



## Brokerage Firms

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# Brokerage Firms

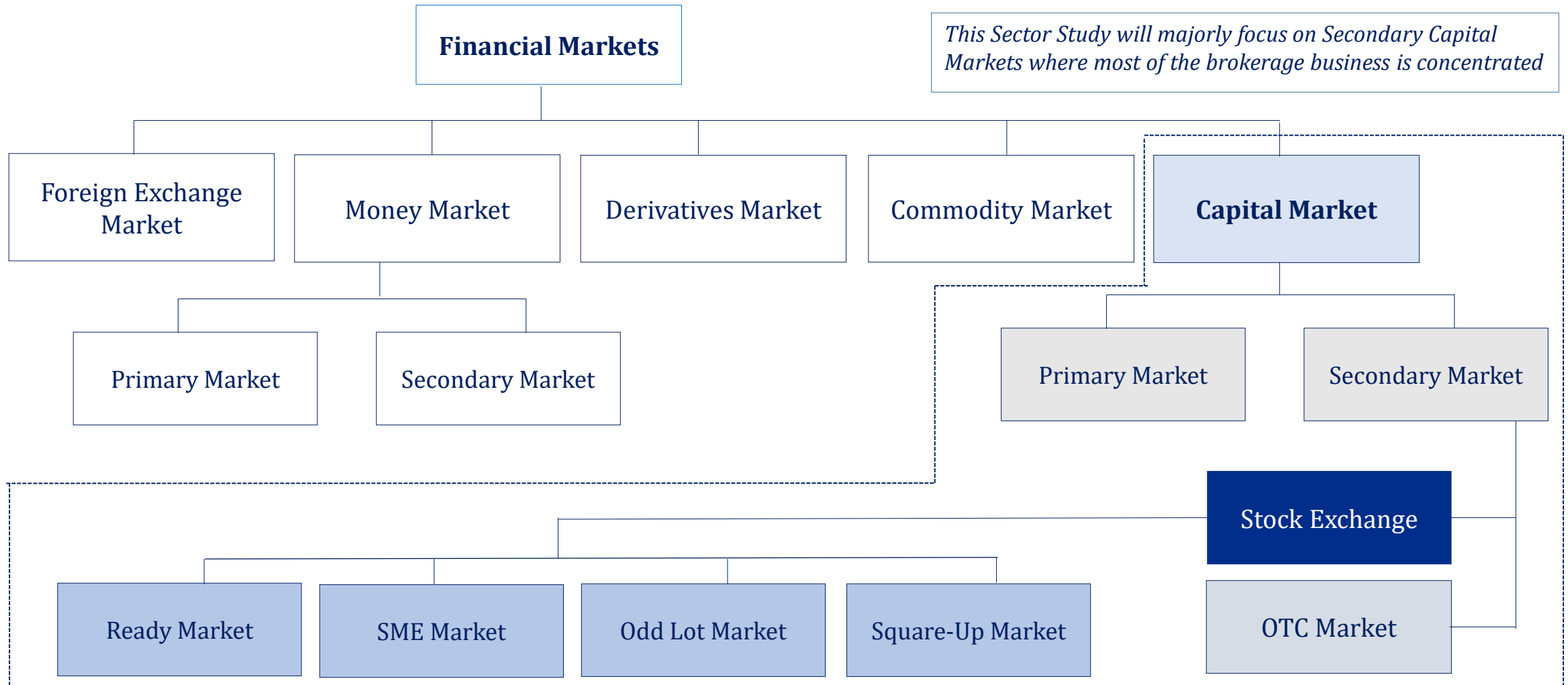
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# Brokerage Firms

## Introduction | Types of Financial Markets



# Brokerage Firms

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## Capital Markets | An Overview

- Capital markets are a broad category of markets facilitating the buying and selling of financial instruments. In particular, there are two categories of financial instruments in which markets are involved. These are equity securities, which are often known as stocks, and debt securities, which are often known as bonds. Capital markets involve the issuing of stocks and bonds for medium-term and long-term durations, generally terms of one year or more.
- Other than the distinction between equity and debt, capital markets are also generally divided into two categories of markets, the primary markets and the secondary markets. In primary markets, stocks and bonds are issued directly from companies to investors, businesses and other institutions, often through underwriting. In Secondary Markets, securities that have already been issued are sold and bought among the investors or traders.
- The capital market structure in Pakistan consists of an apex regulator of the markets, the Securities and Exchange Commission Pakistan (SECP), Pakistan Stock Exchange (PSX, emerged as a result of merging three stock exchanges), Mercantile Exchanges, Central Depository Company (CDC) and a Clearing and Settlement Company. The structure further includes intermediaries or market participants such as **brokers** (including Online only/Trading Only brokers) which handle the transaction of shares in the capital markets on behalf of investors.
- The level of capital market development is an important determinant of the level of savings, efficiency of investment and ultimately the rate of economic growth.
- This Sector Study shall be focused on the Secondary Capital Markets, and KSE-100 shall be used as the benchmark Index for analysis purpose.

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## PSX Products

- **Equity**
  - **Ready Market:** In this market segment, stocks of all companies listed are traded. Transactions are settled in two days (T+2).
  - **Small & Medium Enterprise Market:** Shares of companies with post-issue paid-up capital between PKR25mln and PKR200mln are traded. Target investors for this segment include Qualified Institutional Buyers (QIBs) and High Net Worth Individuals (HNWI).
  - **Odd lot Market:** In this market segment, investors can trade in securities in lots which are less than normal/regular lots (500 shares). The minimum number of shares that can be traded is 1. Settlement takes place in T+2 days.
  - **Square Up Market:** In this market segment, if a Clearing Member (CM) fails to deliver the sold securities, then the failed deliveries are squared up in the Square-up Market.
  - **Real Estate Investment Trust (REIT):** REIT is a fund based trust that owns income-producing real estate, buys real estate, develops, manages/operates and sells real estate assets. REITs are modelled after mutual funds where all taxable income is paid out as dividends to shareholders.
  - **Negotiated Deals:** Here, negotiated deals are conducted outside the Exchange Trading Systems and are reported through the interface provided by the Exchange. These transactions are conducted between brokers.
  
- **Fixed Income | Secondary Market Trading**
  - **Corporate Debt Instruments:** These include Term Finance Certificates (TFCs), SUKUK Certificates, Registered Bonds, Corporate Bonds etc., and all kinds of debt instruments issued by any Pakistani company or a corporation registered in Pakistan.
  - **Government Debt Instruments:** These are debt instruments issued by the Government of Pakistan. These include PIBs (fixed and floating), Treasury Bills, National Savings Bonds, and Islamic Ijarah Sukuks (fixed and floating).

# Brokerage Firms

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## PSX Products

### Derivatives

- **Deliverable Futures Contract (DFC):** DFCs are forward contracts to buy or sell a certain underlying instrument with actual delivery of the said instrument occurring. The minimum lot for purchasing these shares is 500 shares. Settlement takes place 30 days after the contract is purchased.
  - **Single Stock Cash Settled Futures (CSF):** Single Cash Settled Futures are standardized contracts to buy/sell single stock futures to be settled in cash, where the result of the trade is the cash difference between the buying and selling price. Settlement occurs purely on cash basis. Settlement can occur 30, 60, & 90 days after the contract is purchased.
  - **Stock Index Futures Contract (SIFC):** SIFC is an agreement to buy or sell a standardized value of a stock index (basket of shares) on a future date at a specified price. SIFC gives opportunity to investors to trade in entire stock market by buying index futures instead of buying individual securities with the efficiency of mutual funds. Currently 90 days SIFCs are available at PSX.
  - **Options :** PSX is currently working on the development of stock derivative Options.
- **Exchange Traded Funds (ETFs):** An ETF is a pooled investment vehicle with units that can be bought or sold on the Stock Exchange at a market-determined price. Similar to mutual funds units, ETFs own the underlying assets (stocks or bonds) and offer investors a proportionate share in a pool of stocks, bonds, and other assets. These were first introduced in Mar'20. There are currently seven ETFs available on PSX (five conventional equity; one Islamic equity; and one conventional debt). Settlement takes place in T+2 days.
  - **Margin Trading System (MTS):** In MTS (Margin Trading System), an investor can buy MTS eligible securities having a part percentage of funds available of the total value of MTS eligible securities bought. An investor may buy a number of MTS eligible securities while having only a fixed percentage of funds available. The remaining amount is financed or leveraged by the brokerage firm. The percentage of funds required for MTS is defined by the Brokerage firm which shall not be <15% of the total value of MTS eligible securities purchased. A mark-up rate of not more than Kibor+8% is charged against the leveraged securities held under MTS.
  - **Government Debt Securities (GDS)- Primary Market Auction:** From Dec'23 onwards, 1 year Government Ijara Sukuk are available as the new instrument to be auctioned through Capital Market Infrastructure Institution (CMIIs). These GDS are issued at discount and have fixed rate and will be redeemable at maturity. An investor can sell these securities in the secondary market. If an investor holds these GDS till maturity then the value equivalent to the face value of the Sukuk will be transferred to the investors account.



# Brokerage Firms

## Global | Overview

- The adjacent table summarizes the 10 largest stock exchanges in the world in terms of the market capitalization. The top 10 exchanges combined represent approximately ~80% of the global market capitalization.
- During Dec'23, the lowest returns were earned by the SZSE 1000 and Shanghai Composite: ~(-2.44)% and ~(-1.88)%, respectively.
- Moreover, the lowest returns during CY23 were earned by Hang Seng: ~(-2.04)%, SZSE 1000~(-1.68%) and Shanghai Composite ~(-0.75)%, respectively.

Stock Exchange	Country	Market Capitalization (USD trn) [Aug'23]	Index Name	Number of Stocks listed
New York Stock Exchange	USA	25.07	S&P 500	500
Nasdaq	USA	21.70	Nasdaq	100
Shanghai Stock Exchange	China	6.70	Shanghai Composite	50
Euronext	Europe	7.20	Euro Stoxx 50	50
Tokyo Stock Exchange	Japan	6.01	Nikkei 225	225
Hong Kong Exchange	Hong Kong	4.20	Hang Seng	50
Shenzhen Stock Exchange	China	4.50	SZSE 1000	1000
London Stock Exchange*	UK	3.30	FTSE 100	100
Bombay Stock Exchange**	India	3.80	SENSEX	30
National Stock Exchange of India	India	3.50	NIFTY 50	50
Pakistan Stock Exchange	Pakistan	0.02	KSE-100	100

\*Reflects data as at Jan 31, 2023. \*\*Reflects data as at Jun 30, 2023.

# Brokerage Firms

## Global | Index Based Returns

Indices	Jan'23	Feb'23	Mar'23	Apr'23	May'23	Jun'23	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23	Average
<b>S &amp; P 500</b>	4.65%	-3.62%	4.00%	1.09%	0.29%	5.40%	2.99%	-1.51%	-5.03%	-2.22%	7.78%	3.80%	<b>1.47%</b>
<b>Nasdaq</b>	9.60%	3.06%	7.40%	0.30%	5.92%	2.65%	3.84%	-1.74%	-5.92%	-3.43%	8.92%	4.94%	<b>2.96%</b>
<b>Shanghai Composite</b>	3.10%	-0.15%	-1.21%	0.82%	-4.36%	-0.06%	1.48%	-5.20%	0.73%	-2.52%	0.20%	-1.88%	<b>-0.75%</b>
<b>Euro Stoxx 50</b>	3.63%	1.61%	2.37%	1.11%	-1.77%	3.33%	1.66%	-2.50%	-2.52%	-1.84%	7.10%	2.33%	<b>1.21%</b>
<b>Nikkei 225</b>	5.20%	0.36%	1.91%	2.37%	6.06%	6.55%	-1.72%	2.56%	-2.61%	-2.84%	5.97%	0.10%	<b>1.99%</b>
<b>Hang Seng</b>	4.05%	-10.36%	-1.06%	-2.52%	-8.52%	3.94%	4.00%	-8.14%	-5.49%	-1.26%	-0.35%	1.29%	<b>-2.04%</b>
<b>SZSE 1000</b>	4.95%	-2.27%	-1.29%	-4.63%	-3.77%	0.51%	0.37%	-6.37%	-2.72%	-2.17%	-0.38%	-2.44%	<b>-1.68%</b>
<b>FTSE 100</b>	0.94%	1.48%	-3.58%	2.57%	-4.20%	0.55%	2.29%	-2.96%	1.93%	-2.51%	1.51%	2.71%	<b>0.06%</b>
<b>SENSEX</b>	-0.59%	-1.25%	-0.71%	3.39%	2.07%	3.67%	2.03%	-2.44%	0.67%	-2.50%	5.34%	7.05%	<b>1.39%</b>
<b>NIFTY 50</b>	-1.10%	-1.78%	-0.52%	3.82%	2.13%	3.80%	2.23%	-2.43%	-2.43%	-2.30%	6.02%	7.22%	<b>1.22%</b>
<b>KSE-100 Index</b>	0.63%	-0.40%	-1.26%	3.95%	-0.60%	0.30%	15.88%	-6.31%	2.74%	12.30%	16.58%	3.17%	<b>3.92%</b>

*Note: Index based returns are average returns for each month.*



# Brokerage Firms

## Global | P/E

Indices	Jan'23	Feb'23	Mar'23	Apr'23	May'23	Jun'23	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23	Avg
NIFTY 50	22.1	21.2	20.6	21.6	22.4	23.3	23.6	23.2	24.0	22.5	23.1	25.3	22.7
SSE	25.6	25.6	24.8	25.0	25.0	24.9	25.3	23.8	24.7	24.3	24.6	24.1	24.8
DSE	17.6	18.5	18.6	16.8	17.2	16.9	16.6	16.5	16.4	16.7	16.1	16.7	17.1
CSE	5.2	5.9	5.8	5.7	5.7	7.8	9.7	11.0	11.7	11.5	11.7	11.6	8.6
FTSE 100	12.3	11.8	11.6	12.4	10.2	10.3	11.3	11.2	11.4	10.7	10.7	11.2	11.3
Hang Seng	10.5	10.3	10.6	11.7	11.2	11.2	11.6	11.2	11.5	11.1	11.0	10.9	11.1
KSE-100 Index	4.6	4.6	4.5	4.7	4.6	4.6	5.1	5.0	4.7	4.7	5.2	5.4	4.8

- The P/E ratio of KSE -100 index was recorded at ~4.6 as at June 30, 2023. Moreover, the average P/E ratio of KSE -100 index for CY23 was ~4.8. Additionally, earnings and revenues of the listed companies on KSE-100 index have grown ~27.0% and 31.0%, respectively over the past 3 years (CY21-CY23).
- The earnings and revenue of the listed companies on FTSE 100 have grown ~60.0% and ~12.0% respectively over the last 3 years (CY21-CY23). Moving forward, it is expected that the earnings of the listed companies on FTSE 100 will grow by ~19.4%.
- In contrast, earnings of the listed companies on (Shanghai Stock Exchange) SSE are not expected to grow as much as they have grown in the last 3 years (CY21-CY23).

# Brokerage Firms

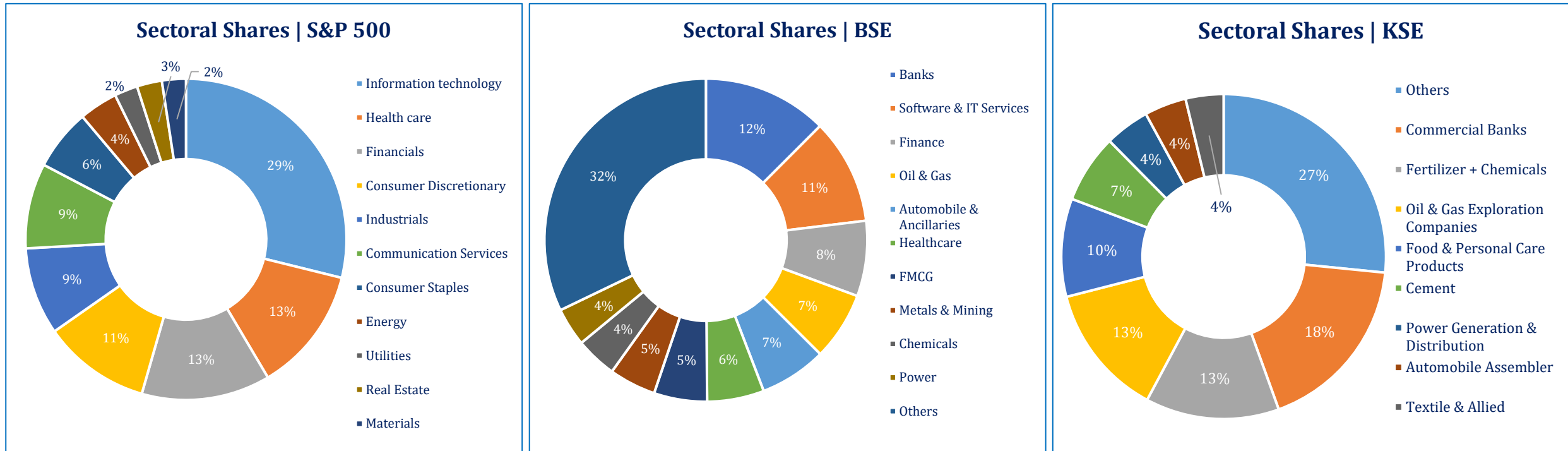
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## Global | Indices Performance

- Despite high inflationary pressures and interest rate hikes across the globe in CY23, along with continued Russian-Ukraine conflict, the year remained largely favorable for global stock markets. The volatility of indices such as S&P 500 was not just impacted by the macro economic factors including labor market conditions, unemployment, crude oil inventories, in addition to the aforementioned, but were driven more by performances of the sectors dominating the respective index.
- The U.S. stock market, being the largest worldwide, has consistently outperformed others. Notably, the S&P 500 achieved a return exceeding for the third time in the past five years. Its exceptional performance has propelled it to within a mere  $\sim 2\%$  of the record set at the beginning of CY22. However, the Shanghai Stock Exchange (SSE Composite Index) recorded the average return of  $\sim (-0.8)\%$ , on the back of the issue pertained to a tumbling real estate as well as the manufacturing sectors.
- Meanwhile, the KSE-100 had an average return of  $\sim 3.9\%$  in CY23. The performance of KSE-100 index remained dependent on three major factors that drove its volatility: First, the geopolitical events such as elections/ change of regime, threat of default and IMF's funding decisions; second, economic events such as changes in monetary policy rate, tax regulations, trade/ current account balance and GDP growth rate, and third, inflationary pressures that had an affect on the future value of the stocks.

# Brokerage Firms

## Global | Sectoral Composition



- The S&P 500 index is dominated by the Information Technology sector which makes up ~29% of the total market. This is due to the presence of companies such as Apple, Microsoft and Amazon, whose individual market capitalization nearly touch USD~5.0trn mark.
- The Bombay Stock Exchange (BSE) index is dominated by the Banks and Information Technology sectors which occupy ~12% and ~11%, respectively, of the total market, whereas the top 10 sectors (as depicted above) collectively account for ~68% of the total market capitalization.
- The data pertaining to sectoral composition of KSE-100 index is based on market capitalization of PKR~9.1trn as on Dec'23. The largest sector is Commercial Banks for which the market capitalization stands at PKR~1.6trn and accounts for ~18% of the total. Fertilizer & Chemicals and Oil and Gas Exploration Companies with a market capitalization of PKR~1.2trn each, are the next largest sectors and contribute ~13% each to the total market capitalization.

# Brokerage Firms

## Global | MSCI Classification

- Pakistan was re-classified from the Emerging Markets Index to Frontier Market Index in Sep'21. The downgradation to Frontier Markets impacts not only the foreign inflows but also affects the traded value and turnover of the capital markets.
- For Pakistan to ascend to emerging markets status, it must meet the following criteria: (i) a market capitalization of at least USD ~2,066mln for a minimum of 3 companies, (ii) a free float market capitalization of at least USD ~1,033mln for a minimum of 3 companies, and (iii) a security liquidity of ~15% of the Annualized Traded Value Ratio (ATVR) for at least 3 companies.
- To quote the MSCI statement regarding downgrading, "Although the Pakistani equity market meets the requirements for market accessibility under the classification framework for emerging markets, **it no longer meets the standards for size and liquidity.**" Hence, Pakistan's capital market is considered as smaller, riskier and illiquid compared to other developing countries that are categorised in emerging markets.
- In Nov'23\*\*, Pakistan occupied a weight of ~2.9%, in the Frontier Markets Index, where the Frontier Market Index comprises ~17 local stocks, including OGDC, PPL, MARI, UBL, LUCK, MCB, ENGRO, HBL, HUBC, FFC, SYS, EFERT, POL, MTL, PSO, BAFL, and TRG among others.

Developed Markets			Emerging Markets			Frontier Markets		
Americas	Europe & Middle East	Pacific	Americas	Europe, Middle East & Africa	Asia	Europe & CIS	Middle East & Africa	Asia
1. Canada 2. USA	1. Austria 2. Belgium 3. Denmark 4. Finland 5. France 6. Germany 7. Ireland 8. Israel 9. Italy 10. Netherlands 11. Norway 12. Portugal 13. Spain 14. Sweden 15. Switzerland 16. UK	1. Australia 2. Hong Kong 3. Japan 4. New Zealand 5. Singapore	1. Brazil 2. Chile 3. Colombia 4. Mexico 5. Peru	1. Czech Republic 2. Egypt 3. Greece 4. Hungary 5. Kuwait 6. Poland 7. Qatar 8. Russia 9. KSA 10. South Africa 11. Turkey 12. UAE	1. China 2. India 3. Indonesia 4. Korea 5. Malaysia 6. Philippines 7. Taiwan 8. Thailand	1. Croatia 2. Estonia 3. Iceland 4. Lithuania 5. Kazakhstan 6. Romania 7. Serbia 8. Slovenia 9. Latvia	1. Kenya 2. Mauritius 3. Morocco 4. Nigeria 5. Tunisia 6. WAEMU* 7. Bahrain 8. Jordan 9. Oman	1. Bangladesh 2. Sri Lanka 3. Vietnam 4. <b>Pakistan</b>

\*WAEMU: West African Economic & Monetary Union \*\*Latest available data

# Brokerage Firms

## Regional Comparison | India

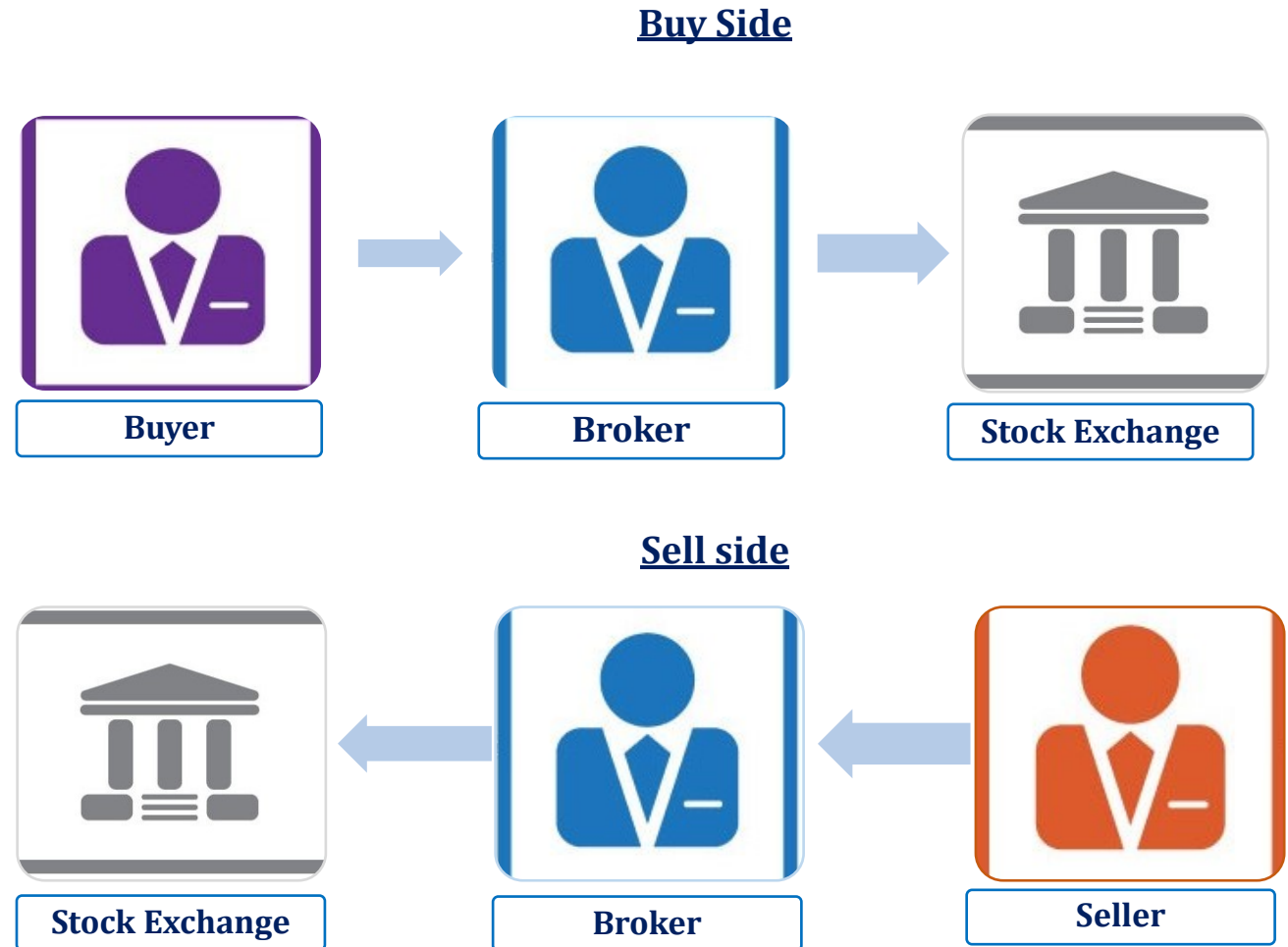
- The Securities and Exchange Board of India (SEBI) is the regulatory body which oversees the brokerage industry in the country. The Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992 is the legislation which regulates the brokerage industry.
- The regulation defines 3 categories of brokers, trading members, self-clearing members and clearing members. These correspond with the categories introduced in Pakistan through the new broker regime.
- The regulation also defines a sub-broker as ‘any person not being a member of stock exchange who acts on behalf of a stock broker as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such stock brokers.
- In Oct’23, the Capital Markets regulator of India - SEBI, introduced the base minimum capital requirement for stock brokers operating exclusively in the (execution only platforms) EOP segment to be INR~1mln. The EOP (Execution-Only Platform), is a digital or online platform that facilitates transactions in direct plans. While for self-clearing members it is INR~10mln and for trading plus clearing members, the minimum capital requirement is INR~25mln.



# Brokerage Firms

## Local | Introduction

- A broker or brokerage firm acts as an intermediary by matching a customer's buy order with a third party's sell order or vice versa.
- Brokerage firms receive compensation through a commission or fees that is charged once the transaction has been successfully completed. This amount may be paid by the customer or the exchange.
- The commission range of 3 paisa/ share or 0.15% of the transaction value (whichever is higher) up to 2.5% of the transaction value is prescribed.
- The Securities and Exchange Commission (SECP) is the regulatory body. Licensing of the securities brokers is regulated by Securities act, 2015 and Securities Brokers (Licensing and operations) Regulations, 2016.





# Brokerage Firms

## Local | Overview

- It is common for brokerage firms to offer a variety of services to their customers including money management, tax advice and financial consultation. They also provide up-to-date stock quotes, research services regarding economic environment and market analysis.
- All securities brokers are required to take license from SECP to undertake Securities Broker's activity. Licensing of Securities brokers is regulated by the Securities Act, 2015 and the Securities Broker's (Licensing & Operations) Regulations, 2016. The regulations include the eligibility criteria, licensing procedure, effect of refusal of license, renewal, general obligations and responsibilities of securities brokers. There were amendments made to Regulations on Mar 14, 2023.
- Renewal of broker's license is subject to payment of fees as prescribed in Securities Broker's (Licensing & Operations) Regulations, 2016.
- There are currently ~194 brokerage firms licensed by the Securities and Exchange Commission of Pakistan (SECP). Out of these, ~24 brokerage firms have Entity Ratings while ~27 have Broker Management Ratings whereas ~40 have Broker Fiduciary Ratings.

Sector Overview	FY21	FY22	FY23	6MFY23	6MFY24
<b>KSE-100 Index (period-end)</b>	47,356	41,541	41,453	40,420	62,451
<b>KSE-100 Return</b>	38%	-12%	0%	-9%	55%
<b>KSE-100 Average Volumes (000)</b>	246,962	115,839	88,606	95,616	248,203
<b>Market Capitalization as a Percentage of GDP</b>	16%	11%	8%	33%	N/A
<b>No. of Brokerage Firms*</b>	~194				
<b>Regulatory Authority</b>	Securities & Exchange Commission (SECP)				

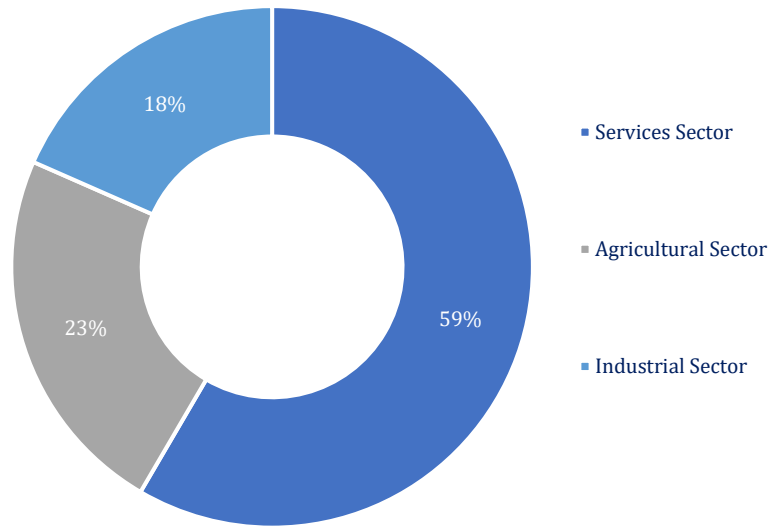
\*4 Brokerage Firms have not renewed their license as at Dec'23

# Brokerage Firms

## Local | GDP Breakdown

- Pakistan’s real GDP posted a contraction of ~0.17% in FY23 (FY22: ~6.17). In nominal terms in FY23, GDP stood at PKR~79.7trln as compared to PKR~63.3trln in FY22.
- The top 5 sectors in terms of contribution to GDP are (i) Wholesale & Retail Trade; (ii) Transport, Storage & Communication; (iii) Livestock; (iv) Large Scale Manufacturing; and (v) Other Private Services.

**Sectoral Shares in GDP | FY23**



Sector-wise GDP Break-Up (%)				
Sector	FY22	FY23	1QFY23	1QFY24
Livestock	14.04	14.41	15.43	15.74
Crops	7.84	7.87	7.36	7.62
Forestry	0.49	0.56	0.55	0.57
Fishing	0.32	0.32	0.27	0.26
<b>Agricultural Sector</b>	<b>22.68</b>	<b>23.17</b>	<b>23.61</b>	<b>24.19</b>
Large Scale Manufacturing	9.24	8.43	8.29	8.16
Electricity Generation + Distribution & Gas Distribution	2.41	2.61	3.37	3.29
Small Scale Manufacturing	1.98	2.16	2.11	2.27
Construction	2.56	2.29	2.24	2.22
Mining & Quarrying	1.71	1.62	1.54	1.54
Slaughtering	1.21	1.29	1.27	1.33
<b>Industrial Sector</b>	<b>19.11</b>	<b>18.41</b>	<b>18.83</b>	<b>18.82</b>
Wholesale & Retail Trade	18.83	18.15	17.80	17.89
Transport, Storage & Communication	11.78	13.4	13.39	13.30
Other Private Services	8.32	8.83	8.77	8.90
Housing Services	5.57	5.77	5.75	5.84
General Government Services	4.64	4.35	4.26	3.46
Education	2.77	3.04	3.00	2.92
Human Health & Social Work Activities	1.55	1.71	1.68	1.62
Finance & Insurance	1.86	1.73	1.87	1.59
Accommodation & Food and Services	1.40	1.45	1.45	1.48
<b>Services Sector</b>	<b>56.71</b>	<b>58.42</b>	<b>57.97</b>	<b>56.99</b>

*Note: GDP value is at constant basic prices of 2015-16*

# Brokerage Firms

## Local | Yearly Economic Indicators

Monetary Sector	FY14	FY15	FY16	FY17	FY18	5 Year Avg	FY19	FY20	FY21	FY22	FY23	5 Year Avg	6MFY23	6MFY24
Avg. Inflation Rate (CPI)	8.60%	4.50%	2.90%	4.20%	3.90%	4.82%	7.30%	10.70%	8.90%	21.30%	29.40%	15.52%	28.80%	29.70%
Avg. KIBOR (%)	9.88%	8.85%	6.49%	6.11%	6.39%	7.54%	10.43%	11.95%	7.43%	10.83%	18.26%	11.78%	16.10%	22.55%
Monetary Policy Rate (MPR) (period-end)	9.75%	6.50%	5.75%	5.75%	6.50%	6.85%	12.25%	7.00%	7.00%	13.75%	22.00%	12.40%	16.00%	22.00%
Avg. PKRV (%)	9.75%	8.67%	6.34%	5.95%	6.26%	7.39%	10.20%	11.79%	7.28%	10.68%	18.08%	11.61%	15.92%	22.35%
Avg. Exchange Rate (USD/PKR)	102.84	101.5	104.4	104.78	110.1	104.72	136.45	158.4	160.5	191.9	247.66	178.98	223.51	287.29
External Sector	FY14	FY15	FY16	FY17	FY18	5 Year Avg	FY19	FY20	FY21	FY22	FY23	5 Year Avg	6MFY23	6MFY24
Current Account Balance (USD mln)	-3,130	-2,815	-4,961	-12,270	-19,195	-8,474	-13,434	-2,970	-1,852	-17,481	-2,235	-7,594	-3,629	-831
Exports (USD mln)	25,078	24,090	21,972	22,003	24,768	23,582	24,257	22,536	25,630	31,792	27,735	26,390	14,244	14,981
Imports (USD mln)	41,668	41,357	41,118	48,001	55,671	45,563	51,869	43,645	53,785	80,177	55,330	56,961	31,209	26,129
Trade Balance (USD mln)	-16,950	-17,267	-19,146	-25,998	-30,903	22,053	-27,612	-21,109	-28,155	-48,385	-27,595	-30,571	-16,965	-11,148
FX Reserves (USD mln)	14,141	18,699	23,099	21,403	16,384	18,745	14,482	18,886	24,398	15,537	9,160	16,493	10,845	13,220

# Brokerage Firms

## Local | Monthly Economic Indicators

Monetary Sector	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
<b>Avg. Inflation Rate (CPI)</b>	27.6%	31.5%	35.4%	36.4%	38.0%	29.4%	28.3	27.4%	31.4%	26.8%	29.2%	29.7%
<b>Avg. KIBOR (%)</b>	17.4%	18.7%	21.2%	22.1%	22.1%	22.2%	23.0%	23.1%	23.6%	22.5%	21.6%	21.6%
<b>Monetary Policy Rate (MPR) (period-end)</b>	16.3%	17.0%	19.9%	20.9%	21.0%	21.1%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
<b>Avg. PKRV (%)</b>	17.3%	18.5%	20.9%	21.8%	21.9%	22.0%	22.9%	22.9%	23.5%	22.2%	21.3%	21.4%
<b>Avg. Exchange Rate (USD/PKR)</b>	235.2	267.0	281.5	285.0	286.0	286.9	281.9	294.6	297.9	280.7	285.8	283.3
External Sector	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
<i>(USD mln)</i>												
<b>Current Account balance for the Month</b>	-167	-50	796	128	172	515	-775	-164	-46	-184	-15	397
<b>Exports</b>	2,244	2,191	2,372	2,137	2,200	2,356	2,068	2,366	2,476	2,690	2,573	2,812
<b>Imports</b>	4,875	4,034	3,816	2,997	4,328	4,219	3,705	4,528	3,994	4,864	4,539	4,514
<b>Trade Balance</b>	-2,631	-1,843	-1,444	-860	-2,128	-1,863	-1,637	-2,162	-1,518	-2,174	-1,966	-1,702
<b>FX Reserves</b>	8,169.7	8,751.3	9,163.6	9,456.9	8527.7	9,160.0	12,906.5	12,575.8	12,392.7	12,033	11,479	13,220

*Note: MPR percentages are percentages at the month end*

# Brokerage Firms

## Local | KSE-100 Returns | Monthly & Annual

KSE-100 Index	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	6MFY23	6MFY24
Index Value	29,653	34,399	37,784	46,565	41,911	33,902	34,422	47,356	41,541	41,453	40,420	62,451
Returns (%)	41.2%	16.0%	9.8%	23.2%	-10.0%	-19.1%	1.5%	37.5%	-12.3%	-0.2%	-2.7%	50.7%
Avg Volume ('000)	146,172	140,985	113,970	140,349	83,873	96,809	135,873	246,962	115,839	88,607	95,617	248,203

KSE-100 Index	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23
Index Value	32,131	32,816	47,807	40,471	37,067	40,735	43,755	44,596	40,420	62,451
Returns (%)	27.2%	2.1%	45.7%	-15.3%	-8.4%	9.9%	7.4%	1.9%	-9.4%	54.5%
Avg Volume ('000)	135,535	142,929	130,599	102,467	96,572	107,225	208,139	190,870	98,396	166,594

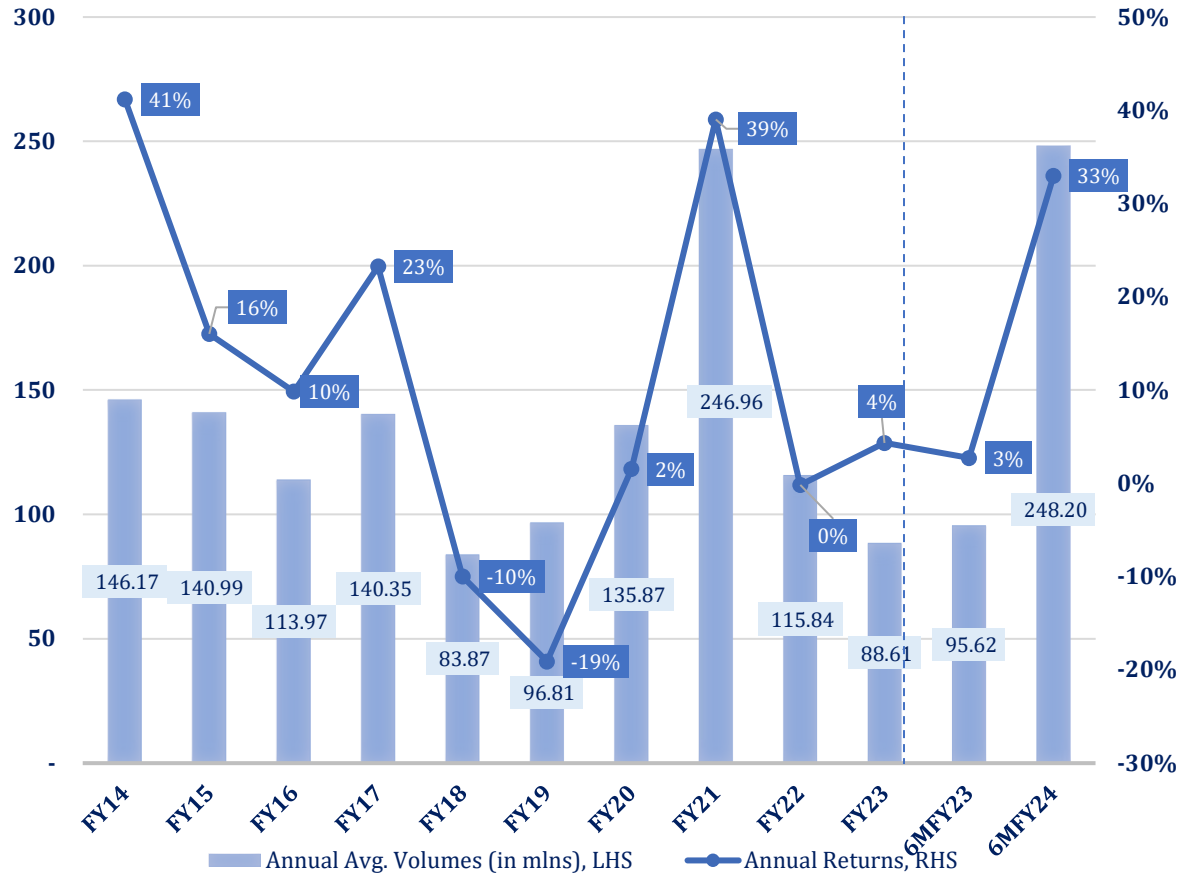
KSE-100 Index	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Index Value	40,673	40,510	40,001	41,581	41,331	41,453	48,034	45,002	46,233	51,920	60,531	62,451
Returns (%)	0.6%	-0.4%	-1.3%	4.0%	-0.6%	0.3%	15.9%	-6.3%	2.7%	12.3%	16.6%	3.2%
Avg Volume ('000)	95,846	102,026	81,241	54,223	76,846	79,395	195,190	164,808	84,301	189,842	290,615	564,459

*Note: Index Values are the closing values on the last trading day of each month/year*

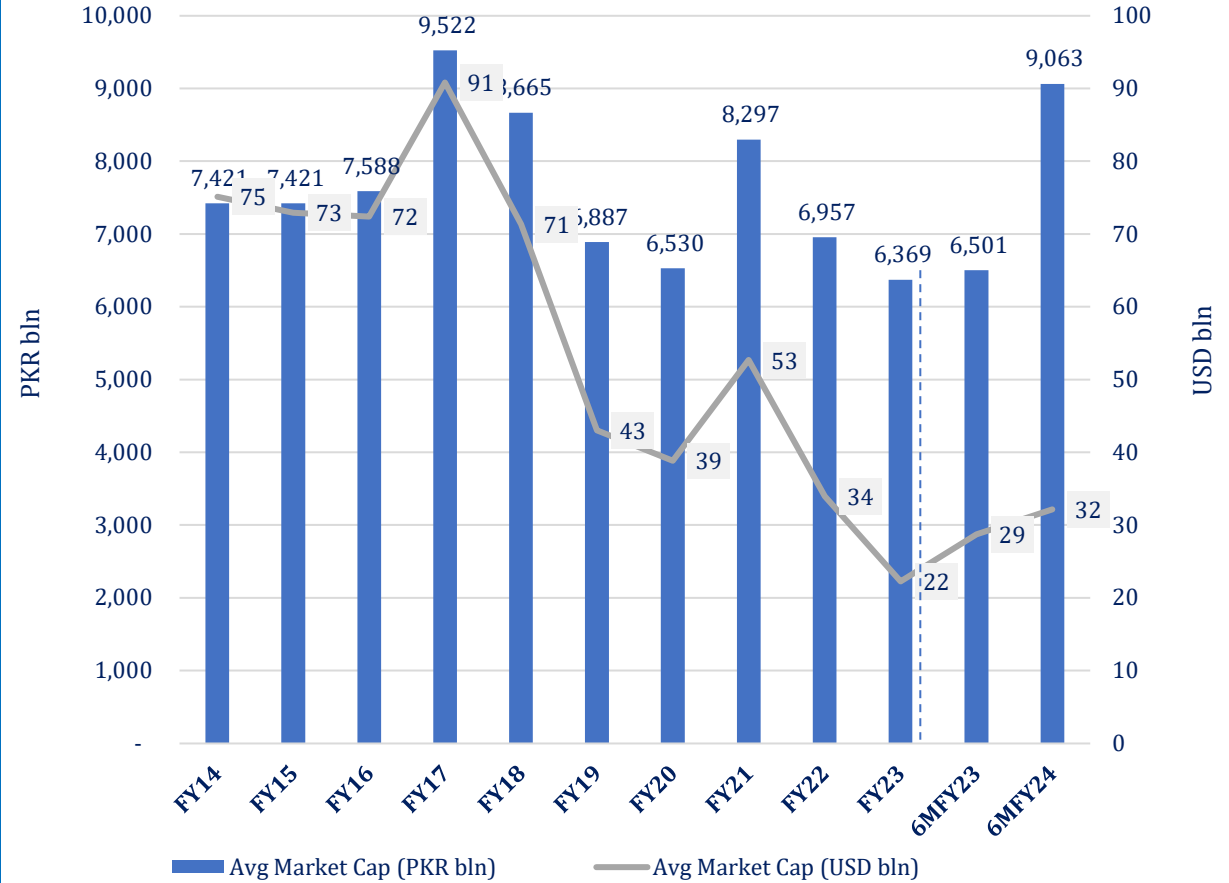
# Brokerage Firms

## Local | Market Volumes & Capitalization

### KSE-100 | Growth in Average Volumes



### Market Capitalization



*Note: Market capitalization are the closing values on the last trading day of each FY.*



# Brokerage Firms

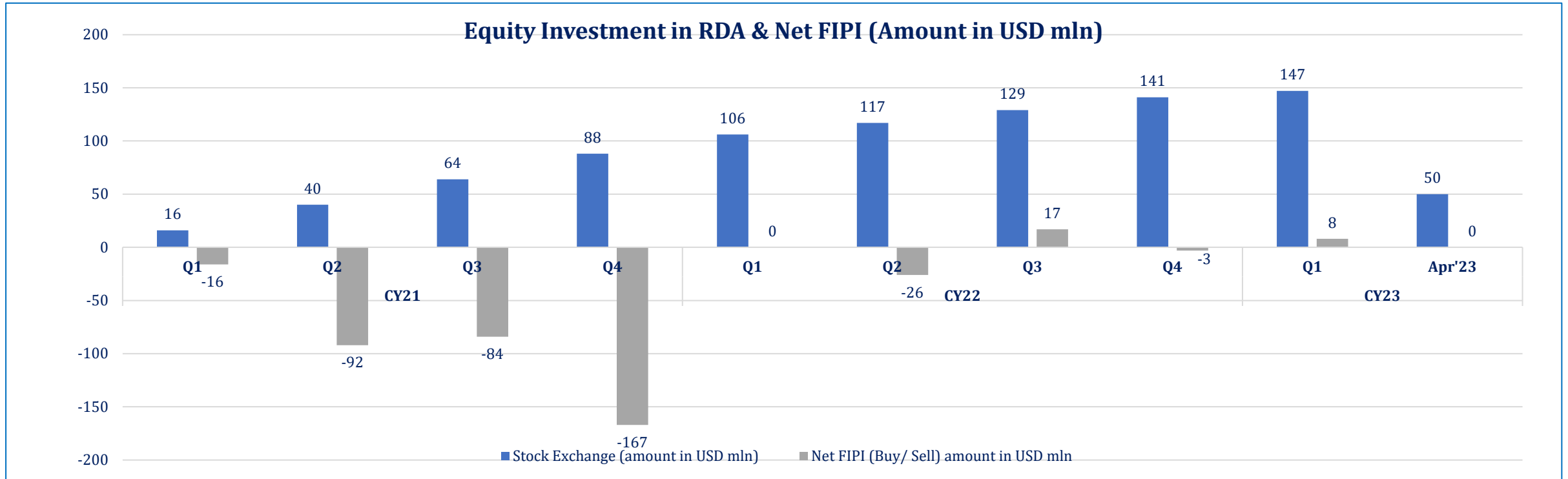
## Local | Fee-based Income

- As per PSX Notice No. N-633, the commission range of 3 paisa/share or 0.15% of the transaction value (whichever is higher) up to 2.5% of the transaction value has been prescribed, in light of the fact that some brokerage houses were charging nominal or zero commission rates.
- Additionally, average daily volumes of the KSE-100 index stood at ~89mln shares in FY23 (FY22: ~116mln). However, this figure has risen to ~248mln shares in the 6MFY24 period (SPLY: ~96mln) on the back of positive market sentiment owing to a steady policy rate, crackdown on hoarders and smugglers of USD, and structural reforms in the Exchange Companies (ECs) sector to cater foreign exchange needs of the general public burgeoning external account deficit.
- Another possible reason for the increased investor confidence in 1HFY24 could be the IMF's 9-month USD~3bln Stand By Arrangement (SBA), the initial tranche of which (USD~1.2bln) was released Jul'23. In furtherance to this, the IMF Executive Board, on Jan 11, 2024, allowed for immediate disbursement of USD~700mln to Pakistan. This development is expected to have a positive effect on the performance of KSE-100 index as it would improve the investor's confidence regarding the economic stability of the country.

Brokerage Fee Income   CY23		
Month	Total Volumes (KSE-100)	Minimum Fee (3 paisa/share)
Jan-23	2,108,632,930	63,258,988
Feb-23	2,040,528,063	61,215,842
Mar-23	1,787,308,909	53,619,267
Apr-23	813,348,031	24,400,441
May-23	1,690,618,043	50,718,541
Jun-23	1,508,515,518	45,255,466
Jul-23	3,903,813,175	117,114,395
Aug-23	3,625,796,832	108,773,905
Sep-23	1,601,731,825	48,051,595
Oct-23	4,176,545,208	125,296,356
Nov-23	6,102,924,111	183,087,723
Dec-23	11,289,197,341	338,675,920
<b>Total</b>	<b>40,648,959,986</b>	<b>1,219,468,439</b>

# Brokerage Firms

## Local | Roshan Digital Account (RDA)

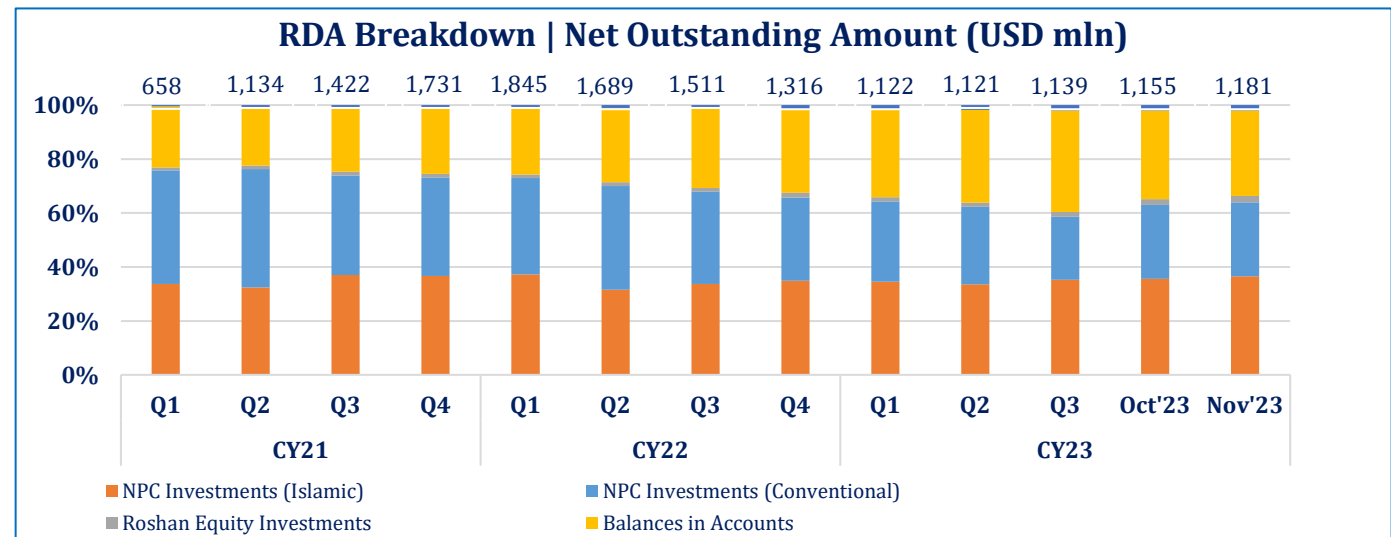
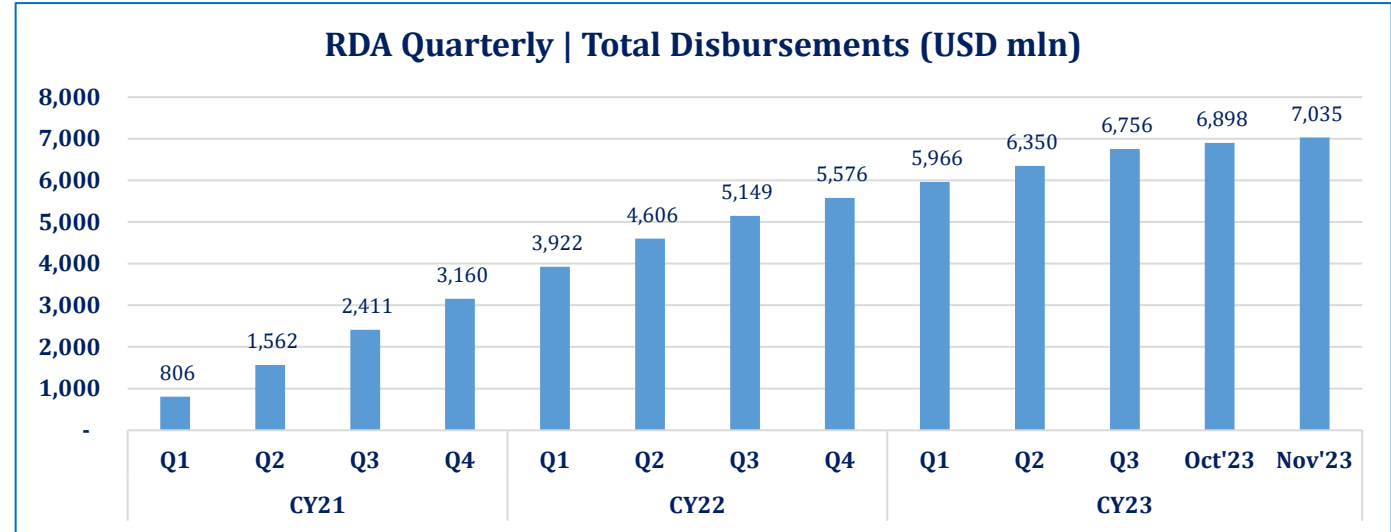


- The SBP in collaboration with Pakistan Stock Exchange (PSX), National Clearing Company of Pakistan Limited (NCLL), brokerage houses and RDA banks offer non-resident Pakistanis to invest in listed securities at PSX remotely through a digital investment account – the RDA.
- RDA funds can be repatriated and investors are permitted to remit their dividend income as well as divest their holdings without prior approval of the RDA and SBP banks. Apart from meeting their investment needs, investors can pay their bills, transfer funds, and engage in e-commerce using this single platform.
- While the bulk (~63%) of RDA inflows are in Naya Pakistan Certificates, a portion of the inflows (~1%) is invested in Shariah and non-Shariah compliant listed stocks. The gross inflow into listed securities amounted to USD~50mln in Apr'23 (SPLY: USD~38mln).

# Brokerage Firms

## Local | Roshan Digital Account (RDA)

- Over the years (CY21-9MCY23), there has been a consistent upward trend in the funds received in Roshan Digital Accounts (RDAs).
- Total fund received in RDAs so far, as of Nov'23, amounted to USD~7bln (SPLY: ~5bln). In FY23, total accumulated funds received in RDAs stood at USD~6.4bln (FY22: USD~4.6bln), depicting an increase of ~39% YoY.
- This upward trend in Roshan Digital Accounts may reflect the confidence of overseas Pakistanis in the economic stability of the country and the attractive returns offered on their invested funds.
- In Nov'23, net repatriable liability (net outstanding balance) in RDA amounted to USD~1.2bln which includes ~37% investment in Naya Pakistan Certificates (NPC) Islamic, ~27% in NPC conventional.
- Initially, a significant portion of the investment in NPC consisted of conventional certificates. However, this pattern has gradually transitioned towards Islamic NPCs. As of Nov'23, ~53% of the investments in NPC were in Islamic certificates, with the remaining ~47% attributed to investments in conventional NPC.



# Brokerage Firms

## Local | Net Buy/Sell

Net Buy/Sell (PKR mln)						
Participants	FY20	FY21	FY22	FY23	6MFY23	6MFY24
Individuals	34,001	53,276	28,420	20,142	10,605	-2,249
Companies	4,245	22,142	20,182	26,233	5,055	14,904
Banks / DFIs	-8,516	-15,412	21,030	17,923	11,431	-26,730
NBFC	707	27	500	63	-415	-84
Mutual Funds	-7,792	1,761	-23,598	-35,820	-14,285	-14,547
Other Organizations	4,973	6,889	10,481	5,858	3,581	-3,038
Broker Proprietary Trading	-2,105	-5,270	-3,409	-3,917	-1,686	-6,165
Insurance Companies	20,179	-1,357	-1,810	-30,543	-14,177	17,736
<b>LIPI NET</b>	<b>45,691</b>	<b>62,055</b>	<b>51,796</b>	<b>-62</b>	<b>110</b>	<b>-20,173</b>
Foreign Individuals	-134	12	662	5,559	5,464	354
Foreign Corporates	-49,033	-60,141	-63,841	-15,734	-14,789	21,162
Overseas Pakistanis	3,477	-1,926	11,383	10,244	9,222	-1,343
<b>FIPI NET</b>	<b>-45,691</b>	<b>-62,055</b>	<b>-51,796</b>	<b>70</b>	<b>-102</b>	<b>20,173</b>

Net Buy/Sell (USD mln)						
Participants	FY20	FY21	FY22	FY23	6MFY23	6MFY24
Individuals	213	332	157	84	48	-8
Companies	27	138	111	100	23	53
Banks / DFIs	-55	-95	115	74	50	-92
NBFC	5	0	3	0	-2	0
Mutual Funds	-50	10	-128	-144	-64	-51
Other Organizations	32	45	60	25	16	-11
Broker Proprietary Trading	-13	-32	-20	-15	-7	-21
Insurance Companies	128	-10	-1	-124	-63	60
<b>LIPI NET</b>	<b>285</b>	<b>387</b>	<b>298</b>	<b>-2</b>	<b>1</b>	<b>-71</b>
Foreign Individuals	-1	0	4	24	24	1
Foreign Corporates	-306	-375	-367	-67	-66	75
Overseas Pakistanis	22	-13	65	45	41	-5
<b>FIPI NET</b>	<b>-285</b>	<b>-387</b>	<b>-298</b>	<b>2</b>	<b>-1</b>	<b>71</b>

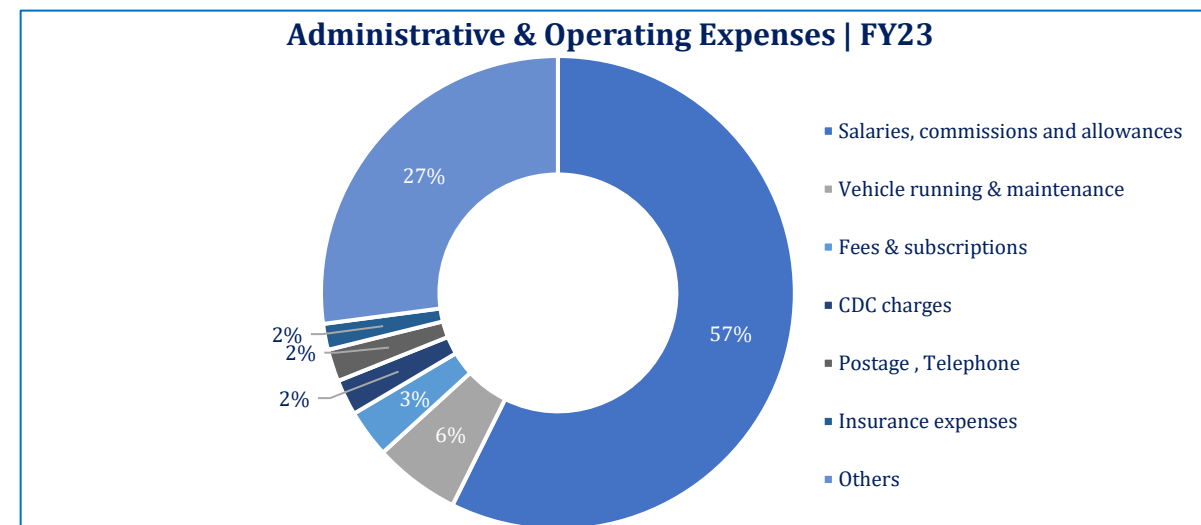
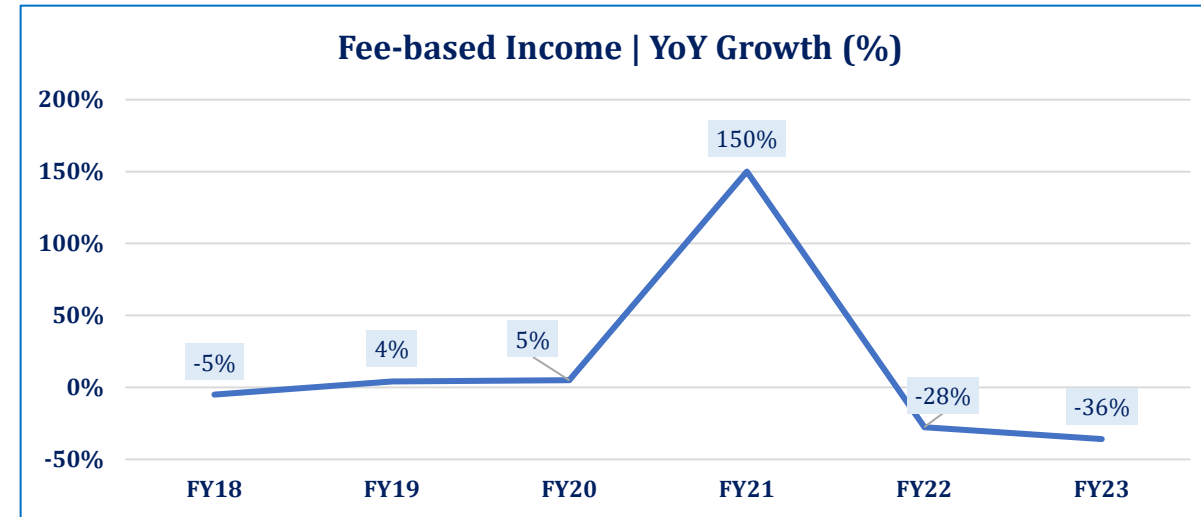
# Brokerage Firms

## Local | Business Risk

### Operating Revenue

- The Sector’s fee-based income declined by ~36% in FY23 (SPLY: ~(28)% growth). During the year, brokers’ performance was impacted by negative investor sentiment which was weighed down by political uncertainty, a deteriorating economic outlook and mounting inflationary pressures. This can also be inferred from low average volume of KSE -100 index in FY23~89mln compared to ~116mln in FY22.
- The PSX witnessed just one IPO (Initial Public Offering) in FY23, namely Symmetry Group (SYM), raising a mere PKR~800mln, the lowest since CY13 (SPLY: 3 IPOs occurred raising PKR~1.3bln). Brokers act as market makers to IPOs which serve as a source of revenue.
- In Nov’23, the SECP established a strict timeframe of 14 working days for the regulatory approval of listing applications and prospectuses. Additionally, PSX has a 15-day limit for post-approval listing procedures.
- It is anticipated that this standardization will facilitate more companies in raising funds through IPOs in FY24 which will not only improve market efficiency but also improve the Sector’s revenue.

**Cost Structure:** In FY23, ~57% of the administrative and operating expenses comprised salaries, commissions and allowances, followed by ~6% vehicle running and maintenance charges. Additionally, in FY23, administrative and operating expenses increased by ~2% YoY when compared with FY22.



# Brokerage Firms

## Local | Financial Risk

- **Credit risk** emanates from the inability of clients to pay for the securities purchased on their behalf. This can be minimized through appropriate procedures and controls regarding client acceptance and assessment of client credit worthiness.
- **Market risk** arises primarily from adverse movements in investment values such as the change in stock price of an equity instrument. Investors can have different appetites for the level of market risk that they are willing to take on. Moreover, different instruments have different levels of risk associated with them.
- The Sector’s exposure to market risk can be evaluated through the equity instruments to total investments ratio. A higher share of equity indicates greater level of market risk. The Sector’s average equity instruments to total investments ratio stood at ~43% in FY23 (FY22: ~57%).
- **Liquidity risk** occurs due to insufficient funds to meet financial obligations when they become due. This can be minimized by maintaining sufficient liquid investments and having the ability to raise funds in a timely and cost-effective manner from external sources.
- The liquidity risk can be evaluated through the Liquid Assets-to-Trade related Liabilities ratio. The Sector recorded an average liquidity ratio of ~378% in FY23 (FY22: ~418%). A ratio above 100% indicates that firms have enough liquidity to pay off liabilities that may arise in the short term.
- **Capital Adequacy:** The Sector’s average equity to total assets ratio clocked in at ~59% during FY23 (FY22: ~60%).

Sector Average	FY18	FY19	FY20	FY21	FY22	FY23
<b>Equity Instrument/Investment</b>	66%	62%	62%	62%	57%	43%
<b>Liquid Assets/Trade Related Liabilities</b>	480%	413%	268%	225%	418%	378%
<b>Equity/Total Assets</b>	67%	62%	60%	62%	60%	59%



# Brokerage Firms

## Local | Regulatory Framework

- The primary regulatory body for brokers is the Securities and Exchange Commission of Pakistan. There are a comprehensive set of regulations that govern the activities of brokers. These include the Securities Brokers (Licensing and Operations) Regulations 2016, the SECP Act 1997, the Anti-Money Laundering Act 2010 as well as regulations of the Pakistan Stock Exchange (PSX), Central Depository Company (CDC) and National Clearing Company of Pakistan (NCCPL).
- The PSX prescribes a standard commission range of 3 paisa/share or 0.15% of the transaction value (whichever is higher) up to 2.5% of the transaction value. The table shows the broker categories in the guidebook on licensing of securities updated on Apr 01, 2023.

Categories	Trading Only		Trading and Self Clearing	Trading and Clearing
Description	The broker can only execute its proprietary trades and trades on behalf of its customers but cannot settle executed trades or keep custody of securities or money owned by it and its customers.	<b>Online Only</b> The emerging category of exclusively online brokers seeks to prompt fresh entrants to initiate brokerage operations with reduced initial infrastructure and operational expenses, relying solely on electronic methods.	The broker can execute as well as settle its proprietary trades and trades executed on behalf of its customers and can keep custody of securities and money owned by it and its customers subject to such conditions as may be imposed by the Commission.	The broker can execute as well as settle its proprietary trades and trades executed on behalf of its customers and can keep custody of securities and cash owned by it and its customers subject to such conditions as imposed by the Commission and, in addition, such securities broker can settle trades of other securities brokers and their customers and keep custody of the securities and cash owned by such other securities brokers and their customers.
Minimum Net Worth	PKR 15mln	7.5mln	PKR 75mln	PKR 500mln
Liquid Capital Requirement	PKR 5mln	Not Applicable	PKR 10mln	PKR 50mln
Minimum Net Capital Balance	Not Applicable	PKR 1mln	PKR 10mln	PKR 15mln
Assets Under Custody Limit	2x of Net Worth	Not Applicable	25x of Net Worth	35x of Net Worth

# Brokerage Firms

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## Local | Regulatory Framework | Recent Developments

- The GoP made certain amendments to the tax structure applicable for brokerage firms through the Annual Budget FY22 and it is still applicable.
  - i. Individuals having turnover of PKR~100mln or more added to the classification of 'withholding agent/prescribed person' for the purpose of collecting tax under section 233 of the Income Tax Ordinance, 2001. Previously, the withholding agent classification included federal, provincial and local governments, companies and association of persons.
  - ii. In addition, sections 233A and 233AA were both withdrawn in the budget. Section 233A encompassed the collection of advance tax by the stock exchanges on purchase and sale of shares. Meanwhile, section 233AA encompassed the collection of advance tax by NCCPL from margin financiers, trading financiers and lenders in respect of margin financing.
- The Pakistan Stock Exchange (PSX) launched a technologically-advanced New Trading System (NTS) on May 15, 2023 that replaced KATS (Karachi Automated Trading System). This new system aims to enhance security features, addressing concerns related to investor data protection and resolving issues of data leaks and theft.
- The initial version of the system, known as Designated Time Schedule (DTS), was launched in Oct'21 but was replaced swiftly by the old trading platform (KATS/Karachi Automated Trading System) due to hardware and software discrepancies.
- The New Trading System (NTS) was purchased from the Shenzhen Stock Exchange (SZSE) for USD~2.85mln. It has a built-in surveillance system capable of preventing and detecting data leakages and theft attempts. It can also conclude trading sessions in just 30 seconds, as compared to 30 minutes required with the current KATS.

# Brokerage Firms

## SWOT Analysis

- Strong regulatory oversight through SECP and PSX.
- Potential significant returns, boosting investor confidence

- Any kind of uncertainty, be it political, social or economic can have a negative impact on the stock market and in turn on the brokerage firms.
- Some of the regulatory requirements, e.g. minimum capital, may be difficult for small brokers to meet.



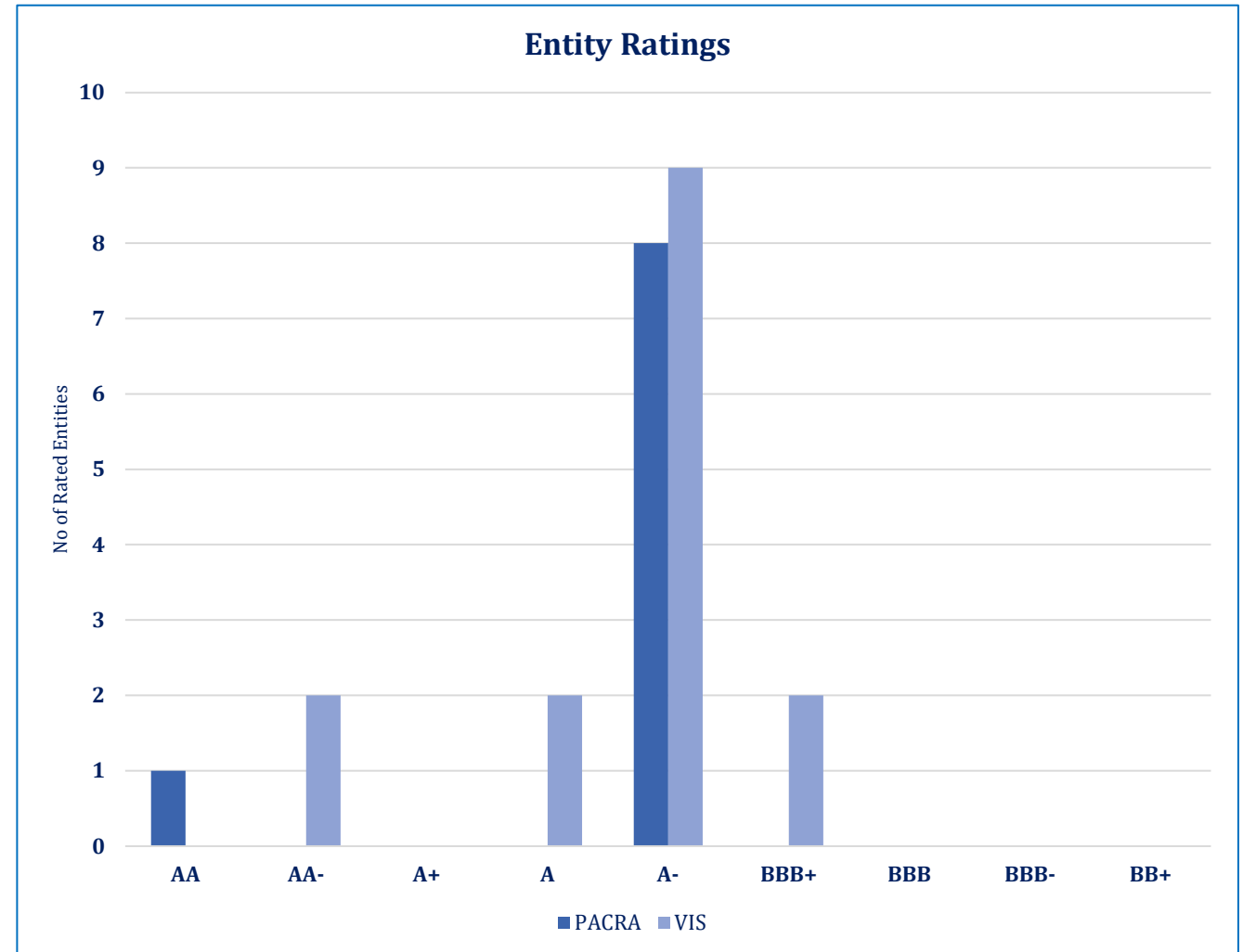
- Deteriorating economic indicators such as current account deficit, currency depreciation and rising inflation can create negative sentiment in the market.

- Pakistan is a highly volatile economy; such an environment can create potential opportunities for earning high returns.

# Brokerage Firms

## Rating Curve

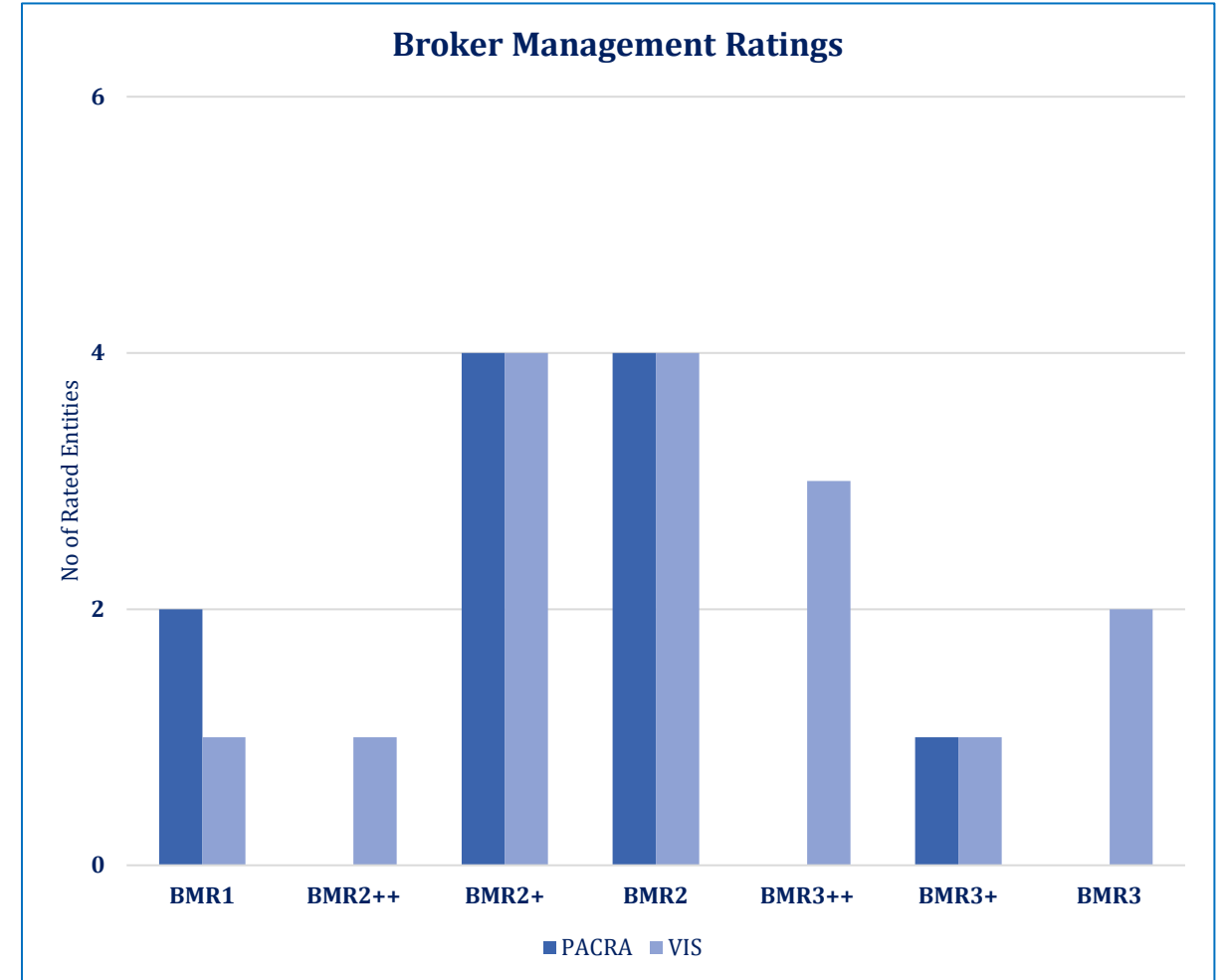
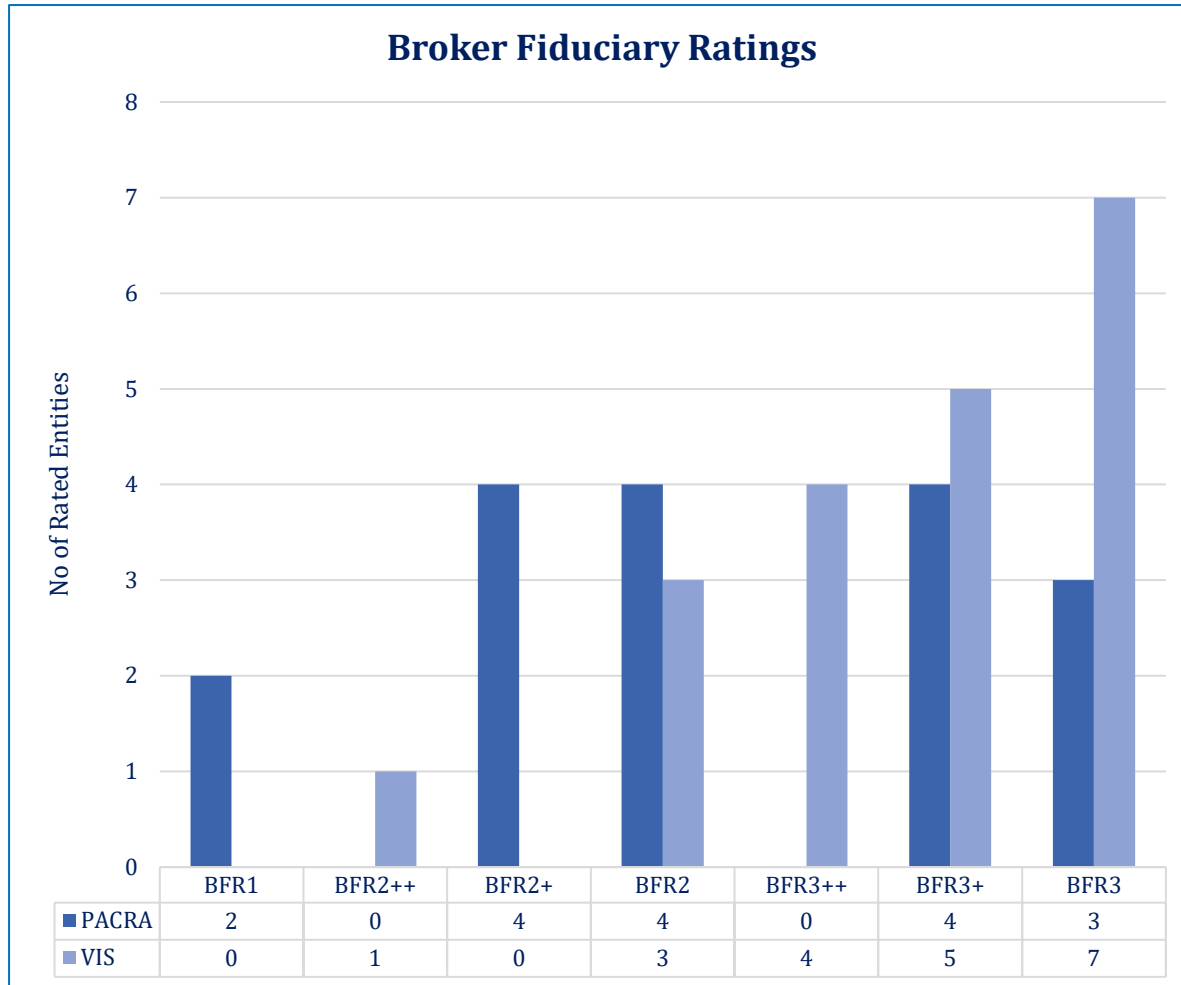
- PACRA rates a total of 18 Brokerage firms. Out of which PACRA provides Entity ratings to 9 brokerage firms with a long-term rating in the bandwidth of BBB+ to AA.
- In addition, PACRA also provides Broker Management Ratings (BMR) ratings to 11 brokerage firms with a long-term rating bandwidth of BMR3 to BMR1. PACRA’s Broker Management Rating aims to facilitate investors to differentiate between brokers on the basis of quality of management and services provided.
- Moreover, PACRA provides 17 Broker Fiduciary Ratings (BFR) with a long-term rating bandwidth of BFR3 to BFR1. Broker Fiduciary Rating (BFR) represents PACRA’s opinion on the customer service and sustainability of operations of a broker.



*Note: PACRA provides ratings in multiple categories for select brokerage firms.*

# Brokerage Firms

## Rating Curve



# Brokerage Firms

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## Outlook: Stable

- In FY23, Pakistan's economy posted a real GDP contraction of ~0.17% (FY22: ~6.1% growth). Meanwhile, the LSM shrunk by ~10.3% (FY22: ~11.8%), owing majorly to supply-chain disruptions which resulted from SBP-imposed import restrictions, along with the flash floods of Aug'22 and consequent sluggish demand across major industrial sectors of the country. In 1QFY24, however, the real GDP growth stood at ~2.1% (SPLY: ~0.96%). Meanwhile, the SBP estimates the GDP growth at ~2-3% for FY24 while the GoP's projections of real GDP growth rate stands at ~3.5%. FY23 was also marred by significantly high levels of inflation with average national CPI recording at ~29.4% (SPLY: 21.3%). The increasing trend has persisted in FY24, with national CPI in Dec'23 recording at ~29.7% (Nov'23: ~29.2%).
- In FY23, the Brokerage and Securities sector was impacted negatively by the macroeconomic situation, supply chain disruptions amid import restrictions, and political uncertainty as evident by ~-0.2% overall return observed in the KSE 100 index but showed an improved performance compared to FY22 when the return of KSE-100 index was ~-12.3% reflecting investors negative sentiment and economic uncertainty back then.
- Investors sentiment can be directly reflected in broker income growth in FY23 of ~(-36)% (SPLY: ~-28%). Furthermore, a single IPO in CY23 compared to the SPLY implied a reduction in income earning opportunity for brokers. However, in CY23, a return of ~54.5% was observed in KSE-100 index, which was reflective of the rebound in economic activity and improved investor confidence in 2HCY23. KSE-100 index observed an all-time high index value of ~66,427 on Dec 12, 2023 due to a number of reasons that include steady policy rate, crackdown on hoarders and smugglers of USD, and structural reforms in the Exchange Companies (ECs) sector to cater foreign exchange needs of the general public burgeoning external account deficit.
- Based upon the economic situation in 1HFY24, increased investor confidence is being reflected in the performance of KSE-100 index, likely due to the IMF's 9-month USD~3bln Stand By Arrangement (SBA), the initial tranche of which (USD~1.2bln) was released Jul'23, as well as a strengthening PKR, along with improving current account balance and stable interest rates. In furtherance to this, the IMF Executive Board, on Jan 11, 2024, allowed for immediate disbursement of USD~700mln to Pakistan.
- These developments are expected to have a positive effect on the performance of KSE-100 index in 2HFY24 as it would improve the investor's confidence regarding the economic stability of the country. Additionally, the announcement of the upcoming elections to be held in Feb'24 has already started incorporating a positive affect on the KSE-100 index performance.



# Brokerage Firms

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- Mutual Funds Association of Pakistan (MUFAP)
- PACRA Database
- Investing.com
- Fidelity Research Securities and Exchange Board of India (SEBI)
- BSE India

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