

Interbank Brokerage Accreditation Criteria

Financial Markets Association of Pakistan [Approved by Tech Com & SBP: 31Dec2010]



PREAMBLE

The **Financial Markets Association of Pakistan** was formed in 1997, is a non-commercial, non-profit and self-financed organization of dealers of financial instruments. The members of the association are drawn from dealing room staff engaged within the financial trading or sales environment representing the Foreign Exchange, Interest Rate Products, Securities, and Derivatives working with Scheduled Commercial Banks, DFIs, NBFCs and accredited Interbank Brokerage Houses. FMAP has about more than 285 members who elect the governing body annually. FMAP is affiliated with "Association Comsite Internationale – Paris", like other similar national associations across the world.

FMAP in its role as a SRO has been tasked with the responsibility of Accreditation of Interbank Brokerage Business as per the following Criteria duly reviewed/ approved by State Bank of Pakistan dated 31Dec2010. Under the process, all applicants will approach FMAP who will forward the application with the documents to its Technical Committee for review and accreditation of the said application. Once the Technical Committee has completed its review, it will intimate SBP of its decision and its recommendations on that application. The applicant will be finally advised, once SBP gives its due concurrence.

Accreditation Criteria for Interbank Brokers

I. **Organization Structure**

The Applicant, in whose credentials the recommendation is granted, must form a Corporate Entity, registered with SECP, either in the shape of Private Limited Co. or Public Limited Co. Accreditation would only be granted by FMAP, once the entity is duly registered with SECP. All Brokerage Entities should have a National Tax Number (NTN).

II. **Adequate Financial Resources**

The Financial viability of the Brokerage Entity would be determined in terms of Paid-up Capital (net of Losses, if any). The criteria would be determined based on the proposed activities carried out by the entity in addition to its already existing business & Capital Adequacy requirements by respective authorities;

- FX or Money Market PKR. 7,500,000/=
- FX & Money Market PKR 10,000,000/=
- FX, MM & Derivatives PKR 20,000,000/=

At the time of application, the applicant must produce the evidence of minimum 25% of the Paid-up Capital requirement to show the seriousness of the applicant.

III. **Adequate Accounting & Control Systems**

The FMA must be satisfied that the company presently has, and will if it is approved continue to maintain, adequate computerized Accounting Systems prescribing to International Accounting Standards, as applicable in Pakistan. The system should also have capability for deal confirmations and adequate systems of control.

Accredited brokers are also required to maintain comprehensive records of;

- a) The transactions undertaken.
- b) List of names of their counterparties & the personnel authorized to deal by respective Counterparty.
- c) Copies of all Customer complaints and of the response to such complaints.



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- d) Records should be kept for at least three years to enable effective audit trails to be carried out if necessary.
- e) All hotlines/telephone lines should be connected to Voice Recording System. The VRS records should be readily available for last 6-months, in case of a dispute.
- f) The Management to have written policy for Authorities & Controls on access to VRS tapes/records, whether in use or in store, in order to prevent tampering.
- g) Annual Accounts to be audited within 3-months of Financial Year closing & auditor's report be submitted to FMAP for record.

These are necessary to ensure that the business of brokers is conducted in a professional and ethical manner and that error, misunderstandings and breaches of confidentiality in the dealing activities of brokers are minimized.

IV. Infrastructure Requirements

- a) The entity should have a clear/distinctly marked Office Premises.
- b) Should have at least 6 designated Hotlines/ Telephone lines, which should all be connected to Voice Recording System.
- c) Should have facsimile & and an email account.
- d) Should have proper designated/ trained dealing and settlement staff

V. Business to be conducted with Integrity, Prudence and Competence:

FMAP must be satisfied that the business of the company is presently, and will if it is approved continue to be, conducted with integrity, prudence and the appropriate degree of **Professional Competence**.

In considering whether this criterion is satisfied with respect to a broker, the FMAP will have regard to its compliance with relevant codes or guidelines, which are applicable to its particular activities. This includes in particular the ACI (Financial Markets Association) "**Model Code of Conduct**" & FMAP's "**Code of Conduct**". The FMAP may issue, time to time, its own guideline regarding the manner in which brokers are expected to conduct their activities.

The company must observe high Ethical Standards in carrying on its business. Criminal offences or other breaches of law will obviously call into question the fulfillment of this criterion, as will breaches of relevant codes or guidelines. Of particular relevance in this context is adherence to following Ethical Standards;

- a) **Entertainment, Gifts & Favors:** Management & employees must neither offer inducements to conduct business, nor solicit them from the personnel of other institutions. However it is recognized that meeting over meals can help foster healthy business relationships among market participants, but the practice of entertainment & gifts may be open to abuse. Therefore,
 - i. Banks' and Brokers' management should take special note of the form, frequency and cost of entertainment & gifts their dealers receive or provide. Mechanisms set up to monitor them should include, among other things, regular reports from accredited brokerage houses detailing in full all entertainment expenses and the nature of entertainment accorded to individual bank dealers.
 - ii. No Brokers should offer expensive entertainment or gifts to the dealers. Dealers should also not solicit or receive gifts for personal benefit. Any such gifts or entertainment shouldn't be excessive in value or frequency. Value of gifts exceeding US\$ 100/= (Equivalent) per person in a calendar year would be regarded as excessive.
 - iii. Any solicitation or offer of waiver from prescribed Brokerage Rates Schedule by Product by either dealers or brokers would also be construed as monitory inducements to conduct business.

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- iv. Hence, there should not be any instances, whereby waiver are given on brokerage fee from the prescribed Brokerage Rates Schedule as agreed to and circulated by FMAP. The only exception to this condition would be transactions that are executed purely for "Routing Purpose", i.e., name change due to credit limits constraints between counterparties after disclosure of names.
- b) **Confidentiality & Dealing Practice:** Confidentiality is essential for a reputable & efficient market. Therefore, dealers & brokers must preserve and aid in preserving confidentiality in all matters including all information about their counterparties in strictest confidence.
 - i. Details of any transaction executed or prospective are not to be disclosed to other financial institutions. All transactions concluded or not, must remain confidential.
 - ii. Brokers shall not reveal the identity of their principals to any deal unless when appropriate under the accepted terms or when expressly authorized to do so by the principal or counterparty.
 - iii. Banks' names should never be disclosed until the deal is closed after acceptance of other terms. Brokers should not divulge the names of counterparties prematurely. Names should be revealed only when both the counterparties have agreed to the terms of trade & seriously intend to transact.
 - iv. A **Bank Dealer** should not, in any way, pressure a **Broker** by inducement, threat or promise for information, which would be strictly improper to divulge. Pressure includes any statement to the effect of or which could be construed as implying, that a failure to cooperate would lead to a reduction in business given by the dealer or bank to the broker. Such pressures should be resisted by brokers & similarly dealers and should report any such incidents to their management for further referral to concerned authorities.
- c) **Dealing for Personal Account:** Management of the Brokerage House should've a defined policy for personal transactions of own staff, clients' dealers & their family members. Management should be aware that conflict of interest might arise if traders are dealing on their own account and that of their institutions with the same broker. Thus, monthly activity report is sent to the senior management of the individual traders' transaction done on personal account, if any.
- d) **Dealing at Non-current Rates & Rollovers:** Deals at non-market rates should be avoided as such practice may result in concealment of a profit or loss and/or perpetration of a fraud. All such transaction on Non-current Rates be reported to the senior management of both counterparties.
- e) **Use of Mobile Devices for Transacting Business:** The use of wireless communication devices, whether privately owned or company owned, can undermine the controlled environment in dealing room, thus they should not be used to transact business. The Management of Brokerage House should ensure a clear written policy in place, stating the terms & conditions for use of these devices by all staff should be in place.

VI. Agency Concept:

In the process of executing Interbank deals, all Brokerage Houses will undertake to act as an AGENT of the BANK party to the transaction. In case of Brokerage Houses involved in proprietary trading, all such operations will be conducted separately from the interbank Brokering Desk and through brokers other than their own affiliates/sister concerns. The "Chinese Wall" concept to apply strictly, with **NO Front Running** incidence. The Brokerage Desk should also have clearly / distinctly marked premises from that of the Propriety Desk.

VII. Experience and Educational Qualification:

The **Applicant** (Person-in-Charge) on whose credentials, the recommendation is awarded should be a graduate and should have a minimum;



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- a) 7 years dealing experience in a Reputable Commercial Bank's/ Financial Institution's Treasury or Interbank Brokerage House, and
- b) With minimum 3 years as a Head of Desk in any of the above institutions.
- c) Should be well versed with financial trading environment and have sound understanding of Foreign Exchange and Interest Rate Products.

The **Applicant** on whose credentials the recommendation is awarded should be directly involved in the management of day to day operation of the Brokerage Desk, evidence of which has to be furnished to the FMAP. If the **Applicant** is found non-compliant to above condition it could result in cancellation of the accreditation by FMAP.

Furthermore, if the **Applicant** leaves the Brokerage House, the respective entity will be given an interim period of 3-months to operate till the time the accreditation of the new Applicant is reviewed by FMAP. However, if during this interim period, credentials of new Applicant is not presented to FMAP for accreditation and/or new applicant is not approved by FMAP or SBP, then the accreditation of the respective Brokerage House will become Null and Void.

The objective of the following Criteria is to ensure that personnel have good practical understanding of the role of the Broker in the Financial Markets and understanding of products traded within the markets.

The Head of the Brokerage/Product Desks:

- i. The Head of FX and/or Money Market Desks should at least successfully complete the **ACI Dealing Certificate**, within the six month of taking their assignment or accreditation of the firm by FMAP in respective product(s).
- ii. The Head of Derivatives/Specialized Products should at least successfully complete the **ACI Diploma**, within the six month of taking their assignment or accreditation of the firm by FMAP in the respective product(s).

Dealing Staff & Personal:

Dealing staff/personnel should possess the following minimum experience and qualifications:

- i. Minimum educational level should be a graduate with at least 3-month rigorous training, as junior dealer (not allowed to trade/ Call Counterparts) or 6-month internship in some reputable Commercial Bank/ Financial Institution's Treasury or a Brokerage house's Dealing Room.
- ii. It is required that, each Dealing Staff on the Brokerage Desk should at least successfully complete the **ACI Dealing Certificate**, within the first year of their registration with FMAP.
- iii. FMAP must be informed pre-fact of any changes in profile of its staff & prior to staffs are allowed to trade
- iv. All Dealing Desk Staff of Brokerage House must have valid membership of FMAP.

VIII. Conditions on Approval:

FMAP may make recommendations, which it may think proper to the approval of a particular application. It is the FMA's pre-conditions of the approval of Interbank Brokers that they comply with the "**Codes of Conduct**" issued or adopted by the FMAP, and any other codes to which they may be subject, and that they give prior written notice to the FMAP of any change(s) in their dealers, controllers, directors or chief executive.

IX. Revocation of Approval:

FMAP may revoke the approval, in consultation with SBP, of an approved broker on any one or more of the following grounds;



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- 1) If FMAP is satisfied that the approved interbank broker has not provided, whether before or after being approved, with such information of a material nature relating to it, and to any circumstances likely to affect its method of business, as is required.
- 2) If FMAP is satisfied that the approved Interbank Broker has provided it, whether before or after being approved, with information which is, to a material extent, false, misleading or inaccurate, and whether or not such information was so provided pursuant to a requirement.
- 3) If FMAP is satisfied that the approved Interbank Broker has contravened any condition necessary for his approval
- 4) If FMAP is satisfied that the approved Interbank Broker has ceased to act as an active brokerage entity for last 3 months.
- 5) If the approved Interbank Broker requests in writing the FMA to revoke its approval.
- 6) If FMAP is satisfied that the approved Interbank Broker engages in business practices, which would be likely to prejudice the interests of Financial Markets or Pakistan.

X. Transfer of Approval:

The transfer of accreditation may only be considered subject to meeting of Interbank Broker Accreditation Criteria as laid down for new accreditation and could only be transferable, in the case of:

- Merger and/or acquisition.

FMAP reserve the right to revoke the accreditation/ approval if the new Director/CEO doesn't fulfill the above competency based criteria for the "Person in Charge" and/ or Head of Brokerage/Product Desk(s) and all the other requirements laid down in this document which will be re-validated by FMAP in consultation with SBP. The Transfer of Approval is **NOT** valid in case of Selling of the Company.

XI. Application Procedures:

As mentioned earlier, the FMA retains the right to consult the relevant authorities regarding:

- 1) the financial soundness of the company;
- 2) The fitness and propriety of its Directors, Controllers and the Chief Executive Officer; the company's record in compliance with statutory provisions or non-statutory codes and guidelines; and any other information deemed relevant.

The following information or documents should be submitted together with an application:

- 1) A description of the applicant's organization and staff resources with relevant documents on the company's constitution. If already in the Brokerage Industry, then list of Clientele, coverage and tenor of the company.
- 2) Details of Ultimate Beneficial Ownership (UBO), including the names of all directors, controllers and the amount of their shareholdings
- 3) Detailed profile on the background, experience, and qualifications of Directors and Managers/ Head of Desks; supported by relevant documents.
- 4) Details of Accounting Systems and Systems of Internal Control;
- 5) A statement by the applicant as to whether its operations are already supervised and by whom.
- 6) Certificate from the registrar that the company is registered as Public/Private Limited Company, before commencing of business.
- 7) Disclosure of all proprietary/other activities to be carried out by the proposed entity.
- 8) Name of Company's External Auditors

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