

INVITATION OF PUBLIC COMMENTS

PROPOSED AMENDMENTS TO PAKISTAN STOCK EXCHANGE LIMITED (PSX) REGULATIONS IN RELATION TO MINIMUM BROKERAGE COMMISSION FOR FIXED INCOME EXCHANGE TRADED FUNDS

This is to inform the public that the PSX, in exercise of power conferred upon it u/s 7 of the Securities Act, 2015, is proposing to carry out amendments to PSX Regulations to prescribe reduced minimum brokerage commission for Fixed Income Exchange Traded Funds (ETF).

As per Annexure-III of Chapter 4 of PSX Regulations, the standard rate of brokerage commission is higher of '3 paisa per share' or '0.15% of the transaction value' on every buy and sell transaction which is not squared during the same trading day or only on one side which is squared-off during the same trading day. The same rate of brokerage commission is also applicable on ETF.

It is important to mention that there are some inherent features of fixed income ETF which distinguish it from equity class ETF, such as:

- (a) The upside potential of equity class ETF is significantly higher than that of fixed income ETF as a stock may hit the upper cap of circuit breaker in a trading day but T-Bills/ PIBs are least likely to show much volatility, particularly when the interest rates are at low level.
- (b) The current impact of brokerage commission of 0.3% (on both buy & sell sides combined) on a non-intraday trade will bound the investors to hold the units of fixed income ETF for at least 2 weeks (assuming an annual return of 8%) just to reach the break-even.

Moreover, it has also been observed in other jurisdictions that the exchanges have either temporarily waived off trading fees for fixed income ETFs or prescribed lower trading fees for fixed income ETF compared to equity class ETF.

In view of the above and in order to promote acceptability and marketability of fixed income ETFs as a viable investment option for investors, it is considered important to have a different structure of minimum brokerage commission for both classes of ETFs.

Accordingly, PSX is proposing to reduce brokerage commission for fixed income ETF to '1 paisa per share' or '0.01% of the transaction value', whichever is higher.

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In terms of Section 7(3) of the Securities Act, 2015, all interested parties are invited to provide written comments on the proposed regulatory amendments to Annexure-III of Chapter 4 of PSX Regulations, which are attached herewith as **Annexure A**.



The comments can be submitted through any of the following modes latest by **November 12, 2021** in the manner as suggested in the 'Guidelines for Submission of Comments' which is attached herewith as **Exhibit A:**

Email	comments.rad@psx.com.pk
Mail	The Chief Regulatory Officer, Regulatory Affairs Division, 2 nd Floor, Administration Building, Pakistan Stock Exchange Building, Pakistan Stock Exchange Road, Karachi – 74000.



AJEET KUMAR

Chief Regulatory Officer

Cc:

1. The Director/HOD (PRDD), SMD, SECP
2. The Chief Executive Officer, PSX
3. The Chief Executive Officer, CDC
4. The Chief Executive Officer, NCCPL
5. The Chief Executive Officer, PMEX
6. The Chief Executive Officer, IFMP
7. All Heads of Departments, PSX
8. PSX Website

“ANNEXURE A”

PROPOSED AMENDMENTS TO ANNEXURE-III OF CHAPTER 4 OF PSX REGULATIONS IN RELATION TO MINIMUM BROKERAGE COMMISSION FOR FIXED INCOME ETF

PROPOSED AMENDMENTS				RATIONALE
Annexure-III				
<u>STANDARD RANGE/ SCALE OF BROKERAGE COMMISSION ON DIFFERENT TYPES OF TRANSACTIONS</u>				
SR. #	TRANSACTION TYPE	*MINIMUM RATE	EXPLANATION	
1	Ready Delivery Contract Market (“Ready Market”) – Normal	3p or 0.15% whichever is higher	On every buy and sell transaction which is not squared during the same Trading Day.	
2	Ready Market – Intra-Day Squared	3p or 0.15% whichever is higher	On one side – either on buy side or sell side trade	
<u>3</u>	<u>Fixed Income ETF – Normal</u>	<u>1p or 0.01% whichever is higher</u>	<u>On every buy and sell transaction which is not squared during the same Trading Day.</u>	<p>Lower/ reduced brokerage commission rate is proposed to be prescribed for Fixed Income ETF on following reasons:</p> <p>(i) To make attractive ground for more AMCs to launch fixed income ETF.</p> <p>(ii) Inherent product features of fixed income ETF requires a different structure of minimum commission.</p> <p>(iii) For the sake of promotion and product acceptability in</p>
<u>4</u>	<u>Fixed Income ETF – Intra-Day Squared</u>	<u>1p or 0.01% whichever is higher</u>	<u>On one side – either on buy side or sell side trade</u>	
<u>35</u>	Arbitrage between Ready and Future Market	No minimum rate of commission	-	
<u>46</u>	Ready Market Trade financed through Margin Trading System/ Margin Financing System/ Morabaha Share Financing	3p or 0.15% whichever is higher	Minimum commission on Ready Market purchase or sale only. No minimum commission on Margin Trading System, Margin Financing System market and Morabaha Share Financing transaction.	
<u>57</u>	Deliverable Futures Contract Market	3p or 0.15% whichever is higher	Minimum commission on every buy and sell transaction which is not squared during the contract period.	
<u>68</u>	Deliverable Futures Contract Market – Squared Transaction	3p or 0.15% whichever is higher	Minimum commission on one side – if transaction is squared-up in Deliverable Futures Contract Market either through offsetting transaction or rollover.	
<u>79</u>	Proprietary Trade and trades of	No minimum rate of	-	

PROPOSED AMENDMENTS			RATIONALE
Sponsors and Directors of the Securities Broker and their immediate family members**	commission		<p>the market, some international exchanges have temporarily waived off trading fees for both equity and fixed income ETFs or prescribed lower fees trading fees for fixed income ETFs.</p> <p>(iv) Proposed commission structure is in line with commission structure in Negotiated Deal Market.</p> <p>Editorial changes have been proposed.</p>
<p>* The prescribed range is from <u>minimum brokerage commission, as mentioned above, 3 Paisa per share or 0.15% of the transaction value, whichever is higher</u>, up to 2.5% of the transaction value in the above mentioned transactions.</p> <p>** Immediate family member means spouse, children and parents.</p> <p>NOTES:</p> <ol style="list-style-type: none"> 1. Commission is exclusive of levies. 2. Rates in each type of transaction can be scaled up within the minimum and maximum ranges. 3. Minimum rate of brokerage commission shall not be applicable on any other markets or transactions not mentioned herein above. 4. The Commission may provide clarification and treatment in respect of applicability of standard range/ scale of brokerage commission on different types of transactions. 			

End of Proposed Amendments

“EXHIBIT A”

GUIDELINES FOR SUBMISSION OF COMMENTS

1. PSX invites the interested parties to provide their comments and views with specific reference to the subject matter of the proposed amendments to PSX Regulations notified in this Notice.
2. At the time of submission of comments, respondent is advised to provide the information, as per **Table-A** below, so that PSX may contact him/her for clarification or deliberation on the comments, if needed. Anonymous responses may be disregarded by PSX.

Table-A

TO BE FILED BY THE RESPONDENT	
Name of respondent	
Name of company (if applicable)	
Designation (if applicable)	
Contact Number	
Email Address	

3. The respondent may request confidential treatment for his/ her identity and all or any part of comments due to their proprietary, confidential or commercial nature, by clearly marking the information in **Table-B** below:

Table-B

DISCLOSURE OF IDENTITY AND COMMENTS
Please check the box(es) if you wish to be remain confidential:
<input type="checkbox"/> I wish to have my identity remain confidential.
<input type="checkbox"/> I wish to keep all or any part of my comments confidential.

If respondent wishes to keep any part(s) of comments confidential, then he/she is required to clearly specify such part(s) of comments.

4. To ensure quality and promote transparency, PSX will publish the relevant comments of respondents and its management’s response thereon in the form of a **Response Paper** on its website, within a reasonable timeframe, after close of public consultation session, unless the respondent has made a confidentiality request.
5. Any policy or rule amendment may be subject to regulatory concurrence. For this purpose, respondents should note that notwithstanding any confidentiality request, PSX will share all their response(s) with the Securities and Exchange Commission of Pakistan (Apex Regulator).
6. By submitting comments, respondents are deemed to have consented to the collection, use and disclosure of data that is provided to PSX, unless respondents wish to have their identity or comments remain confidential.