

MINUTES OF MEETING HELD BETWEEN FMA AND BROKERAGE HOUSES AT NBP BUILDING, KARACHI

Date: 8th October, 2010

Present:

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| 1. Mr. Shah Miftah ul Azim Azmi | (SA) | (In the Chair) |
| 2. Mr. Abdullah Ahmed | (AA) | (Moderator) |
| 3. Mr. M. Ismail Usuf | (IU) | |
| 4. Mr. Masood Wahedna | (MW) | |
| 5. Mr. Tariq Usman Bhatti | JS (TU) | |
| 6. Mr. Imran Iqbal | Icon (II) | |
| 7. Mr. Masood Ahmed Khan | Mumtaz (MK) | |
| 8. Mr. Ali Nayyar | FCSC (ALN) | |
| 9. Mr. Nadeem Dar | InvestCap (ND) | |
| 10. Mr. Naeem ul Hassan | InvestCap (NH) | |
| 11. Mr. Ahsan Chishty | BMA (AC) | |
| 12. Mr. Aryn Nasiruddin | Invest&Fin (AN) | |
| 13. Mr. Suhail Farooqui | Alfalah (SF) | |
| 14. Mr. Kalim Anwer | Vector (KA) | |
| 15. Mr. Salman Zaidi | Invisor (SZ) | |
| 16. Mr. Kashif Abbas | Invisor (KA) | |
| 17. Mr. Fazal-e-Askari | KASB (FA) | |
| 18. Mr. Rizwan ul Haq | IGI (RH) | |
| 19. Mr. Raza Jahangir | Continental (RJ) | |
| 20. Mr. Murshid Ali | Elixir (MA) | |
| 21. Mr. Muhammad Ismail | Global (MI) | |
| 22. Mr. Mansoor Ahmed | CMKA (MAN) | |
| 23. Mr. Sohail Abbas | CMKA (SAB) | |

S#	DISCUSSIONS	ACTION/ FOLLOW UP
	II asked the executive committee if there was a set agenda in mind; to which AA replied that the FMAP wanted to have an interaction with the broker community and wanted to know their issues and how FMAP could act as a facilitator in building better relationships between banks and brokers. TU thanked the FMAP for hosting this meeting, and suggested that frequent interactions like this should happen in future, say, at least every quarter.	

Prepared by Treasury

The first issue that was put to the house was ethics/ code of conduct. II highlighted the issue of name disclosure, and stressed that brokers are forced to disclose names, fearing that non-disclosure would result in banks suspending dealing with such brokers. Another issue highlighted by II was that banks could give brokerage and elect not to give brokerage whenever they please. II insisted that as FMAP is a regulator of brokers, it could curb such practices. To this, AA and IU clarified that besides not being a regulator for banks, FMAP is not a regulator of brokerage houses either; rather, it's the SECP that is the regulator. Brokerage houses fall under the ambit of FMAP as far as licensing and best practices are concerned. II suggested that FMAP can however issue circulars to brokers mentioning best practice to avoid engaging in 'nil' brokerage deals; and conduct random inspection visits to brokerage houses to verify compliance with this practice.

MK mentioned that practices have become rampant whereby deals are done directly amongst banks and full brokerage for such deals is given to brokerage houses. This is due to the fact that a dealer has a particular relative sitting in that brokerage house. This is an unethical practice which needs to be curbed. MK suggested that banks where the dealer has a particular relation in a brokerage house, should not deal with that brokerage house; as if that broker is competent on his own, he'll get business nevertheless from other banks in the market. Another point mentioned by MK was the attitude of the bankers; which time and again has been below decency. To this, NH and ALN responded that the attitude of banks had comparatively improved over the last few years.

AA mentioned that in spite of FMAP conducting a survey from banks as to their close relations in brokerage houses, some brokers had complained that certain relationships were never asked for; and hence this exercise was not complete. To this, the audience agreed that FMAP should conduct another exercise amongst brokers asking them to disclose fully their relationships with bankers. Also, it was decided that FMAP will issue a letter addressing banks to as a best practice, refrain from dealing with those brokerage houses where a close relative of that dealer is working on the brokerage desk.

ND mentioned that banks were partly to blame for unethical behavior. For example, primary dealers were not clearly following SBP rules as far as quoting is concerned. Moreover, they sometimes give one way quote on PKRV. As the broker quality has declined; so has that of bankers. Such unethical behavior by bankers is due to both declines in competence as well as deliberate misconduct.

The next issue on the agenda was quality of brokerage service. The

participants were in general of the view that since brokerage commission rates had not increased, hence the broker quality had declined. AC was of the view that increase in brokerage commission would lead to increase in quality of brokerage service. AA told AC that this proposal could be meaningful, if there are measures in mind as to how to address those brokerage houses which are getting billing on the basis of keeping close relatives of bankers.

On a query by one of the participants that Series-type examinations (MCQ-based) should be introduced for brokers, AA responded by informing the audience that the current FMAP had held ACI dealing certificate workshops in January and one was being held in November. Interestingly, three brokers attended the first workshop, while five have enrolled for the second one; showing lack of interest amongst the brokerage community in such initiatives. TU suggested that FMAP should make such examinations mandatory for the dealers so that dealers' education & competence is improved at brokerage houses.

MW and IU informed the participants that for the first time, existing brokerage houses were being revalidated by FMAP's external auditor. II questioned the committee as to how this revalidation process takes place; to which AA responded that the auditor evaluates a brokerage house in light of the brokerage accreditation criteria, and if there is an anomaly, points out the objections in its report. IU also informed the house that those brokerage houses that do not comply with FMAP's accreditation criteria have been issued notices, and if they do not comply, FMAP will move for cancellation of their licenses. The audience was also informed that survey was being carried out in market to determine best FX broker and best MM broker for the year.

The next issue on the agenda was the brokerage commission structure. The audience was of the view that brokerage commission rates needed revisiting. IU and AA informed the attendees that FMAP will be coming out with a circular in which all the FX and MM commission rates would be brought under one umbrella circular. ND was of the view that some commission rates needed to be increased, while some needed to be decreased. MW also added that commission rates needed to be fixed for dealing in TFCs; currently there is no fee structure for dealing in TFCs, and brokerage is decided by banks as they please.

FMAP requested the broker community to form a 3 or 5-member committee to interact with FMAP on a regular basis. Once the circular on brokerage commission rates is released, the brokers assured FMAP that they will come back with their recommendations within one week.

	<p>The last issue on the agenda was broker fee. AA informed the participants that in the last annual general meeting, it was approved that FMAP accredited brokers were required to pay prescribed annual fee to FMAP in order to continue to avail accreditation. AA also mentioned that previously in the case of FERC, every newly licensed brokerage house was supposed to pay PKR 100,000 joining fee and PKR 25,000 annual fee. In this regard, FMAP will shortly be issuing a circular charging PKR 25,000 annual fee from the brokerage houses. This was agreed by the all the attendees.</p> <p>The meeting ended with the understanding that inshallah such meetings would be held in a frequent manner.</p>	
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