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# COMPLIANCE POLICY

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APRIL 10, 2025

PINE CAPITAL MANAGEMENT (PRIVATE) LIMITED

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Policy No.: 005  
Effective Date: April 10, 2025

## **Board Resolution for the compliance policy:**

### **(i) AGENDA**

The Chief Executive, Adil Khan Swati, reviewed the programs that the Company has implemented to ensure that all employees comply with the law, which is our obligation as a law-abiding organization. He explained that such programs enable the company to minimize the risk of civil litigation or criminal prosecution and the resulting losses to the business through the legal costs, business disruption, and damage to the reputation. In addition, clients will be more likely to deal with law-abiding brokers, and employees will be motivated to work for an organization of which they can be proud. The Securities and Exchange Commission of Pakistan (SECP) & Pakistan Stock Exchange Limited (PSX) have established certain baseline criteria that define an effective compliance program. Mr. Adil Khan Swati, outlined the plan to formalize a compliance program that met those criteria, and requested that the Board give its approval. Brokerages are the backbone to the affluent flow of stock exchanges; to articulate that process, compliances are a must to be adhered with.

Upon motion, duly seconded, the following resolution was adopted:

### **(ii) RESOLUTION**

WHEREAS, the Company has an unwavering commitment to adhering to ethical and legal standards in all of its activities, as set forth in its Code of Conduct;

WHEREAS, the success of the Company is due in large part to its reputation for ethical and legal conduct in its dealings with clients, the government, brokers, employees, and shareholders; and

WHEREAS, a unified compliance program, consistent with the SECP, will enable the Company to continue its record of outstanding record of legal compliance by ensuring compliance with law through a targeted training and information program;

THEREFORE,

RESOLVED, that this Board of Directors hereby endorses the adoption of the unified compliance program; and

FURTHER RESOLVED, that Mr. Zahoor Ahmad, is appointed Compliance Officer, to be responsible for implementing this program; and

WHEREAS, the Company's Board of Directors has approved a unified compliance program;

THEREFORE,

RESOLVED, that, periodically, the Compliance Officer shall report on compliance as deemed

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appropriate to CEO, including;

Progress on establishing the unified program throughout the Company so that all appropriate employees are reached;

## **COMPLIANCE POLICY**

### **i) SCOPE:**

The brokerage industry is subject to a vast array of rules and regulations, from a wide variety of regulatory agencies, including the Securities and Exchange Commission of Pakistan (SECP), Pakistan Stock Exchange ("PSX"), Federal Board of Revenue (FBR), the various self-regulatory organizations including, but not limited to National Clearing Company of Pakistan ("NCCPL"), and Central Depository Company (CDC).

It is well beyond the scope of this document to identify all of the applicable regulations which govern the industry, nor the procedures employed by firms to insure their compliance. However, for educational and informational purposes, we include here the major regulatory concerns relating to the operation of a broker-dealer, the rules from which the concerns arise, and examples of the procedures employed most firms to deal with the more significant rules and regulations. The reader is encouraged to examine the rule himself, and to engage competent counsel if procedures are required to comply with these regulations.

Registered representatives are reminded that should always check their own firm's manual for the firms specific procedures, which may differ from those here, and from another firm's procedures, on an identical issue.

### **ii) NET CAPITAL COMPLIANCE REPORTS**

The Net Capital -- Rule 2(d) of Schedule 3 to the Securities Rules requires a brokerage firm to maintain minimum net capital levels based upon a brokerage firm's activity and Schedule V of Chapter 12 of NCCPL regulations 2015 requires a brokerage firm to report instances of net capital deficiencies to the NCCPL. Brokerages are also required to report their Net Capital Balances to PSX. Collateral to meet the Base Minimum Capital as prescribed and determined under the chapter 19 of PSX Regulations. Also required is an original certificate by an Auditor confirming his Net Capital Balance as required under the NCCPL regulations.

### **iii) RECEIPT OF CUSTOMER FUNDS AND SECURITIES**

Brokerage firms who do not "self-clear" are prohibited from accepting checks, cash or securities from their customers, and same must be forwarded to the clearing firm. In the case of firms who do self-clear, the checks are typically received in a designated location, separate and apart from the retail brokers.

In either case, Registered Representatives should never be the person receiving checks, cash or securities from a customer. If such receipt is unavoidable, same should be immediately being turned over to the supervisor of the branch office.

### **iv) CUSTOMER COMPLAINTS**

A brokerage firm has an obligation to make internal inquiries and to respond to customer

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complaints according to PSX rules. In investigating complaints and making the appropriate response, the ultimate goals of the firm are typically two-fold: (a) when practicable and reasonable, to amicably resolve all customer disputes, and (b) uncover problem areas that may need to be rectified in the firm, or the a particular broker's activities.

Brokerage firms typically designate a Compliance Officer to be responsible for investigating customer complaints, making the appropriate response (or seeing that it is made) and keeping a record of same.

**v) KNOW YOUR CUSTOMER AND CUSTOMER DUE DILIGENCE:**

The Brokers shall formulate and implement an effective Know Your Customer (KYC) and Customer Due Diligence (CDD) internal policy and framework in accordance with the guidelines issued by the Exchange, with the prior approval of the Commission and any notices or circulars issued by the Commission from time to time. The KYC and CDD policy should be approved by the Board of Directors of the Broker, if it is a Corporate Brokerage House, and must be appropriately communicated to every agents and branches of the Broker. The Brokers shall also ensure that the above-mentioned policies are effectively disseminated to and understood by the relevant personnel

**vi) SEGREGATION OF CLIENTS' ASSETS BY THE BROKERS:**

The Brokers shall ensure that the assets belonging to their clients are kept separated from the assets of the Broker. For this purpose, the Broker:

- (a) shall maintain separate bank account(s), with word "clients" in the title, which will include all funds of their clients along with record/breakdown of clients' balances. The Broker may keep clients' unutilized funds in a profit-bearing bank account and in such case, shall pass on profit earned on these funds to the clients out of the total profit accrued on such funds, as mutually agreed in writing between the Broker and his clients;
  - (b) shall maintain separate sub-accounts under his Participant Account in Central Depository System (CDS) for each of his clients to maintain the custody of margins deposited by the clients in the form of securities and securities bought for clients;
  - (c) may maintain a Collateral Account under his Participant Account in CDS for all clients. This account shall be used exclusively for instances where outstanding payment has not been received from clients in respect of securities purchased on their behalf and relevant purchase obligation is to be settled. In such cases, the Broker will be allowed to transfer the securities on the respective settlement date from the respective sub-account to the Collateral Account for a maximum period of three (3) settlement days only to the extent of the transaction volume for which the client's payment is outstanding for whatsoever reason and comply with relevant requirements contained in the CDC Regulations. The Broker shall, in addition to the electronic reporting of such transfers through ways and means as specified by the Exchange report the Exchange in writing explaining the reason for utilizing the Collateral Account and/or for holding client's securities immediately after such transfer. The notice from the Broker will be accompanied with following documents:
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- (i) Non-payment notice served on the client through courier, personal delivery method, facsimile, email or properly recorded telephone line, advising him to make payment by the close of banking hours on the next working day after the settlement day and notifying that, otherwise the Broker shall have a right to dispose of the required securities to cover the shortfall in the client's account at client's risk and cost;
- (ii) Client's sub-account and Collateral Account Activity Report of movement date and;
- (iii) Documentary evidence substantiating the genuineness and circumstances of the reason for non-payment by the client which may include failure of client to pay in time due to non-clearance of client's cheque, any natural calamity, law and order situation, non or delayed functioning of an automated procedure, e.g., NIFT. Provided that for a particular client, the Broker is allowed to transfer securities from the sub-account of client to the Collateral Account only once in a calendar month.

Except as permitted above, the clients' funds and securities shall not be used by the Broker for any purpose other than as authorized by the client in writing in the manner and procedure prescribed by the Exchange and/or CDC. The Broker shall be obliged to maintain and furnish documentary evidence to substantiate the compliance with the above regulations as and when required by the Exchange.

On the basis of documents mentioned under sub-clause **4.18.1(c)**, the Exchange shall determine if the requisite documents substantiate the transfer of client's securities by the Broker and shall maintain a database of such transfers. Exchange may also carryout enquiry and/or special audit in relation to non-compliance with this regulation.

In case of non-compliance on the part of the Broker, as mentioned in sub-clause **4.18.1(c)**, is established, after enquiry and providing opportunity of hearing, the Broker shall be liable to pay penalty of 1.0% of the market value of securities moved, subject to a maximum penalty of **Rs. 50,000/-**. Provided that warning may be issued once on the first instance of non-compliance by the Broker subsequent to implementation of automated settlement mechanism.

Where non-compliance of sub-clause 4.18.2 and 4.18.3 by a Broker is established, the Exchange may, after providing an opportunity of being heard to the Broker, impose penalty on such Broker in the manner provided in sub-clause 4.18.4.

The Broker shall submit to the Exchange "Clients' Assets Segregation Statement" as per format prescribed by the Exchange within fifteen (15) days of the end of the latest fortnight.

The Broker within forty-five (45) days of the close of its financial year shall submit an annual "Clients' Assets Segregation Statement", duly verified by its Statutory Auditor.

Where non-compliance of Clause 4.18.6 by a Broker is established, the Exchange may, after providing an opportunity of being heard to the Broker, impose following restrictions and/or penalty on such Broker:

- (a) The operation of its all trading terminals may be switched off by the CRO after serving three

3 working days' notice for ensuring compliance with the sub-clause 4.18.6.

(b) The Exchange may restore trading terminals of the Broker upon its full compliance with sub-clause 4.18.6 and payment of a penalty of **Rs. 100,000/-** for each default to the Exchange.

#### **vii) CONFIRMATION OF CLIENTS' ORDERS BY THE CERTIFICATE HOLDERS/ BROKERS:**

Whenever an order of any client has been executed by a Broker, confirmation of such execution shall be transmitted to the said client by the Broker within 24 hours of the execution of such transaction through any previously agreed mode of communication as specified in the SAOF. The confirmation order shall precisely include the following specific information:

- (a) Date on which order is executed;
- (b) Name and number of securities;
- (c) Nature of transaction (SPOT, Ready, Future, Leveraged Market and also whether bought or sold);
- (d) Price;
- (e) Commission rate and any other charges;
- (f) Applicable regulatory levies i.e. trade or transaction fee of the Exchange, CDC, NCCPL and SECP etc;
- (g) Applicable statutory levies i.e. taxes and duties of federal and provincial government;
- (h) Whether the order is executed for the Broker's own account or from the market. {Rule 4(4) of Securities & Exchange Rules, 1971}}.

Once it is established that the Broker is in violation of the above order confirmation requirements, the Chief Regulatory Officer shall impose a fine amounting to not less than **Rs. 10,000/-** per default but not exceeding **Rs. 25,000/-** per default.

#### **viii) INTERNET TRADING**

"Internet Based Trading Services (IBTS)" shall mean services associated with internet based trading for the purpose of routing orders to Trading Systems through an automated order routing system as provided for under regulations laid by PSX. "Operational Capacity" shall mean the number of clients supported by the solution and infrastructure, usually assessed by the number of parallel requests served per seconds. <sup>[L]</sup><sub>SEP</sub> According to the chapter 9 of PSX rulebook following compliances has to be met by brokerage in order to establish IBTS:

- (a) have minimum net worth of Rs. 25 million as per the latest audited financial statements
  - (b) have adequate infrastructure including functional website, internal control procedures and technological and human resources to facilitate the operations of IBTS in an effective and efficient manner on as ongoing basis.
  - (c) have well-defined procedures for allowing clients' access to IBTS which shall inter-alia cover the following aspects:
    - (i) Agreement with the Broker;
    - (ii) Assigning of trading limits;
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- (iii) Placement and execution of clients' orders;
- (iv) Mode and timing of reporting of trade confirmation to the clients;
- (v) Margin requirement (Initial, maintenance and other applicable margins) and margin calls.

However, the above procedures should be in writing and made available on the Broker's website for easy access by the clients.

Other than these compliances a broker is required to commence IBTS with accordance to PSX rules and adhere to broker/client service arrangement. A brokerage has to fulfill all other compliances as PSX rules have identified which include; service availability and business continuity, systems modification, monthly reporting, general disclosure, cross trades and information accessibility.

#### **ix) PROPRIETARY TRADING REGULATIONS**

Every Broker who engages in Proprietary Trading shall have a separate account. The account shall be in the name of the Broker, Agent or an associated person and the title of the account must contain the word "proprietary". The account(s) shall be used for all transactions involving Proprietary Trade. No Broker shall, directly or indirectly, deal in any listed security or cause any other person to deal in securities of such company if he has information which

- (1) is not generally available; and
- (2) would, if it were so available, be likely to materially affect the price of those securities.

Broker, Agent or an Associated Person to keep accounts: Every broker shall maintain separate books of accounts for:

- (1) Money received from or on account of and money paid to or on account of each of his clients; and
- (2) The money received and the money paid on a Broker, Agent or an Associated Person's own account.

If a Broker contravenes with any provisions of these compliances as the case may be, disciplinary actions shall be taken in accordance with the provision available in the chapter 20 relating to disciplinary actions against TRE Certificate Holders of these Regulations.

#### **x) ANTI-MONEY LAUNDERING (AML)**

It is the policy of the Company to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities. Money laundering is generally defined as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the unlawful proceeds appear to have derived from legitimate origins or constitute legitimate assets. Generally, money laundering occurs in three stages. Cash first enters the financial system at the "placement" stage, where the cash generated from criminal activities is converted into monetary instruments, such as money orders or traveler's checks, or deposited into accounts at financial institutions. At the "layering" stage, the funds are transferred or moved into other accounts or other financial institutions to further separate the money from its criminal origin. At the "integration" stage, the funds are reintroduced into the economy and used to purchase legitimate assets or to fund other criminal activities or

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legitimate businesses. Terrorist financing may not involve the proceeds of criminal conduct, but rather an attempt to conceal the origin or intended use of the funds, which will be used later for criminal purposes. All employees of Pine Capital Management (Private) Limited are required to receive a copy of the Company's AML policy and are required to follow such policy and procedures. If an employee is caught violating any portion of the Company's AML policies and procedures, a meeting with the Compliance Officer will occur, with the employee given written warning of such violation. If the employee violates the AML policies and procedures for the second time, immediate termination will occur.

A full detail of the compliance policy can be found in the anti-money laundering policy of the company.

#### **xi) ARBITRATION POLICY**

In case of any issue with the brokerage house/broker and/or agent, investors are advised to immediately lodge a complaint with their respective brokerage house and in case of non-resolution report the same to the Exchange within 15 days of lodging the claim with the brokerage house/broker. Complaint Registration Forms are available on the respective websites of the Exchanges. Please ensure that all claims are lodged in writing and receipt of the same has been attained from the brokerage house/broker.

In case of complaint against the Exchange and/or the broker/brokerage house the Investor Complaints Wing at the Securities and Exchange Commission of Pakistan "SECP" can be approached at the following details:

#### **Securities and Exchange Commission of Pakistan (SECP)**

NIC Building, 63 Jinnah Avenue,

Islamabad, Pakistan

Tel: 051-9207091-4, Fax: 051-9100471

Website: [www.secp.gov.pk](http://www.secp.gov.pk)

E-mail: [complaints@secp.gov.pk](mailto:complaints@secp.gov.pk)

Complaint Registration Form is available on the website of the Commission (i.e. [www.secp.gov.pk](http://www.secp.gov.pk)). Investors having complaint are required to fill the form with complete information and forward duly signed complaint registration form along with all necessary documents to the Commission's address listed at the end of document.

The Complaint upon receipt shall be immediately acknowledged. If you do not receive acknowledgement even after 5 working days of your sending the complaint, ask for the status of complaint from Investor Complaints Wing at the Commission. You shall be informed about the status of complaint in a timely manner.

A full detail of the compliance policy can be found in the arbitration policy of the company

#### **xii) ORDER FLOW, MARKET MAKING AND TRADING**

Documentary evidence of reviews. Brokerage firms must comply with Section 2(1) (l) of Securities and Exchange Ordinance, 1969. Therefore, firms have a policy that transactions must be approved by a Firm principal, and the relevant documents, order tickets, and trade log must

evidence that review.

To assure that the oversight is properly being conducted, it is recommended that another principal of the firm randomly select a reasonable number of transactions and confirm the memorialization of the principal's approval, on a daily basis.

Transactional Review. Typically, a principal of the broker dealer will also review a percentage of each days transactions to get an overview of activity and uncover situations that warrant further inquiry. This review typically consists of a review of

- 1) Order tickets;
- 2) Price & Sales Trade log used by the Order Room or the clearing firm transaction blotter;
- 3) the appropriate exception reports.

The search is for the following indicia which will require further inquiry:

- 1) order errors;
- 2) inappropriate recommendations to customers or inappropriate trading in customer accounts;
- 3) trading by Registered Representative or their families;
- 4) sales of control stock; and any unusually large transactions or group of transactions.

Order errors are sought out to assure accuracy of the transaction and a brokerage firm's books and records. "Errors" may also be the result of unauthorized trading, parking, placing profitable trades into certain accounts and removing unprofitable trades.

The firm's principals are also required to acquire a general knowledge of the reviewed customer accounts within his supervisory responsibility.

Offsetting orders (Buy & Sell contemporaneously made may indicate matched orders or "wash" transactions).

"Switching" the same security from account to account to account may be the result of parking. Trading in the accounts of RR's and their families when coupled with a general knowledge of a brokerage firm's research and corporate finance projects may indicate sales upon inside information, such concerns may also arise where the concentrated sales by groups of an RR's customers or groups of RRs.

### **xiii) INSIDER TRADING**

Insider trading, that is, buying or selling a security based upon information that material, and not publicly available, is a violation of the SECP laws, and often leads to criminal prosecution, with front-page headlines. Insider trading is a serious matter, and brokerage firms typically spend a great deal of time attempting to insure that its employees and customers do not engage in such practices. Firms typically forbid there any officer, director or employee from trading, either personally or on behalf of others (such as client accounts managed by a brokerage firm), on material non-public information or communicating material non-public information to others in violation of the law. Brokerage firm insider trading policies typically apply to every officer, director and employee and extends to activities within and outside their duties at a brokerage firm. Questions regarding "insider trading" or what constitutes "material non-public

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information" are beyond the scope of this text, and have been the subject of numerous court decisions, including one where the author represented the defendant,

#### **xiv) SALES PRACTICES**

The Sales Practices of a firm (what the firm says and sends to its customers, and how customer orders are solicited and handled), are an active area of investigation by the regulatory bodies. Typically, the SECP are charged with the responsibility of reviewing sales practice issues, the PSX for its member firms, and the NCCPL for its trade. In order to insure compliance with these procedures, most brokerage firms randomly select for review and review customer records maintained by its Registered Representatives on a monthly basis to assure that purchasers and sales are made in line with the customers' stated objectives and financial situation. From a compliance point of view, if there is some peculiarity noted, the Registered Representative may be asked to give a written or oral explanation to the firm, and the firm may contact the customer to discuss his transactions. Careful notes should be made of these conversations, and, if practical, a confirming letter sent to the customer of the substance of the conversation. Additionally, some firms, on a random basis, monitor all business telephone conversations of a brokerage firm's RRs for inappropriate sales practices.

#### **xv) PROHIBITED ACTS**

PSX Rules prohibit any person associated with a brokerage firm to engage in private security transactions outside the scope of his employment without receiving prior written approval from a brokerage firm to so do. Should a brokerage firm give such permission, it is charged with supervising the associated person's conduct in that transaction or in obtaining the necessary executed disclosure that a brokerage firm is not involved. At the time of hiring, each new employee is required to sign a statement of the new employee's understanding of this Firm's procedures

#### **xvi) DISCRETIONARY ACCOUNTS**

Many brokerage firms prohibit their Registered Representatives from handling accounts on a discretionary basis. However, those that do, often, and should, have very strict compliance procedures in place to monitor discretionary accounts, including:

1. Ensure that all new account documentation necessary has been obtained. On the new account form write "Discretionary" in large letters.
  2. Ensure that written authorization is obtained from the client evidencing a brokerage firm's discretionary authority (prior to trading), stating the type of transactions permitted.
  3. A current list of all discretionary accounts is maintained by a Compliance Officer, and is usually posted in the order room for ready reference.
  4. All discretionary orders are marked to indicate if discretion is or is not being exercised and all discretionary orders are to be approved and initialed by a principal of the firm.
  5. A review of the customer statement by a Compliance Officer for all discretionary accounts on a monthly basis. A review of the accounts should be done with a view toward uncovering unsuitable recommendations, excessive trading, unauthorized transactions, improper use of
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nominee accounts, unsuitable switching and selling below the break point for mutual funds, parking shares in customer accounts, making guarantees, and of course, misuse of client's funds or securities, as well as improper charges, and undue concentration of transactions in a single security.

6. That once a year, a brokerage firm should re-confirm with the client that the client still wishes a brokerage firm to have the authorization.

#### **xvii) REVIEW OF CUSTOMER ACCOUNTS**

As an added measure of protection, and in order to comply with various regulations, some of which have been discussed herein, most brokerage firms review not less than quarterly, 10% of a brokerage firm's active customer accounts, in light of their financial circumstances. A log of such review is typically maintained noting which accounts have been reviewed and any problems cited. In conducting the review, the firm is looking for:

- A. suitability of recommendation;
- B. sharing in customer accounts;
- C. churning;
- D. free-riding by RR or associated persons;
- E. non-prompt payment;
- F. Regulation
- T violations - late payment;
- G. excessively large positions;
- H. substantial losses;
- I. concentration of low-priced securities;
- J. any unusual transaction;

#### **xviii) ADVERTISING**

PSX regulations require that brokerage firms pre-approve all advertising of a broker-dealer and all outgoing correspondence of its Registered Representatives. The approval should be in writing, even if only the Supervisor's initials on a copy of the letter or advertisement, and a copy should always be maintained by the Registered Representative, in the event questions arise later as to whether a particular letter was approved or not. Most brokerage-firms include quotes in the press, or interviews, and even Web pages, as advertisements, which must be pre-approved

#### **xix) COLD CALLING**

Cold calling, while having a poor reputation, is a legitimate and valuable marketing tool for brokerage firms, and provides a legitimate source of information for customers, provided the tool is not abused. Several states now have statutes which specifically address cold calling, and Registered Representatives are encouraged to check with their compliance departments for the rules in all states where cold calls are going to be made, as well as for the rep's home state.

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