



REGULATIONS
FOR
PROPRIETARY TRADING, 2004

(As amended on September 17, 2009 and sent for Gazette Notification)

In exercise of the powers conferred under Section 34(l) of the Securities and Exchange Ordinance, 1969 (XVII of 1969), the Stock Exchanges, with the prior approval of the Securities and Exchange Commission of Pakistan, hereby make the following Regulations, namely:

1. Short title and Commencement

These regulations may be called the Regulations for Proprietary Trading, 2004. They shall come into force at once.

2. Applicability

Regulations for Proprietary Trading shall be applicable to a broker, agent and an associated person.

3. Definitions.

In these regulations, unless there is anything repugnant in the subject or context,

- a) "Agent" means a person appointed by a broker to act on his behalf for the purposes recognized by a stock exchange;
 - b) "Associated person" means any partner, employee, officer or director of a broker;
 - c) "At best" order means an order to buy or sell a security as soon as possible at the best available market price;
 - d) "Broker" means Any member of the Exchange engaged in the business of executing transactions in securities for the account of others and for his own account and is registered with the Commission under the Brokers and Agents Registration Rules, 2001.
 - e) "Commission" means the Securities and Exchange Commission of Pakistan established under the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997);
 - f) "Limit order" means to buy or sell a security at a customer specified price;
 - g) "Member" means a member of a Stock Exchange;
 - h) "Proprietary Trading" means trading conducted by a broker, agent or an associated person trading on his own account for direct gain instead of commission.
 - i) "Stock exchange" means a stock exchange registered under the Securities and Exchange Ordinance, 1969 (XVII of 1969);
- (2) All other words and expressions used but not defined in these rules shall have the same meanings as are assigned to them in the Companies Ordinance, 1984 (XLVII of 1984) and the Securities and Exchange Ordinance, 1969 (XVII of 1969).
- 4. Manner of Transaction Of Broker, Agent Or An Associated Person's Business Best Execution**
- (i) All orders to buy or sell securities that a broker, agent or an associated person may place shall be entered, in the chronological order, in a register manual/electronic to be maintained by him in a form which shows the name of the person who placed the order, the name and number of securities to be bought and sold, nature of the transaction clearly indicating in writing a proprietary trade transaction and the limitation, if any, as to the price of the securities or the period for which the order is to be valid.
 - (ii) a) A broker, agent or an associated person who has an "at best" order from a customer to buy or sell a security shall not, while such order remains unexecuted, engage in proprietary trade transaction involving the purchase or sale of that security for himself or for the broker for which he is a partner or for

the account of any of the partners therein or for any account in which he, such broker or partner, directly or indirectly, has an interest.

Provided, if a broker, agent or an associated person who has his own "at best" order to buy or sell a security prior to an order from a customer, the same shall have priority over the "at best" order of a customer subject to disclosure of such an order by the broker, agent or an associated person to his customer.

- b) A broker who has a limit order from a customer to buy a security shall not while such order remains unexecuted, engage in proprietary trade transaction involving the purchase of that security at or below the limit price for himself or for the broker for which he is a partner or for the account of any of the partners therein or for any account in which he, such broker or partner, directly or indirectly, has an interest.
 - c) A broker who has a limit order from a customer to sell a security shall not while such order remains unexecuted, engage in proprietary trade transaction involving the sale of that security at or above the limit price for himself or for the broker for which he is a partner or for the account of any of the partners therein or for any account in which he, such broker or partner, directly or indirectly, has an interest.
- (iii) A broker who has an order to buy or sell a security shall not fill such order by engaging in proprietary trade for himself for the broker for which he is a partner or for the account of any of the partners therein or for any account in which he, such broker or partner, directly or indirectly, has an interest, except when:-
- a) the order is a limit order; or
 - b)
 - i) he sells the security at a price not exceeding the price at which the transaction immediately preceding the receipt of the order by him actually took place; or
 - ii) he buys the security at a price which is not less than the price at which the transaction immediately preceding the receipt of the order by him actually took place.

5. No aggregation of orders

A broker shall not aggregate an order for a customer with orders for other customers, or with own account orders".

6. Conflict of Interest and Disclosure by Brokers

- (i) The broker shall disclose to his customer placing an order in a particular security, while accepting such order, whether he intends to or is carrying out proprietary trading in that security on that particular day.
- (ii) The broker, if doing proprietary trading through agents/traders, shall disclose the name(s) of such persons to his customers.
- (iii) In case a broker engages in proprietary trading with another broker, both the brokers shall disclose their names to the Exchange.

7. Market Integrity

- (i) *Insider dealing:* No broker shall, directly or indirectly, deal in any listed security or cause any other person to deal in securities of such company if he has information which:-
 - a) is not generally available; and
 - b) would, if it were so available, be likely to materially affect the price of those securities
- ii) *Broker, agent or an associated person to keep accounts:* Every broker shall maintain separate books of accounts for:
 - a) Money received from or on account of and money paid to or on account of each of his clients; and
 - b) The money received and the money paid on a broker, agent or an associated person's own account

- iii) *Separate account for proprietary trading:* Every broker who engages in proprietary trading shall have a separate account. The account shall be in the name of the broker, agent or an associated person and the title of the account must contain the word "proprietary". The account(s) shall be used for all transactions involving proprietary trade.

8. Penalty

- (i) If a broker contravenes with any provisions of these Regulations as the case may be, the Exchange may after giving him an opportunity of hearing by order may direct the broker:
 - (a) to pay a penalty up to a maximum of Rs. 100,000/- per contravention.
 - (b) suspension of membership for a period prescribed by the Board from time to time.