



Securities and Exchange Commission of Pakistan

Securities Market Division

Public Offering and Regulated Persons Department

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25.1.17

No. SMD/PRPD/Direction/2017

January 23, 2017

Discretionary Trading Authority

The Commission has in the recent days received several complaints from investors who, upon providing discretionary authority to brokers of Pakistan Mercantile Exchange (PMEX) for managing their investments, witnessed imprudent and abusive trading practices (churning in particular) by the broker resulting in loss of their investment.

In an endeavor to protect the investors' interest and maintain investor confidence in the futures market, the Securities & Exchange Commission of Pakistan hereby directs all brokers of PMEX to comply with the following requirements in respect of discretionary trading authority with immediate effect:

- i) All existing discretionary mandates with regard to any trading account shall stand void/cancelled and brokers shall seek fresh discretionary authority from their clients as per annexed discretionary trading authority (Annexure A) on an affidavit of at least Rs.50/- within two weeks.
- ii) No broker/authorized person shall take a new position in any futures contract on behalf of its client(s) till the time fresh discretionary mandate has been obtained as per Annexure A.
- iii) All brokers shall ensure intimation to their clients for all discretionary trades entered on their behalf through SMS and email as per Annexure A. Additionally, all brokers shall provide a weekly report to their clients clearly specifying the rationale for trades executed.
- iv) Henceforth, a loss threshold of 25% of the investment amount shall trigger revocation of the discretionary trading authority. Subsequent to the trigger, the broker shall contact the client and discuss the account position. The discretionary mandate shall continue only upon obtaining a fresh discretionary trading authority from the client as per Annexure A. However, existing positions in futures contracts shall not be affected and shall continue as per ordinary course of decision-making by the broker.
- v) All brokers shall provide a monthly report to PMEX mentioning the trader ID of clients who have provided discretionary trading authority to the broker. Further, the brokers shall also provide PMEX with a list of employees along with their credentials who are handling discretionary accounts.
- vi) The Chief Executive of the brokerage house shall regularly carry out a review of all discretionary accounts and maintain a written record that such reviews were performed.

Asif Jalal Bhatti
Asif Jalal Bhatti
Executive Director

Distribution:

1. Chief Executives of all Brokers of PMEX
2. Chairman, Board of PMEX
- ✓ 3. Managing Director, PMEX

Discretionary Trading Authorization in favour of (Name of Brokerage House) through its Chief Executive

The undersigned hereby authorizes _____ (name of Brokerage House) with full power and authority to enter into Commodity Futures contracts registered with Pakistan Mercantile Exchange ("PMEX") as per General Regulations 2007 read with Commodity Exchange and Futures Contract Rules 2005 in my Account ("Account") titled _____ Account No. _____ with (name of Brokerage House).

The employee of (name of brokerage house) has represented that he/she will undertake all trading executions in the interest of the undersigned, with complete professionalism and to the best of his/her ability. The undersigned has read the risk associated with such authorization and acknowledges that trading in Commodity Futures Contracts carries high degree of risk and situations may arise where the investment or trading decision of (name of brokerage house) may result in losses in account and in all such situations the undersigned shall remain responsible for such losses and provide ratification to all such decisions of (name of brokerage house).

Moreover, the employee of (name of brokerage house) has clearly identified areas of risk particularly risk of conflict of interest situation upon the undersigned's authority for discretionary trades in the account and in such eventuality, the undersigned will not raise conflict of interest issue and agrees to hold (name of brokerage house) not guilty and to indemnify it as to any expense, damage or liability sustained by it with respect to any and all acts and practices of (name of brokerage house) regarding this account, including all losses arising therefrom and debit balance(s) due thereof however, such indemnification shall not cover the regulatory actions which the Exchange or the Commission may take against any violation of General Regulations or Rules etc.

The undersigned has authority to execute the subject discretionary trading authority in favour of (name of brokerage house) and has financial resources to bear the financial risks associated with engaging in Commodity Futures Trading at PMEX. The undersigned acknowledges having read carefully and understood fully the foregoing discretionary trading authority and Risk Disclosure in account opening form and guidelines issued by the Exchange.

This authorization is a continuing one and shall remain in full force and effect until automatically revoked due to triggering of the 25% loss threshold (25% fall in investment amount) in which case (name of brokerage house) shall be liable to seek a fresh discretionary trading authority from the undersigned.

Note: The subject revocation shall not, in any way, affect transactions initiated prior to its implementation which shall be subject to the decision-making of (name of brokerage house).

Account Number _____ Name of Account Holder _____
 Contact No. _____ Email Address: _____
 CNIC no. _____ Account Holder Signature _____
 Name of Broker _____ Name of Agent/Authorized Person _____
 Signature of Agent/Authorized Person _____ Date---/---/-----

صوابدیدی تجارتی اجازت نامہ بحق (بروکریج ہاؤس کا نام) بذریعہ چیف ایگزیکٹو

زیر دستخطی بذریعہ ہذا (بروکریج ہاؤس کا نام) کو مکمل اختیار اور اجازت کے ساتھ پاکستان مرکٹائل ایکسچینج (پی ایم ای ایکس) کے ساتھ رجسٹر شدہ کمانڈیٹیز کا بمطابق عمومی ضوابط ۲۰۰۷ بہمراہ کمانڈیٹیز ایکسچینج اور فیوچرز معاہدہ قواعد ۲۰۰۵، میرے اکاؤنٹ ("اکاؤنٹ") بنام _____ اکاؤنٹ نمبر _____ بہمراہ _____ (بروکریج ہاؤس کا نام) میں سے فیوچرز معاہدہ کرنے کی اجازت دیتا ہے۔

(بروکریج ہاؤس کا نام) کے ملازم نے پیش کش کی ہے کہ وہ تمام تجارتی سودے زیر دستخطی کے مفاد کو مد نظر رکھتے ہوئے، مکمل پیشہ ورانہ انداز میں اور اپنی بھرپور قابلیت کے مطابق انجام دے گا۔ زیر دستخطی نے ایسے اجازت نامہ سے جڑے خطرات کا مطالعہ کر لیا ہے اور اعتراف کرتا ہے کہ اجناس کے فیوچرز معاہدات بلند درجہ خطرات کے حامل ہوتے ہیں اور ایسی صورت حال پیدا ہو سکتی ہے کہ جہاں (بروکریج ہاؤس کا نام) کا فیصلہ سرمایہ کاری یا تجارت اکاؤنٹس میں نقصانات کی صورت نکلے اور ایسی تمام صورتوں میں زیر دستخطی ایسے تمام نقصانات کا ذمہ دار رہے گا اور (بروکریج ہاؤس کا نام) کے ایسے تمام فیصلوں کی توثیق کرے گا۔

مزید برآں، (بروکریج ہاؤس کا نام) نے خطرات کی واضح نشاندہی کی ہے خاص طور پر زیر دستخطی کے اجازت نامہ پر (بروکریج ہاؤس کا نام) کو اکاؤنٹ میں سے صوابدیدی تجارت کے لئے مفادات کے تصادم کی صورت حال کے خطرات کی اور ایسا وقوع پذیر ہوجانے پر، زیر دستخطی مفادات کے تصادم کا معاملہ نہیں اٹھائے گا اور (بروکریج ہاؤس کا نام) کو ذمہ دار نہ ٹھہرانے جانے سے اتفاق کرتا ہے اور اسے کسی خرچے، ہرجانہ یا وجوب کی قانونی ذمہ داری سے بری کرتا ہے جو اس اکاؤنٹ کے ضمن میں (بروکریج ہاؤس کا نام) کے تمام افعال اور اعمال کی وجہ سے اس نے برداشت کئے، بشمول تمام نقصانات کے جو اس سے وقوع ہوئے اور ان کے بقایا ڈیبٹ بلینس (بیلنسز) سے تاہم، یہ بریت ضوابط یا قواعد کی کسی خلاف ورزی کے باعث کمیشن یا ایکسچینج کی جانب سے کی گئی انضباطی کارروائیوں کا احاطہ نہیں کرے گی۔

زیر دستخطی کو یہ اختیار حاصل ہے کہ وہ مذکورہ صوابدیدی تجارتی اختیار (بروکریج ہاؤس کا نام) کے حق میں نافذ کر دے اور وہ پی ایم ای ایکس میں کمانڈیٹیز فیوچرز ٹریڈنگ میں شرکت سے منسلکہ مالیاتی خطرات برداشت کرنے کے مالیاتی وسائل رکھتا ہے۔ زیر دستخطی اس بات کی تائید کرتا ہے کہ اس نے ایکسچینج کی جانب سے جاری کردہ رہنما اصول اور کھاتہ کھولانے کے فارم میں مذکورہ بالا صوابدیدی تجارتی اختیار اور خطرات کے اظہار کے بارے میں اچھی طرح پڑھ اور پوری طرح سے سمجھ لیا ہے۔

یہ ایک مسلسل اختیار ہے جو نقصان کی پچیس فیصد حد (سرمایہ کاری میں پچیس فیصد کی کمپنی) کے عمل میں آنے کے باعث از خود منسوخ ہونے تک مکمل تسلط اور اثر رکھے گی جس صورت میں (بروکریج ہاؤس کا نام) زیر دستخطی سے ایک نیا صوابدیدی تجارتی اختیار حاصل کرنے کا ذمہ دار ہوگا۔

برائے توجہ: مذکورہ منسوخ، کسی بھی حال میں، اس پر عملدرآمد سے قبل شروع کئے گئے لین دین پر اثر انداز نہ ہوگی جو کہ (بروکریج ہاؤس کا نام) کی فیصلہ سازی سے مشروط ہوگی۔

اکاؤنٹ نمبر _____

اکاؤنٹ ہولڈر کا نام _____

رابطہ نمبر _____

شناختی کارڈ نمبر _____

اکاؤنٹ ہولڈر کے دستخط _____

بروکر کا نام _____

ایجنٹ / مجاز شخص کا نام _____

ایجنٹ / مجاز شخص کے دستخط _____

تاریخ _____

_____/_____/____/

18/8



Securities and Exchange Commission of Pakistan
Securities Market Division

No. SMD/CMD/Direction/2017

April 28, 2017

Discretionary Trading Authority

This is in continuation to the Commission's direction issued on January 23, 2017 requiring all brokers of Pakistan Mercantile Exchange (PMEX) to comply with certain requirements in respect of discretionary trading authority.

In an endeavour to curb imprudent and abusive trading practices (churning in particular) by a broker of PMEX in possession of discretionary trading authority given by the client, and protect investors' interest while maintaining investor confidence in the futures market, the Securities and Exchange Commission of Pakistan in exercise of powers conferred under Rule 29 of the Commodity Exchange and Futures Contract Rules, 2005 hereby directs all brokers of PMEX to comply with the following additional/modified requirements in respect of discretionary trading authority with immediate effect:

- i) The broker before obtaining the discretionary trading authority shall outline key financial risks, carry out risk profiling of the client, obtain investment preferences, and provide an indicative illustration of potential loss/gain that can be incurred in sudden/extreme market movements. The concept of stop-loss shall also be explained to the client. A checklist in this regard shall be filled by the broker as evidence that the client has made an informed decision to invest in futures contracts after being educated about the risks involved in futures trading.
- ii) In case of discretionary trading authority, commission charged by the broker for any trade/transaction that has resulted in a loss to the client's account shall be restricted to 5% per month (pro-rata for a period less than 30 days) of the total investment of the client. However, depending on the agreement between the broker and its client, the broker may be allowed to charge a performance fee of up to 25% of profit (net of all charges) earned by the client during every quarter.

Moreover, clauses (iii), (iv) and (v) of the earlier direction issued by the SECP on January 23, 2017 are modified as follows:

- iii) All brokers shall ensure intimation to their clients for discretionary trades entered on their behalf through email on a daily basis.
- iv) A loss threshold of a certain percentage of the investment amount as indicated by the client among the options of 25%, 50% or such other percentage as specified by the client shall trigger revocation of the discretionary trading authority. Subsequent to the trigger, the broker shall contact the client and discuss the account position. The discretionary mandate shall continue only upon obtaining a fresh discretionary trading authority from the client. Only the first discretionary trading authority needs to be on an affidavit, thereafter, instructions for continuation of discretionary authority may be provided by the client through email or fax. However, for this purpose, original first agreement on stamp paper should clearly authorize the brokerage house to accept reinstatement of discretionary authority through email/fax at the risk and responsibility of the client. Moreover, the number of discretionary authorizations shall be in accordance with exponential drawdown in account of the client.

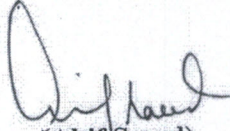
NIC Building, Jinnah Avenue, Blue Area, Islamabad, Pakistan
PABX: +92-51-9100418, FAX: +92-51-9100440 URL: www.secp.gov.pk



Securities and Exchange Commission of Pakistan
Securities Market Division

- v) All brokers shall provide a monthly report to PMEX mentioning the trader ID of clients who have provided discretionary trading authority to the broker and containing, at a minimum, client-wise profits/losses during the month as well as overall profits/losses for all discretionary accounts maintained with them.

This direction comes into force with immediate effect and any circumvention of the above stated requirements shall compel the Commission to proceed in accordance with law.


(Akif Saeed)
Commissioner

Distribution:

1. Chief Executives of all Brokers of PMEX
2. Chairman, Board of PMEX
3. Managing Director, PMEX