

Securities and Exchange Commission of Pakistan
NIC Building, Jinnah Avenue, Islamabad
(Securities Market Division)

SMD/SEC/2(40) 2002

February 07, 2003

Subject: - DIRECTIVE TO BROKERS ON CONDUCT OF BUSINESS

Dear Sirs,

I am hereby directed by the Executive Director (SM) to notify that in order to safeguard public interest, prohibit unfair trade practices, inculcate good governance in business conduct and to ensure that a broker does not engage in certain types of conduct in the Securities Market that are against the interest of an investor, the Commission in exercise of powers conferred upon it under clause (d) of sub-section (4) and of section 20 and clause (g) of sub-section (4) of section 20 of the Securities and Exchange Commission of Pakistan Act, 1997 read with sub-section (1) of section 20 of the Securities and Exchange Ordinance, 1969 hereby directs as under:

- i. A broker shall provide brokerage services to an investor only after ensuring that an account has been opened in the investor's name using an account opening form that is to be developed by the stock exchanges in consultation with the Securities and Exchange Commission of Pakistan.
- ii. A broker shall not recommend to an investor the purchase or sale of a security that is unsuitable given the investor's age, financial situation, investment objective and investment experience. Without limitation, investment in a particular type of security may be considered unsuitable or the amount or frequency of transactions may be excessive and therefore unsuitable for a given investor.
- iii. A broker shall not guarantee investors that they will not lose money on particular securities transaction, making specific price predictions, or agreeing to share in any losses in the investor 's account.
- iv. A broker shall not purchase or sell securities in an investor's account without the investor's approval, unless the investor has given written discretionary authority to effect transactions in the account.
- v. A broker shall not trade on his own behalf or on behalf of his brokerage firm in preference to an investor by trading ahead of a limit order from an investor.
- vi. A broker shall not remove funds or securities from an investor 's account without the investor's prior authorization.
- vii. A broker shall not purchase or sell a security while in possession of material, non-public information regarding an issuer.

viii. A broker shall not misrepresent material facts concerning an investment. Examples of information that may be considered material and that should be accurately presented to an investor inter alia include: the risks of investing in a particular security; the charges or fees involved; company's financial information or any other material information.

The aforesaid directive shall be effective as of 31st March 2003. Please acknowledge receipt.

Yours Faithfully,

(Jahanara Sajjad Ahmad)
Joint Director (Policy and Regulation)

C.C.

1. The Managing Director,
Karachi Stock Exchange (Guarantee) Ltd.
Karachi.
2. The Managing Director,
Lahore Stock Exchange (Guarantee) Ltd.
Lahore.
3. The Managing Director,
Islamabad Stock Exchange (Guarantee) Ltd.
Islamabad.