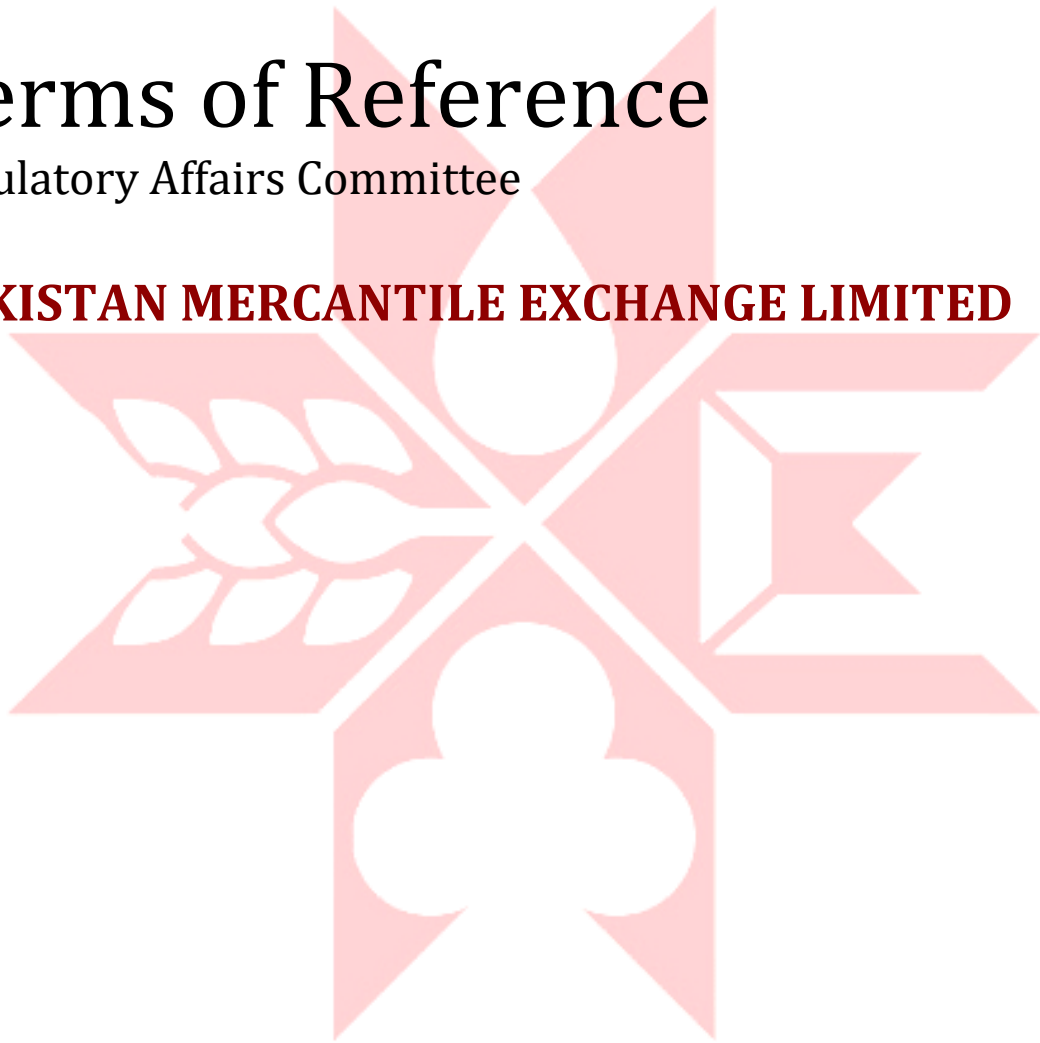


Terms of Reference

Regulatory Affairs Committee

PAKISTAN MERCANTILE EXCHANGE LIMITED



Introduction

These Terms of Reference (TOR) of Regulatory Affairs Committee (RAC) of Pakistan Mercantile Exchange Limited (PMEX) have been prepared in the light of the Futures Exchanges (Licensing and Operations) Regulations, 2017.

The RAC shall review and re-assess these TOR as and when deemed necessary and recommend any changes or modifications to the Board for its consideration and approval.



Regulatory Affairs Committee (RAC)

The establishment of regulatory arena is to ensure clear segregation of commercial and regulatory functions of Pakistan Mercantile Exchange which includes constitution of a Regulatory Affairs Committee (RAC) and the same will function as a ‘Chinese Wall’ for effectively segregating the aforesaid functions.

Objective

The core objective to form RAC includes but not limited to:

- Segregate commercial and regulatory functions of the Exchange.
- Ensure efficient functioning of Regulatory Affairs Division (RAD) to implement an effective regulatory regime and improve investors’ confidence and market integrity.
- Assist the Board of Directors in discharging their functions, duties and responsibilities relating to the regulatory affairs of PMEX.

Structure of RAC

- The RAC shall comprise of at least 3 members who shall be independent directors.
- The members of the RAC shall be appointed by the Board on the recommendation of the Nomination Committee.
- The Managing Director will attend the meetings of the RAC in an advisory capacity and as a “Friend of RAC”, however, he will not be having any voting rights.
- The RAC may designate any broker of the Exchange as “Friend of RAC”, to assist the RAC on the technical and practical aspects, who may be invited to participate in the meetings of RAC, however they shall not have any voting rights whatsoever.

Meetings and Proceedings

- The RAC meetings shall be conducted as and when required, however, it shall meet at least once in a quarter.
- The Secretary of the RAC shall be responsible for maintaining attendance record and recording of minutes of the meetings.

- The RAC shall directly report to the Board.

Quorum

- Quorum for a meeting of the RAC shall be completed when two members are present in the meeting.
- No business shall be transacted unless a quorum of members is present at the time when the meeting proceeds to business.
- In situations where member(s) of RAC are not available, such member(s) can attend the meeting through tele/video conferencing subject to fulfillment of requisite quorum or via circular resolution.
- All decisions in a meeting of the RAC shall be made by majority vote and in case of equality of votes, the Chairman of the meeting shall have a casting vote.

Functions of RAC

The RAC shall ensure that the Regulatory Affairs Division (RAD) functions effectively (the functions of the Exchange, duly segregated into regulatory and commercial are mentioned in Annexure “A” hereto). The RAC shall have the following roles, responsibilities and functions:

With respect to Policy Matters

- consider and recommend all regulatory amendments for the approval of the Board;
- ensure that the Regulatory Affairs Division (RAD) functions effectively and take measures necessary to implement an effective regulatory regime and improve investor confidence and market integrity;
- develop an overall regulatory plan and roles and responsibilities of each division of the RAD together with a roadmap for effective regulatory role;
- ensure adequacy and effectiveness of the Exchange's regulatory plan and approve annual plans/targets for the RAD on continuous basis;
- establish criteria for evaluating candidates for senior management of the RAD including CRO;
- formulate policies relating to regulatory affairs of the Exchange in line with international best practices with approval of the Board;
- identify and manage potential conflicts of interest in commercial and regulatory functions regularly;

- train and educate personnel of RAD in respect of conflict of interest management and also for development of the manual on conflict of interest management and circulate to all employees of the RAD;
- prepare a summarized annual report of the RAD on the activities, conclusions, recommendations of the last year with special focus on the identification and mitigation of conflicts of interest and identify the targets for next year along with any other matters, for the Board and the SECP;

With respect to Administrative and Other Matters

- formulate and recommend the budget and staff allocation for the RAD for approval of the Board;
- assess performance of the RAD in light of the regulatory plan and annual targets and take measures and, where necessary, make recommendations to the Board for improvements;
- provide recommendations for appointments and removal of services of persons serving in the RAD;
- review the compensation of the CRO and personnel of the RAD, evaluate their performance in the light of goals and objectives. The compensation arrangement and changes therein will be approved by the Human Resource Committee (HRC) of the Board;
- conduct hearings of any appeals against enforcement actions of the RAD;
- form sub-committee, where required, to perform any of its functions in accordance with the applicable regulatory framework ; and
- carry out any other function that may be mutually agreed upon by the RAC and the Board or as may be assigned by the Commission.

“Annexure A”

FUNCTIONS OF PAKISTAN MERCANTILE EXCHANGE AS PER THEIR REGULATORY AND COMMERCIAL NATURE

Regulatory Functions	Commercial Functions
<p><u>Membership:</u></p> <ul style="list-style-type: none"> • Framing of new/amendments in the Regulations Governing Membership affairs. • Monitoring compliance on admission standards for becoming a Member of the Exchange. • Monitoring compliance on broker registration/renewal licensing requirements of SECP. • Monitoring compliance on branch/authorized person registration/de-registration • Ensuring existence of and compliance with Standard Operating Procedures relating to Membership. • Monitoring compliance of related regulations by the Members and the Exchange. • Disciplinary actions and investigations against non-compliance/market abuse. 	<p><u>Membership:</u></p> <ul style="list-style-type: none"> • Updating Members’ profiles. • Issuance of new Membership. • Transfer of Membership. • Change in category of Membership. • Conversion of Membership. • Broker Registration & Renewal. • Change of nominee director/Board of Member. • Change in registration details of Members. • Branch registration/de-registration. • Process No Objection Certificate for transfer of membership. • Any other matter concerning membership.
<p><u>Legal:</u></p> <ul style="list-style-type: none"> • Framing of new/amendments in the Regulations in accordance with applicable laws. • Monitoring compliance of related laws by the Members and the Exchange. 	<p><u>Legal:</u></p> <ul style="list-style-type: none"> • Legal drafting/vetting of documents, agreements, MoUs, Trust deeds etc. • Arranging legal opinion, in-house/outside. • Litigations. • Appearance before authorities/courts, NAB, FIA, Ombudsman and other judicial forums with respect to matters of commercial nature. • Dealing with Anti Money Laundering issues with regulators and Financial Monitoring Unit etc.
<p><u>Product Development:</u></p> <ul style="list-style-type: none"> • Framing of new / amendments in the Regulations with respect to new products. • Monitoring compliance of registration of new products under applicable regulatory framework and laws. 	<p><u>Product Development:</u></p> <ul style="list-style-type: none"> • Developing product specifications and feasibility studies in light of international practices and its marketing. • Listing of products for trading. • Induction / Removal of Market Maker.
<p><u>Compliance and Enforcement of Regulations:</u></p> <ul style="list-style-type: none"> • Ensuring compliance of System Audit of brokers and actions on non-compliance. • Conducting regular inspection of brokers. • Periodic Off-Site compliance reporting of the Exchange. • Monitoring timely redressal of disputes, 	<ul style="list-style-type: none"> • Disabling/restoring of access to ETS.

<p>complaints/grievances relating to trading at the Exchange.</p> <ul style="list-style-type: none"> • Ensuring efficiency of the process for redressal of investor grievances, dispute resolution and arbitration. • Ensuring efficiency of surveillance mechanism of the Exchange. • Supervising or conducting any investigation, inspection or enquiry. • Developing, implementing and monitoring compliance policies, processes and procedures to ensure regulatory, operational and statutory compliance of the Exchange. • Monitoring compliance of the Exchange, brokers and their authorized persons with applicable legal and regulatory framework, policies and procedures and take enforcement action(s) under the applicable regulatory framework. • Creating awareness among brokers and employees of the Exchange regarding the Code of Conduct and other compliance issues. • Liaison for negotiation/dealing with SECP and other regulatory authorities on regulatory affairs. • Liaison with independent auditor and SECP for regulatory audits of the Exchange. 	
	<p><u>Other Commercial Functions</u></p> <ul style="list-style-type: none"> • Marketing, Business Development & Customer Support Services • Finance • Human Resources • Information Technology • Administration