



**Insurance**  
INSTITUTE OF EAST AFRICA



# STOCK BROKERS' CERTIFICATION

Powered by:



Institute Of Financial Markets Of Pakistan

## OBJECTIVE OF THE EXAMINATION

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This Certification Exam is specifically designed to meet the minimum qualification needs of the financial market participants at brokerage houses with client interaction and to ensure that they are competent to provide buying & selling services to stock market investors.

### *TARGET AUDIENCE*

This exam is mandatory for Brokers, Agents of Brokers, Equity Traders and Sales Staff of Brokers and Brokerage Firms.

### *SYLLABUS STRUCTURE*

The unit is divided into elements. These are broken down into a series of learning objectives. Each learning objective begins with one of the following prefixes: **know**, **understand**, **be able to calculate** and also **be able to apply**. These words indicate the different levels of skill to be tested. Learning objectives prefixed:

- **know** require the candidate to recall information such as facts, rules and principles
- **understand** require the candidate to demonstrate comprehension of an issue, fact, rule or principle
- **be able to calculate** require the candidate to be able to use formulae to perform calculations
- **be able to apply** require the candidate to be able to apply their knowledge to a given set of circumstances in order to present a clear and detailed explanation of a situation, rule or principle

## EXAMINATION SPECIFICATIONS

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Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element will not change by more than plus or minus 2.

| <b>Examination Specification</b>     |  |                  |
|--------------------------------------|--|------------------|
| <b>100 multiple choice questions</b> |  |                  |
| <b>Element No.</b>                   | <b>Elements</b>                                      | <b>Questions</b> |
| 1                                    | <b>Introduction to Financial Markets</b>             | <b>10</b>        |
| 2                                    | <b>Regulatory Framework</b>                          | <b>20</b>        |
| 3                                    | <b>Primary Market</b>                                | <b>20</b>        |
| 4                                    | <b>Secondary Market</b>                              | <b>10</b>        |
| 5                                    | <b>Clearing, Delivery, Settlement and Depository</b> | <b>10</b>        |
| 6                                    | <b>Stock Brokers and their Clients</b>               | <b>10</b>        |
| 7                                    | <b>Investor Protection</b>                           | <b>10</b>        |
| 8                                    | <b>Economics and Finance</b>                         | <b>10</b>        |
|                                      | <b>Total</b>   | <b>100</b>       |

### *ASSESSMENT STRUCTURE*

- This will be a 150 minutes examination of 100 Multiple Choice Questions (MCQs).
- All questions will carry equal marks.
- There will be no negative marking.

**◇ SUMMARY OF THE SYLLABUS ◇**

## **Element 1:**

### **Introduction to Financial Markets**

On completion, the candidate should:

- 1.1 *Know* the Products, Participants and Functions of the capital markets
- 1.2 *Know* the role of the Securities Market and Financial System including:
  - Stock Exchanges
  - Stock Brokers
  - Retail / Commercial banks
  - Investment Banks
  - Pension / Mutual funds
  - Insurance Companies
  - Fund Managers / Asset Management Companies
  - Custodians
  - Industry Trade Bodies
  - Authorized Intermediaries (in Leverage Market Contracts)
- 1.3 *Understand* the relationship of Securities Market and Economic Development
- 1.4 *Know* the Investor Population including retail and institutional investors
- 1.5 *Understand* the role and functions of Primary Market
- 1.6 *Understand* the role and functions of Secondary Market

## **Element 2:**

### **Regulatory Framework**

On completion, the candidate should:

- 2.1 *Understand* the scope, core functions and powers of the Securities and Exchange Commission of Pakistan (SECP) as conferred in SECP Act, 1997
- 2.2 *Understand* the SECP Regulations, Rules and Procedures, Powers and Functions, Appeals, Jurisdictions including:
  - Functional responsibility and powers
  - Approval according body
  - Power to call for information
  - Enforcement and investigative powers
- 2.3 *Understand* the key elements of the Securities Act, 2015
- 2.4 *Know the Conduct of Securities Brokers as per* Securities Brokers (Licensing and Operations) Regulations, 2016
- 2.5 *Know the Licensing Requirements for Securities Broker as per* Securities Brokers (Licensing and Operations) Regulations, 2016
- 2.6 *Know* the sections of the Companies Act 2017 that are relevant to capital markets
- 2.7 *Know* the SECP Code of Corporate Governance 2012 in the light of listing of companies and securities regulations of Pakistan Stock Exchange
- 2.8 *Know* the listing of companies and securities regulations of the Pakistan Stock Exchange
- 2.9 *Know* the Central Depositories Act, 1997 and CDC Regulations, 2016
- 2.10 *Know* the National Clearing Company of Pakistan Limited Regulations 2018
- 2.11 *Know* the Securities (Leveraged Markets and Pledging) Rules, 2011

- 2.12 *Understand* the Demutualization Amendment Act (2016)
- 2.13 know the Securities & Future Advisers (Licensing & Operations) Regulations, 2017
- 2.14 Know the scope for Joint Inspection carried out for Brokers Compliance under the Joint Inspection Regulations, 2015
- 2.15 Understand the Shareholder's Responsibilities

### **Element 3:**

#### **Primary Market**

On completion, the candidate should:

- 3.1 *Understand* the functions and processes of the Primary Market including
  - Issue of Shares
  - Prospectus/Offering Documents
  - Pre-Initial Public Offer and Private Placement
  - Initial Public Offering
- 3.2 *Know* the general requirements and procedure for companies to list shares on the Pakistan Stock Exchange
- 3.3 *Know* the requirements for delisting from the Pakistan Stock Exchange
- 3.4 *Understand* the factors and effects leading to placement of companies on defaulters' segment and suspension of trading in the shares of listed companies and placement of such companies on the defaulters' segment of PSX

## **Element 4:**

### **Secondary Market**

On completion, the candidate should:

- 4.1 *Know* the role and importance of the Stock Exchanges
- 4.2 *Understand* the Stock Trading process through stock exchanges including:
  - Electronic Trading Terminals
  - Entry of Quotes and Orders
  - Price/Time Priority
  - Order Types
  - Transaction and Order Reports
- 4.3 *Know* the Trading Cycle
- 4.4 *Understand* the Products available for trading on the stock exchanges including:
  - Equity Instrument
  - Debt Instrument
  - Derivative Products
- 4.5 *Understand* the Derivatives/Futures Contracts available for trading on the stock exchange including:
  - Deliverable Futures contracts
  - Cash Settled Futures contracts
  - Stock Index Futures contracts
  - Index Options contracts
  - Exchange Traded Funds
- 4.6 *Know* the composition and types of the Indexes



4.7 *Know* the process of disseminating and dealing with Corporate Actions and Announcements

4.8 *Know* the Stock and Market Indicators and Outcomes including:

- Turnover, growth and distribution
- Market Capitalization
- Liquidity and Financing
- Transaction Costs

## **Element 5:**

### **Clearing, Delivery, Settlement and Depository**

On completion, the candidate should:

5.1 *Know* the role, functions and working of the National Clearing Company of Pakistan Limited

5.2 *Know* the Risk Management and Types of Risks in Clearing & Settlement

5.3 *Know* the process of Clearing House Deposits and Credit Risk including the Capital Adequacy requirements and Exposure Limits

5.4 *Understand* the Margin requirements and should *be able to calculate*

- V-a-R (Value-at-Risk) - Market Risk
- Impact Cost - Liquidity Risk
- Acceptable Collateral to meet Margin Requirements
- Haircuts
- Mark-to-Market (Variation Margin) & Margin Calls
- Special Margins
- Concentration Margins

- Liquidity Margins
- 5.5 *Know* the role and functions of Depository, the book-entry system and its advantages to the capital market
- 5.6 *Know* the different services offered by a Depository and Types of Accounts
- 5.7 *Understand* the working mechanism, benefits, elements and account structure of Central Depository System (CDS)
- 5.8 *Know* the maintenance of sub-accounts, investor accounts and participant account in CDS
- 5.9 *Understand* the functions and process of Clearing and Settlement including:
  - Types of Settlement Cycle
  - Institutional Delivery System (IDS) Non-Exchange Transactions
  - Clearing and Settlement of Deliverable and Non-Deliverable Futures Contracts
  - Clearing and Settlement of Bonds Automated Trading System (BATS)
  - Clearing and Settlement Facility for Custodian Banks
  - Clearing and Settlement of Negotiated Deal Market (NDM) Market

## **Element 6:**

### **Stock Brokers and Their Clients**

On completion, the candidate should:

- 6.1 *Know* the Securities Brokers (Licensing and Operations) Regulations, 2016 including:
  - Eligibility Criteria
  - Procedure for granting a License
  - Financial Requirements

6.2 *Understand* the Broker Prohibitions and Restrictions related to:

- Clients' Assets
- Confidentiality
- Material information
- Insiders and Non-public Information
- Front running

6.3 *Know* in light of Securities Brokers (Licensing and Operations) Regulations, 2016, the requirements and procedures of:

- Suspension and cancellation of Registration of Brokers

6.4 *Know* the Orders and Appeals procedures of SECP

6.5 *Know* the relevant sections of Anti Money Laundering Ordinance and KYC requirements under AML Ordinance

6.6 *Understand* the requirement and working of Universal Identification Number

6.7 *Know* the definition, law, regulation and penalties of Insider Trading while understanding the meaning of:

- An 'insider'
- 'Connected person'
- 'Unpublished price sensitive information'

6.8 *Know* the following:

- Prohibition on insiders covered by the rules and guidelines including dealing, communicating and counselling
- Liability in respect of insider trading and identify the defence to insider trading
- Powers available to SECP to prosecute insider trading

## **Element 7:**

### **Investor Protection**

On completion, the candidate should:

- 7.1 *Know* the requirements of Fair Dealing including:
- Risks & Rewards of Investing
  - Best Price
  - Maintenance of Records
  - Time Stamps
  - Recording of Telephone Calls
  - Account Statements & Contract Notes
  - Misstatements & Mis-selling/ False Selling
  - Segregation of clients' assets and periodic reporting thereof to PSX
- 7.2 *Know* the process and handling of Investor Complaints
- 7.3 *Know* the Investor Protection Fund of Pakistan stock exchange

## **Element 8:**

### **Economics and Finance**

On completion, the candidate should:

8.1 *Know* the Taxation laws relevant to capital markets including:

- Income Tax
- Capital Gain Tax
- Capital Value Tax
- Corporate Tax

8.2 *Understand* and interpret the Financial Statements and conduct basic Financial Statement Analysis including:

- Revenue and profit growth
- Earnings and Distributions
- Book value and Intrinsic value

8.3 *Understand* and *be able to apply* basic mathematics and statistics including:

- Mean, Median and Mode
- Dispersion and regression analysis

8.4 *Understand* and *be able to apply* basic financial mathematics including:

- Time value money, annuities and perpetuities
- Calculations of annuities and perpetuities
- Present & future value of cash flows

8.5 *Know* Principal Factors Affecting Stock Markets & Prices including:

- Business Cycles and its Indicators

- Effect of the Business Cycle
- Money Markets
- Equities Markets
- Price/ Earnings & Price/ Book value multiples
- Dividend/Capital gain Yield

8.6 *Know* the Macroeconomic indicators including:

- GDP
- Money Supply
- The Role of State Bank of Pakistan
- International/ Regional Economies and Markets