibits shall require the approval of the Commission.

33. Liability for Contravention of rule 32.- (1) Where a person contravenes the provisions of rule 32, the Commission may, by a notice in writing, ask such person to

show cause for compensating any person who has suffered loss for such contravention and initiating proceedings against him.

(2) Where a person to whom a notice has been issued under sub-rule (1) satisfy the Commission that –

(a) any dealing on Exchange or communication of any information was not made with the intent of making any profit or causing a loss to any person or company; or

(b) the dealing on Exchange or any information was communicated in good faith in discharge of his or her legal responsibilities the Commission may withdraw such notice.

(3) Where the Commission is not satisfied with the explanation of the person given the response to the show cause notice served upon him under sub-rule (1), it may direct him or her to pay any other person who has suffered loss for any contravention under rule 35, compensation which shall not be less than the amount of loss sustained by any other person as a result of such dealing or communication of information.

Provided that where the person who has suffered any loss for any contravention of rule 35 is not determined, the amount of compensation equivalent to the gain or the loss avoided by such contravention, shall be payable to the Commission.

(4) Any compensation payable under this section shall be recoverable as arrears of land revenue.

SCHEDULE

(rule 20)

Code of Conduct for Broker

1. General

- (a) *Integrity.*—A broker shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.
- (b) *Exercise of due skill and care.*—A broker shall act with due skill, care and diligence in the conduct of all his business.
- (c) *Manipulation.*—A broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumors with a view to distorting market equilibrium or making personal gains.
- (d) *Malpractices.*—A broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors' interest or which leads to interference with the fair and smooth functioning of the market. A broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

- (e) *Compliance with statutory requirements.*—A broker shall abide by all the provisions of the Ordinance and the rules, regulations issued by the Commission and the Exchange from time to time as may be applicable to him.

2. **Duty to the investor**

- (a) *Execution of orders.*—A broker in his dealings with the clients shall ensure that all orders placed for buying and selling are routed through the system of the Exchange.
- (b) *Issue of contract note.*—A broker shall not refuse to promptly issue to his clients purchase or sale notes for all the transactions entered into by him with his clients.
- (c) *Breach of trust.*—A broker shall not disclose or discuss with any other person or make improper use of the details of personal investments and other information of a confidential nature of a client which he comes to know in his business relationship.
- (d) *Business and commission.*—A broker shall not encourage sales or purchases of Commodity Futures Contracts with the sole object of generating brokerage or commission. A broker shall not furnish false or misleading quotations or give any other false or misleading advice or information to a client with a view of inducing him to do business in particular Commodity Futures Contracts and enabling himself to earn brokerage or commission thereby.
- (e) *Business of defaulting clients.*—A broker shall not deal or transact business knowingly, directly or indirectly or execute an order for a client who has failed to carry out his commitments in relation to Commodity Futures Contracts with another broker.
- (f) *Fairness to clients.*—A broker, when dealing with a client, shall disclose whether he is acting as a principal or on behalf of his clients and shall ensure at the same time that no conflict of interest arises between him and the client. In the event of a conflict of interest, he shall inform the client accordingly and shall not seek to gain a direct or indirect personal advantage from the situation and shall not consider clients' interest inferior to his own.

- (g) *Investment advice.*—A broker shall not make recommendation to any client who might be expected to rely thereon to acquire, dispose of, retain any Commodity Futures Contracts unless he has reasonable grounds for believing that the recommendation is suitable for such client upon the basis of the facts, as disclosed by such client. The broker should seek such information from clients, wherever he feels it is appropriate to do so.
- (h) *Competence of broker.*—A broker should have adequately trained staff and arrangements to render fair, prompt and competent services to his clients.

3. **Broker vis-à-vis other brokers**

- (a) *Conduct of dealings.*—A broker shall not knowingly and willfully deliver documents which constitute bad delivery.
- (b) *Protection of clients' interest.*—A broker shall extend fullest co-operation to other brokers in protecting the interests of his clients regarding their rights.
- (c) *Transactions with brokers.*—A broker shall carry out his transactions with other brokers and shall comply with his obligations in completing the settlement of transactions with them.
- (d) *Advertisement and publicity.*—A broker shall not advertise his business publicly unless permitted by the Exchange.
- (e) *Inducement of clients.*—A broker shall not resort to unfair means of inducing clients from other brokers.
- (f) *False or misleading returns.*—A broker shall not neglect or fail or refuse to submit the required returns and not make any false or misleading statement on any returns required to be submitted to the Commission and the Exchange.

(4) **Brokers vis-à-vis Commission and Exchange**

- (a) *General conduct.*—A broker shall not indulge in dishonourable, disgraceful, disorderly or improper conduct on the Exchange nor shall he willfully obstruct the business of the Exchange. He shall comply

with the rules, bye-laws and regulations of the Exchange. A broker shall faithfully comply with the general or specific directions issued by the Commission.

- (b) *Failure to give information.*—A broker shall not neglect, fail or refuse to submit to the Commission or the Exchange with which he is registered, such books, special returns, correspondence, documents and papers or any part thereof as may be required.
-