

THE SECURITIES AND EXCHANGE RULES, 1971

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S.R.O. 92 (I)/71.- In exercise of the powers conferred by section 33 of the Securities and Exchange Ordinance, 1969 (XVII of 1969), read with the Ministry of Finance Notification No. S.R.O. 261(I)/70, dated the 26th October, 1970, the Securities and Exchange [Commission]¹ of Pakistan is pleased to make the following rules, namely:-

1. Short title and commencement.- (1) These rules may be called the Securities and Exchange Rules, 1971.

(2) They shall come into force at once.

2. Definitions.- In these, rules, unless the context otherwise requires,-

- (a) [Commission means Securities and Exchange Commission of Pakistan established under Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997)]².
- (b) “Chartered Accountant” means a person who is a chartered accountant within the meaning of the Chartered Accountants Ordinance, 1961 (X of 1961);
- (c) “Form” means a form set out in the First Schedule;
- [(d)]³ “net capital” means excess of current assets over the liabilities determined in accordance with the Third Schedule to these rules;
- (e) “officer” in relation to an issuer includes managing agents, manager, secretary or accountant of the issuer and any other person who by virtue of his office may be in possession of any material information with regard to the affairs of the issuer;
- (f) “Ordinance” means the Securities and Exchange Ordinance, 1969 (XVII of 1969);
- (g) “section” means section of the Ordinance.

3. Qualifications for stock exchange membership, etc.-[The qualifications for

¹ Substituted for “Authority” by Notification No. SRO 87(I)/2001, dated February 8, 2001. Before substitution it read as “Authority” means the [Corporate Law Authority]

² Clause (a) Substituted by Notification No. SRO 87(I)/2001, dated February 8, 2001.

³ Clause (d) Substituted by Notification No. SRO 87(I)/2001, dated February 8, 2001. Before substitution it read as (d) “net capital”, in relation to a member of stock exchange, means an amount by which the current assets, namely, cash in hand or in bank, money receivable within a period of twelve months from the date of the balance sheet and such other assets, not being value of the membership card of the stock exchange, as are so classified under generally accepted accounting principles, exceed the current liabilities, namely, money payable within a period of twelve months from the date of the Balance sheet and such other liabilities as are so classified under generally accepted accounting principles;

membership of, and admission into, a stock exchange, shall be as follows]⁴:

- (a) No person shall be eligible to be a member of a stock exchange if
- (i) he is less than twenty-one years of age;
 - (ii) he is not a citizen of Pakistan;
 - (iii) he is a lunatic or a person of unsound mind;
 - (iv) he has been convicted of an offence involving fraud or breach of trust;
 - (v) he has been adjudicated as insolvent or has suspended payment or has compounded with his creditors;
 - (vi) he has not had experience in the business of securities for a period of not less than two years:

Provided that the regulations of a stock exchange may authorise the governing body thereof to waive compliance with the foregoing condition relating to experience in the business of securities if such person is, in respect of means, integrity and background, considered by the governing body to be otherwise qualified for membership;

[(b) A member shall, at all times, maintain a net capital balance of an amount which is,-

- (i) in the case of a stock exchange which in the previous calendar year had on the cash counter a turn over of securities exceeding fifteen billion, Rs.2.5 million;
- (ii) in the case of a stock exchange which in the previous calendar year had on the cash counter a turn over of securities exceeding 7.5 billion rupees but not exceeding fifteen billion, Rs. 1.5 million; and
- (iii) in the case of a stock exchange which in the previous calendar year had on the cash counter a turn over of securities not exceeding 7.5 billion, Rs. 0.75 million;

Provided that a member who is also the member of other stock exchange shall maintain a net capital balance upto aggregate net capital balance requirement of all such exchanges put together:

Provided further that, in the case of partnership firm, the amount of net capital balance to be maintained shall be the amount obtained by multiplying the net capital balance required for each member of the stock exchange or exchanges, as the case may be, by the number of such partners of the firm as are members of the stock exchange;]⁵

⁴ Substituted for "The regulation of a stock exchange relating to the qualification for membership of, and admission into, the stock exchange shall, among other matters, provide that-" by SRO-1032(I)/85, dated 22-10-1985

⁵ Clause (b) substituted by Notification No. SRO 87(I)/2001, dated February 8, 2001. Before substitution clause (b) read as follows:

(c) A member shall cease to be a member if, at any time,

(i) he ceases to be a citizen of Pakistan:

Provided that, in the case of a stock exchange functioning immediately before the commencement of these rules, the membership of a member thereof who is not a citizen of Pakistan shall become suspended on such commencement and shall remain so suspended until he becomes a citizen of Pakistan; or

(ii) he is declared a lunatic or a person of unsound mind; or

(iii) he is convicted of an offence involving fraud or breach of trust; or

(iv) he has been adjudicated as insolvent or has suspended payment or has compounded with his creditors;

(d) the membership of a member or members who are

partners in a firm and who are in active business shall become suspended as soon as the net capital balance falls short of the amount specified in clause

(b) and shall remain so suspended until the net capital balance is increased so as not to fall short of the amount;

(e) Every member shall report to the stock exchange weekly that he or the firm of which he is a partner had, at all times during the week to which the report relates, a net capital balance of an amount not less than that specified in clause (b) and shall forthwith inform the stock exchange if, at any time, such balance falls short of that amount.

4. Manner of transaction of member's business.- (1) All orders to buy or sell securities which a member may receive shall be entered, in the chronological order, in a register to be maintained by him in a form which shows the name and address of the person who placed the order, the name and number of the securities to be bought or sold, the nature of the transaction and the limitation, if any, as

(b) A member shall at all times maintain a net capital balance in the capital account of an amount which is-

(i) in the case of a stock exchange which in the previous calendar year had on the cash counter a turnover of securities, other than bonus vouchers, exceeding one crore in number-not less than two hundred fifty thousand rupees; and

(ii) in any other case - not less than seventy five thousand rupees:

Provided that a member who is also the member of any other stock exchange shall maintain a net capital balance of not less than fifty thousand rupees:

Provided further that, in the case of firm, the amount of the net capital balance to be maintained shall be the amount obtained by multiplying fifteen thousand rupees or fifty thousand rupees, as the case may be, by a number of such partners of the firm as are members of the stock exchange;

to the price of the securities or the period for which the order is to be valid.

(2) (a) A member who has an “at best” order from a customer to buy a security shall not, while such order remains unexecuted, buy the same security on the stock exchange for his own account or for the account of the firm of which he is a partner or for the account of any of the partners therein or for any account in which he, such firm or partner, directly or indirectly, has an interest.

(b) A member who has an “at best” order from a customer to sell a security shall not, while such order remains unexecuted, sell the same security on the stock exchange for his own account or for the account of the firm of which he is partner or for the account of any of the partners therein or for any account in which he, such firm or partner, directly or indirectly, has an interest.

(c) A member who has a limit order from a customer to buy a security shall not while such order remains unexecuted, buy the same security at or below the limit price on the stock exchange for his own account or for the account of the firm of which he is partner or for the account of any of the partners, therein or for any account in which he, such firm or partner, directly or indirectly, has an interest.

(d) A member who has a limit order from a customer to sell a security shall not, while such order remains unexecuted, sell the same security at or above the limit price on the stock exchange for his own account or for the account of the firm of which he is a partner or for the account of any of the partners therein or for any account in which he, such firm or partner, directly or indirectly, has an interest.

(3) A member who has an order to buy or to sell a security shall not fill such order by selling or buying for his own account or for the account of the firm of which he is a partner or for the account of any of the partners therein or for any account in which he, such firm or partner, directly or indirectly, has an interest, except when-

(a) the order is 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.

(4) A member executing an order of a customer shall, within twenty four hours of the execution of the order, transmit to the customer a confirmation which shall include the following information, namely:-

- (a) date on which the order is executed;
- (b) name and number of the securities;
- (c) nature of transaction (spot, ready or forward and also whether bought or sold);
- (d) price;
- (e) commission, if the member is acting as a broker;
- (f) whether the order is executed for the member's own account or from the market.

5. Maintenance of accounts and audit.-(1) Every member shall prepare once every year a balance sheet and a statement of income and expenditure.

(2) A member shall have his accounts audited by an auditor who is a chartered accountant to be appointed by the Authority whenever such audit is required by the Authority in the public interest.

(3) The auditor shall furnish his report to the Authority within such time as the Authority may specify.

6. Form of application for registration.- An application for the registration of a stock exchange under section 5 shall be made to the [Commssion]⁶ in Form I.

7. Maintenance of books of account and other documents by the stock exchanges.- (1) Every stock exchange shall prepare and maintain, as required by sub-section (1) of section 6, such books of account and other documents as will accurately disclose a true and fair picture of the state of affairs of the exchange at any point of time.

(2) The books of account and other documents referred to in sub-rule (1) shall include:

- (a) journals (or other comparable record), cash book and any other records of original entry, forming the basis of entries into any ledger;
- (b) ledgers (or other comparable record) reflecting asset, liability, reserve, capital, income and expense;
- (c) ledgers (or other comparable record) showing the position in respect of each member as on the settlement day of the securities which the member had bought or sold since the last preceding settlement day and which had been transferred through a Clearing House maintained by the stock exchange;
- (d) daily record of quotations and transactions on the stock exchange showing the time at which each transaction took place;
- (e) record of transactions with banks;
- (f) record of security deposits;
- (g) register of members;
- (h) register of authorised clerks; and
- (i) minute books of the meetings of-
 - (i) members;

⁶ Substituted for "Authority" by Notification No. SRO 87(I)/2001, dated February 8, 2001.

- (ii) governing body;
- (iii) any committee of the general body of members or of the governing body.

(3) The books of accounts and documents referred to in sub-rule (1) shall be preserved for a period of not less than five years.

8. Maintenance of books of account, etc. by members.- (1) Every member shall prepare and maintain, as required by sub-section (1) of section 6, the following books of account and other documents in a manner that will disclose a true, accurate and up-to-date position of his business, namely:-

- (a) journal (or other comparable record), cash book and any other books of original entry, forming the basis of entries into any ledger, the books of original entry being such as contain a daily record of all orders for purchase or sale of securities, all purchases and sales of securities, all receipts and deliveries of securities and all other debits and credits;
- (b) ledgers (or other comparable records) reflecting asset, liability, reserve, capital, income and expense accounts;
- (c) ledgers (or other comparable records) reflecting securities in transfer, securities borrowed and securities loaned and securities bought or sold, of which the delivery is delayed;
- (d) record of all balance of all ledger accounts in the form of trial balances to be prepared at least once at the end of the six months of every year of account;
- (e) record of transactions with the banks;
- (f) contact books showing details of all contracts entered into by a member with other members of the exchange or counterfoils or duplicates of memos of confirmation issued to such other members;
- (g) duplicates or counterfoils of memos of confirmation issued to customers.

(2) The books of accounts and other documents referred to in sub-rule (1) shall be preserved for a period of not less than five years.

9. Submission of periodical returns by stock exchange.- The periodical return relating to the affairs of a stock exchange, as required by sub-section(2) of section 6, shall be submitted to the [Commission]⁷ monthly in Form II within fifteen days of the close of the month to which it relates.

10. Submission of annual report by stock exchange.-(1) The annual report relating to the affairs of a stock exchange, as required by sub-section (2) of section 6, shall be submitted to the [Commission]⁸ not less than fourteen days before the meeting of the shareholders of the stock exchange before which it is to be laid.

(2) Every such report shall be accompanied by a copy of the balance sheet and profit and loss account of such year audited by an auditor who is a chartered accountant.

11. [Listing of security on stock exchange, etc.-An application under sub-section (1) of

⁷ Substituted for "Authority" by Notification No. SRO 87(I)/2001, dated February 8, 2001.

⁸ Substituted for "Authority" by Notification No. SRO 87(I)/2001, dated February 8, 2001.

section 9 for listing of a security on a stock exchange shall be made in Form-III;]⁹

[11-A. Limitation for petitions to Federal Government under section 9.- A petition to the Federal Government under sub-section (3) or sub-section (6) of section 9 shall be made within thirty days of the stock exchange refusing to list or, as the case may be, delist the security.]¹⁰

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⁹ Inserted by Notification SRO No. 1274(I)/80, dated 20th December, 1980.

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¹¹ Rule 12 omitted by Notification No. SRO 1234(I)/85 dated December 12, 1985. Before omission it read as
12. Submission of annual report by issuers. (1) The annual report required by section 11 to be furnished by an issuer of a listed security shall include a balance sheet and profit and loss account.

(2) The balance sheet and profit and loss account included in the annual report shall, except in the case of an issuer which is required to prepare a balance sheet and profit and loss account in form prescribed by the Banking Companies Ordinance, 1962 (LVII of 1962), or the Insurance Act, 1938 (IV of 1938), be prepared in accordance with the requirements laid down in the Second Schedule and the Balance Sheet so prepared shall be in form 'A' annexed to that Schedule or as near thereto as circumstances may admit.

(3) The balance sheet and profit and loss account shall be audited by an auditor who is a chartered accountant and the report of the auditor shall be in Form 'B' annexed to the Second Schedule.

(4) Every issuer shall furnish the annual report, together with the balance sheet and profit and loss account referred to in Sub-rule (1) to the security holder at least fourteen days before the general meeting of the shareholders of the issuer at which the report is to be laid before them and shall simultaneously furnish a copy of such report to the Stock Exchange or exchanges on which its securities are listed and to the Authority.

(5) Notwithstanding anything contained in Sub-rule (4), the first annual report to be furnished by an issuer shall be in respect of the year of account of the issuer ending after the commencement of these rules.

(6) An issuer shall, within three months of the general meeting referred to in Sub-rule (4), submit to the Authority a list of the members of the issuer stating the facts as they stood on the date of that general meeting.

(7) The list required to be submitted under sub-rule (6) shall be the list required by Section 2 of the Companies Act, 1913 (VII of 1913), to be submitted to the Registrar.

¹² Rule 13 omitted by Notification No. SRO 1234(I)/85 dated December 12, 1985. Before omission it read as follows:

13. Submission of periodical report by issuers.- Every issuer shall, within two months of the close of the first half of its year of account, prepare and submit to the Stock Exchange or exchanges on which its securities are listed and to its security-holders and the Authority a profit and loss account for, a balance sheet as at the end of, that half year, whether audited or otherwise.

¹³ Rule 14 omitted by Notification No. SRO 1234(I)/85 dated December 12, 1985. Before omission it read as follows:

14. Submission of return by certain beneficial owners, etc.- (1) The return required by Section 12 to be submitted by a director, officer of beneficial owner shall be submitted to the Authority in Form IV every month within ten days of the close of the month to which it relates.

(2) The first return under this rule shall be for the month of March, 1971, and shall be submitted to the Authority within thirty days of the commencement of these rules.

16. Mode of filing or submission of returns, etc.- Any person required by the Ordinance or any of these rules to furnish any document, statement, return or report to the [Commission]¹⁵ shall furnish it, either in person or through an agent, to the [Commission]¹⁶ at its head quarters at Islamabad or send it to the [Commission]¹⁷ by registered post.

¹⁴ Rule 15 omitted by Notification No. SRO 1234(I)/85 dated December 12, 1985. Before omission it read as follows:

15. Calculation of amount to be tendered to an issuer by certain beneficial owner, etc.- (1) For calculating the amount required by Section 14 to be reported and tendered to an issuer, the person by whom the amount is to be so reported and tendered may deduct from the amount of gain referred to in that section the amount of brokerage, stamp duty and other expenditure actually paid or incurred in making that gain.

(2) Any deduction made under Sub-rule (1) shall be supported by documentary evidence acceptable to the issuer as proof of the brokerage, stamp duty and other expenditure having been actually paid or incurred.

(3) Any loss arising out of any transaction in any security shall not, for the purposes of Sub-rule (1), be deemed to be expenditure to be paid or incurred in making gain out of a transaction in that security.

¹⁵ Substituted for "Authority" by Notification No. SRO 87(I)/2001, dated February 8, 2001

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