



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
Adjudication Department


No. 1(68)SMD/ADJ/LHR/2019

November 22, 2019

128 Securities (Pvt.) Ltd,
Through its Chief Executive,
M-12, Mezzanine Floor, LSE Plaza,
19 Khayaban-e-Aiwan-e-Iqbal,
Lahore.

SUBJECT: Order in Respect of Show Cause Notice dated November 06, 2019 Bearing Number 1(68)SMD/ADJ/LHR/2019

Please find enclosed herewith a copy of order dated November 22, 2019 in the title matter for your record and necessary action.



Muhammad Faisal
Management Executive



Securities and Exchange Commission of Pakistan
Securities Market Division

Through Courier

Before the Commissioner (SMD)

In the matter of Show Cause Notice issued to 128 Securities (Pvt.) Ltd

Date of Hearing	November 12, 2019
Present at the Hearing Representing 128 Securities (Private) Limited	i. Mr. Muhammad Shahzad, (Director) ii. Mr. Shafqat Ali, (Consultant)

ORDER

This Order shall dispose of the proceedings initiated pursuant to Show Cause Notice (the "SCN") No. 1(68)SMD/ADJ/LHR/2019 dated November 06, 2019, issued to 128 Securities (Private) Limited (the "Respondent") under Section 150 & 152 of the Securities Act, 2015 ("the Act") by the Securities and Exchange Commission of Pakistan (the "Commission").

2. Brief facts of the case are that the Respondent is licensed as a securities broker by the Commission under Securities Brokers (Licensing & Operations) Regulations, 2016 ("the Regulations"). Regulation 4(c) of the Regulations stipulates that any change in sponsors shall not be affected without prior written approval of the Commission. The Respondent vide its letter dated July 09, 2019 submitted application for seeking approval of change of its sponsors. The said application was reviewed in light of available information submitted by the company at the time of grant of license as on September 29, 2016. the review of information revealed that the Company at the time of grant of license identified Mr. Shahid Mahmood, holding 637,740 shares (99% shareholding) as sponsor. However, the Respondent in its application for seeking approval of change in sponsors dated July 9, 2019 identified Mr. Shahid Mehmood holding, holding 345,286 shares (49.84% shareholding), Mr. Hashim Mahmood holding 1,084 shares (0.16% shareholding), and Mr. M. Shahzad Haider Zaidi holding 6,927 shares (1% shareholding), as sponsors of the Respondent to comply with Regulation 4(c) i.e. identification of sponsors holding 51% shareholding. It was revealed the Respondent did not seek prior approval of the Commission for change in sponsorship. The above letter also revealed that Mr. Shahid Mahmood transferred 25% shareholding (173,185) to Syed Kaleem Haider Zaidi. The Company reported its existing pattern of shareholding as under;

Name of shareholder	Shares held	% of holding
Mr. Shahid Mahmood	345,286	49.84

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Mr. Hashim Mahmood	1,084	0.16
Mr. M. Shahzad Haider Zaidi	173,185	25
Syed Kaleem Haider Zaidi	173,185	25
Total	692,740	100%

3. Further, the Respondent vide its letter dated August 28, 2019 submitted that in March, 2018 changes in shareholding were accepted by CRO Lahore and inadvertently it had not taken prior approval of the Commission for the change in sponsors.

4. The Respondent, prima facie, acted in contravention of the Regulation 4(c) & 16(1)(h) of the Regulations. Accordingly, the Commission took cognizance of the aforementioned facts and served the SCN under Section 150 & 152 of the Act requiring the Respondent to explain its stance in person on November 12, 2019.

5. The Respondent appeared before the undersigned on the given date and time through Mr. Muhammad Shahzad (Director) & Mr. Shafqat Ali (Consultant) (the "Representatives"). The Respondent also submitted its reply to SCN vide letter November 11, 2019, relevant extract of which is provided as under:

"Bases of Show Cause Notice:

We understand that regulation 4(c) of the Securities Brokers (Licensing and Operations) Regulations, 2016 ("the Securities Brokers Regulations") requires that a private limited company holding a TREC is required to identify its Sponsors collectively holding not less than 51% of its share capital and a public limited not less than 25%. Any change in their Sponsors shall not be affected without prior written approval of the Commission.

We also understand that clause 4.6 of Annexure-A (List of documents to be provided along with the application) annexed to the said Regulations requires an undertaking from the Sponsors of the applicant that they will not sell or transfer their shares without prior written approval of the securities exchange and the Commission.

Please note that existing sponsor i.e., major shareholder was holding 99.84% till March 08, 2018. As 128 Securities was a registered broker before promulgation of said Regulations, therefore he was presumed as Sponsor by the entity. Said majority shareholder sold his 50% holding to 2 other shareholders on March 08, 2018 and filed Form-A within due date with SECP Lahore Registration Office. CRO approved said holding and issued certificate on May 8, 2018 on request. After said transfer existing Sponsor hold 49.84% instead of 51% as required under regulation 4(c).

On December 14, 2018, 128 Securities on advice of our Consultant, requested SECP for prior approval transfer of entire holding i.e., 49.84% of the existing sponsor to new investors in compliance with





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regulation 4(c) of said Regulations, then SECP raised objection on previous transfer of 1.16% holding out of Sponsor portion (than needed to be 51%) to new shareholders without prior SECP approval.

Our submission for your sympathetic consideration and taking lenient view:

1. Taking prior approval from SECP on change of sponsors' holdings was first time made part of the Securities Brokers Regulations in 2016, therefore we misconstrued the requirement of regulation 4(c) of said regulations and assumed taking prior approval from relevant Companies Registration Office of SECP ("CRO-SECP") meant compliance of said regulation by us. Therefore, we filed Form A before SECP-CRO, Lahore for its approval, who approved the same without raising any objection on said change.

2. On 2nd change, we were clarified by the Securities Exchange and our Consultant that we were required to take prior approval of Securities Market Division of SECP ("SMD-SECP") for change of Sponsors' holdings, therefore, we requested SMD-SECP vide our letter dated July 09, 2019 for their prior approval before filing statutory forms with CRO-SECP. Against which, SMD-SECP raised objection on our prior non-compliance with the regulation 4(c) of the Securities Brokers Regulations which may cause issuance of this Show Cause Notice from your good office.

3. We appreciate that now SECP has made procedural control at its end wherein, CROSECP does not accept change in Sponsors' holdings through Form A without attaching prior approval of SMD-SECP before its filing. We believe that if said controls had been in place on our 1st filing of Form A, alleged non-compliance of 4(c) of the Securities Brokers Regulations by 128 Securities would not be triggered at our end in March 08, 2018.

As the new majority shareholders are Fit and Proper persons for becoming Sponsors of the Securities Broker as required under clause 4(e) of the Securities Brokers Regulations and all required documents had been submitted with SMD-SECP, therefore we request for your sympathetic considerations on the following matters:

1. Please take a lenient view on our minor digression from the requirement of regulation 4(c) of the Securities Brokers Regulations on change of 1.16% of Sponsor's shares out of the Sponsor's portion through filing of Form-A with CRO-SMD but without prior approval of SMD-SECP and pardon off our inadvertent mistake.

2. Please advise SMD-SECP to grant their prior approval on change of existing Sponsor's holdings to new Sponsors who are Fit & Proper Persons as required under regulation 4(e) of the Securities Brokers Regulations (copy of letter enclosed).

3. Also please advise SMD-SECP to renew the license of 128 Securities as a Securities Broker required under the Securities Act, 2015 read with Securities Brokers Regulations which have been filed with SECP through PSX vide our letter dated October 15, 2019"

6. The Representatives of the Respondent reiterated their arguments submitted earlier in written reply to the SCN. The stance of the Respondent that filing of Form A at Company Registration Office ("CRO") fulfils the requirement of the prior approval as mentioned in the Regulations is not tenable as merely filing of the Form A before CRO does not construe as prior approval of the Commission for change in sponsor's shareholding as required under 4(c) of the Regulations.





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7. It is pertinent to mention here that the Respondent in its application to the Commission for grant of license on September 29, 2016 identified Mr. Shahid Mehmood as sponsor with the shareholding of 99% shares (i.e. 637,740 shares). However, in March, 2018 the said identified sponsor sold his 50% shareholding to two other individuals namely Mr. Shahad Haider & Mr. Syed Kaleem Haider Zaidi without prior approval of the Commission. Hence, the stance of the Respondent that the objection was raised on transfer of only 1.16% of sponsor's portion of share transfer is not tenable.

8. In view of the foregoing, contraventions of the provisions of Regulations are evident. Therefore, in terms of powers conferred under section 150 and 152 of the Act, a penalty of Rs. 25,000/- (Rupees Twenty five thousand only) is hereby imposed on the Respondent. Further, relevant department of the Commission is advised to consider the case of change in sponsors/ shareholding on merit and in accordance with the applicable regulatory framework.

9. This order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with the law on the matter subsequently investigated or otherwise brought to the knowledge of the Commission.



Shauzab Ali
Commissioner (SMD)

Announced on: 22-11, 2019
Islamabad