



PAKISTAN
STOCK EXCHANGE
LIMITED

TERMS OF REFERENCE



REGULATORY AFFAIRS COMMITTEE

TERMS OF REFERENCE

1. Introduction

These Terms of Reference [TOR] of Regulatory Affairs Committee (“Committee”) of Pakistan Stock Exchange Limited [PSX], have been drawn in terms of Plan for Segregation of Commercial and Regulatory Functions of Stock Exchanges as approved by the Securities & Exchange Commission of Pakistan. These amended TOR have been approved by Board of Directors of PSX on February 26, 2020.

2. Composition and other memberships

These have been mentioned in Appendix ‘A’ hereto.

3. Role, responsibilities and functions

3.1 The Committee shall have the following roles, responsibilities and functions:

3.1.1 With respect to Policy Matters

The Committee shall consider and recommend for the approval of the Board all regulatory amendments except the amendments which are of consequential or minor nature, ensure that the Regulatory Affairs Department (RAD) functions effectively [the functions of the Exchange, duly segregated into regulatory and commercial are mentioned in Appendix ‘B’ hereto]. The Committee shall take measures necessary to implement an effective regulatory regime and improve investor confidence and market integrity. In this regard the Committee shall:

- i) develop an overall regulatory plan and roles and responsibilities of each division of RAD together with a roadmap for effective regulatory role.
- ii) on continuous basis ensure adequacy and effectiveness of the exchange’s regulatory plan and approve annual plans/targets for the RAD.
- iii) establish criteria for evaluating candidates for the senior management of RAD including CRO.
- iv) identify and manage potential conflicts of interest in commercial and regulatory functions regularly.
- v) make arrangement for training/education of members of RAD in respect of conflict management and also for development of the manual on conflict management policy and get it circulated to all employees of RAD.
- vi) prepare a summarized annual report of the RAD on the activities, conclusions, recommendations of the last year with special focus on the identification and mitigation of conflicts of interest and identify the targets for next year along with any other matters.

3.1.2 With respect to Administrative/Functional Matters

The Committee shall:

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- i) formulate and recommend to the Board for approval, budget and staff allocation for RAD.
- ii) approve all appointments and removals from RAD
- iii) review the compensation of the Chief Regulatory Officer [CRO] and personnel of the RAD, evaluate their performances in the light of goals and objectives. The compensation arrangement and changes therein will be approved by the Human Resource and Compensation Committee of the Board. The Chairperson of the Committee shall be a member of the Human Resource & Remuneration Committee and consider and recommend to the Board the compensation levels.
- iv) assess performance of the RAD in the light of regulatory program and take measures and where necessary make recommendations to the Board for improvements.
- v) carry out any other function that may be mutually agreed upon by the RAC and/or the Board.

3.1.3 Other Functions:

The Committee in the attainment of its objectives is also authorized to:

- i) seek any information or evidence in respect of the Exchange, as permitted under any laws and regulations in order to perform its duties.
- ii) delegate authority to its sub-committees in order to address specific issues within the scope of these TOR.
- iii) hire independent external consultants to obtain expert opinions in advisory capacity subject to prior approval of the Board with respect to relevant necessary expenses.
- iv) request any Director, Executive or other person within PSX or any consultant or advisor or any other related person to attend any meeting(s) of the Committee as it may, from time to time, consider desirable to assist them.

4. Secretary of the Committee

- 4.1 The Secretary of the Committee shall be appointed by the Committee.
- 4.2 The Secretary of the Committee shall be responsible for maintaining attendance record and recording of minutes of the meetings. The minutes, once confirmed in the next meeting of the Committee, shall be submitted to the Board and SECP within 14 days of the confirmation.

5. Meetings of Committee

- 5.1 The Committee shall meet at least once in every two months. However, the Chairman of the Committee, on his own motion or if so requested by any member of the Committee or by the Board, shall direct the Secretary to call a meeting of the Committee.

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- 5.2 Meetings of the Committee shall normally be held at PSX's registered office.
- 5.3 The Chairman shall preside over meetings of the Committee and shall be the coordinator for all matters relating to convening the meeting, proceedings, agenda, preparation of minutes, etc.
- 5.4 In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting.
- 5.5 The quorum for a meeting of the Committee shall be the presence of at least 2 (two) members of the Committee including Chairman of the Committee/Meeting.
- 5.6 All decisions in a meeting of the Committee shall be made by majority vote and in case of equality of votes, the Chairman of the meeting shall have a casting vote.

The Committee shall review and re-assess these TOR as and when deemed necessary and recommend any changes or modifications to the Board for its consideration and approval.

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APPENDIX "A"

Composition and other memberships

1. The Committee shall be composed of majority of independent directors and one shareholder director.
2. The members of the Committee shall be appointed by the Board on the recommendation of the Nomination Committee.
3. The Committee shall be chaired by the independent director.
4. The members of the Committee shall not be members of any other Board Committee overseeing commercial matters of the stock exchange. However, they can be the members of Audit Committee and Human Resource & Remuneration Committee.
5. The Chief Executive Officer will not be a member of the RAC but may be invited in meetings of the Committee in an advisory capacity.

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APPENDIX 'B'

FUNCTIONS OF PAKISTAN STOCK EXCHANGE AS PER THEIR
REGULATORY AND COMMERCIAL NATURE

Regulatory Functions	Commercial Functions
<p><u>Affairs related to Entities/securities listed on the Exchange. [Companies Affairs]</u></p> <ul style="list-style-type: none"> - Framing of new/amendments in Listing Regulations/Procedures. - Monitoring compliance of Listing Regulations by listed companies/Code of Corporate Governance (CCG). - Monitoring regulatory compliance under voluntary de-listing. - Monitoring regulatory compliance under merger/de-merger. - Monitoring compliance of provisions by companies under various laws such as Listed Companies [Substantial Acquisition of Voting Shares & Takeovers] Ordinance, 2002, etc. - Disciplinary actions and Investigations against delinquents. Any other matter relating to regulatory compliances - Any other matter relating to regulatory compliances 	<ul style="list-style-type: none"> - Scrutiny of documents to ensure compliance of Listing Regulations/Procedures in relation to new listing. - Clearance of IPO. - Approval of date/time of AGMs of listed companies. - Listing & issuance of Right Shares.
<p><u>Affairs Relating to Market Participants</u></p> <p>Risk Management, Surveillance & Market Monitoring:</p> <p>1. With respect to TRE Certificate Holders and their Associates:</p> <ul style="list-style-type: none"> - Framing new / amendments in the Regulations Governing Risk Management, Market Surveillance & Monitoring and Default mechanism. - Monitoring TREC holders' profiles. - Monitoring compliance of related regulations. - Disciplinary actions and investigations against non-compliance/market abuse. <p>2. With respect to Investors:</p> <ul style="list-style-type: none"> - Framing new / amendments in the regulations relating to investors. - Disciplinary actions for non-compliances and violations. 	

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Regulatory Functions	Commercial Functions
<ul style="list-style-type: none"> - Investigations against market abuse, hearing of disciplinary matters and related affairs. <p>3. With respect to Employees of the Exchange:</p> <ul style="list-style-type: none"> - Framing new / amendments in the regulations governing employees relating to market activities. - Recommending disciplinary actions against non-compliances/violations by the employees with respect to regulations relating to market affairs. - Investigation market abuses, hearing of disciplinary matters. 	
	<p><u>TREC Holder Affairs:</u></p> <ul style="list-style-type: none"> - Updating TREC holders' profiles. - Transfer of TREC/activation of TREC/issuance of new TREC. - Renewal & registration as a broker. - Change of nominee director/Board of TREC - Agent registration. - Branch registration. - Transfer of rooms/Telephone Booths.
	<p><u>Finance:</u></p> <ul style="list-style-type: none"> - Evaluation of financial feasibility of new products. - Periodic financial/operating reports. - Corporate planning/projections/budget. - Treasury functions [Exchange plus Trusts]. - Taxation matters. - Liaison with Internal Audit. - Recovery of initial/additional/annual listing fee/recommending any changes therein. - Collection of LAGA/CHPF-IPF/taxes. - Bank reconciliation. [For all bank accounts] - Tax and accounting procedures/system of new products. - Financial Manuals/SOPs. - Management of financial commitments / Contracts.
<p><u>Law and Corporate Affairs of Exchange :</u></p> <ul style="list-style-type: none"> - Reviewing /amending /maintaining new/existing Regulations for new/existing products. 	<p><u>Law & Corporate Affairs of Exchange:</u></p> <ul style="list-style-type: none"> - Discharging secretarial functions of different Committees / Board / General Body.

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Regulatory Functions	Commercial Functions
	<ul style="list-style-type: none"> - Legal drafting/vetting of documents, agreements, MoUs, etc. - Arranging legal opinion, in-house/outside. - Litigations. - Appearance before authorities / courts, NAB, FIA, Ombudsman and other judicial forums with respect to matters of commercial nature. - Compliance of CCG by the Exchange itself.
	<p><u>Internal Audit:</u></p> <ul style="list-style-type: none"> - Performing periodic audits of Exchange's processes to ensure compliance with internal controls. - Enterprise Risk Management [ERM] - Auditing the compliance of CCG by the Exchange itself.
	<p><u>Marketing & New Product Development:</u></p> <ul style="list-style-type: none"> - Listing of companies/securities [promotion of IPO, etc. including seeking relief from government for listed companies]. - Selection of Top 25 Companies and giving awards to such companies. - Criteria for selection of Top 25 Companies. - Development of product specifications and feasibility studies in light of international practices and its marketing. - Data vending/selling of data feeds. - Website marketing. - Index-tracking, re-composition of indices and development of new indices. - Financial analysis of PSX-100 Index Companies. - Bi-annual re-composition of PSX-30 and PSX-100 indices. - Calculating/updating records of free-float.
	<p><u>Information Technology:</u></p> <ul style="list-style-type: none"> - Real time application development and software quality assurance. - Management of network and infrastructure. - Database administration. - Technology security measures. - Collection of terminal fees.
	<p><u>Trading Affairs/Market Control:</u></p>

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Regulatory Functions	Commercial Functions
	<ul style="list-style-type: none"> - Calculation of ex-basis share prices. - Square-up market. - Daily Quotations. - Change symbol Ready to SPOT, vice versa. - Notifying Clearing Schedule. - Dissemination of corporate announcements.
	<p><u>Administration:</u></p> <ul style="list-style-type: none"> - Infrastructure - Engineering - Contract management - Procurement
<p><u>Compliance and Enforcement of Regulations:</u></p> <ul style="list-style-type: none"> - Irregularities in dissemination of corporate announcements. - Ensuring compliance of System audit of brokers/TREC holders and actions against delinquents. - Investors' complaints/Arbitration proceedings. - Ensuring compliance of regulations by TREC holders, investors and employees of the Exchange and actions against delinquents. - Functions relating to initiating/defending legal proceedings in respect of matters pertaining to regulatory / enforcement/compliance nature. 	<ul style="list-style-type: none"> - Disabling/restoring terminals. - Halt of particular market segment/suspension of trading of a security in a specific market.
<p>Liaison for negotiation/dealing with SECP and other regulatory authorities on regulatory affairs.</p>	