

Securities and Exchange Commission of Pakistan  
Securities Market Division

Before the Commissioner (SMD)

In the matter of Show Cause Notice Issued to  
Adam Securities Limited

*Date of Hearing(s)*

*February 6, 2018*

*Present at the Hearing*

*Representing*

*Adam Securities Limited*

*Mr. Abdul Majeed Adam*

*Chief Executive Officer,*  
*Adam Securities Limited*

*Mr. Muhammad Khurram Jah*

*Authorized Representative*  
*Adam Securities Limited*

*Assisting the Commissioner (SMD)*

*(i) Ms. Musarat Jabeen*

*Executive Director (ADJ)*

*(ii) Mr. Salman Arshad*

*Deputy Director (ADJ)*

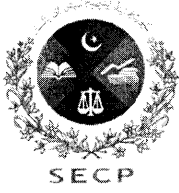
**ORDER**

This Order shall dispose of the proceedings initiated through Show Cause Notice (SCN) bearing No. 2(84) SMD/PRPD/2017 dated September 22, 2017. The SCN was served on M/S Adam Securities Limited ("**Respondent**") by the Securities and Exchange Commission of Pakistan (**Commission**) under section 150 of the Securities Act, 2015 (**Securities Act**). The Respondent is a Trading Right Entitlement Certificate ("**TREC**") holder of Pakistan Stock Exchange ("**PSX**") and is licensed as a securities broker with Commission.

2. Brief facts of the case leading to the issuance of SCN are that on October 24, 2016, PSX received a complaint from Mr. Mazhar-Ul-Haq, for non-payment and unauthorized movement of funds by Mr. Wamiq M. Yousuf (**WY**), an alleged agent of the Respondent. PSX conducted initial enquiry which revealed that WY was maintaining an office in Room 74, Old Stock Exchange Building, Karachi (**SE Building**) and impersonating himself to be an agent of the Respondent. PSX requested the Commission for blocking/freezing outward movement of all funds/cash/securities belonging to WY and to take regulatory/enforcement action(s).

3. The Commission vide order dated November 10, 2016, in exercise of powers conferred under Section 139 of the Securities Act read with all enabling provisions of the Securities and Exchange Commission of Pakistan Act, 1997 ordered investigation into the matter to determine:-





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- i. Whether WY was acting as an alleged illegal broker/agent.
  - ii. Whether brokerage house with whom WY was maintaining accounts were involved in his alleged illegal trading.
  - iii. Any other matter which the investigation team deems fit to reach final conclusion into the matter.
4. The investigation team submitted its report (**Investigation Report**) to the Commission on May 9, 2017. The Investigation Report prima facie revealed that:-

- a) WY had multiple single/joint accounts in multiple brokerage houses including Respondent.
- b) The investigation team obtained trading data of WY from January 01, 2008 to October 30, 2016 (**Review Period**) and observed that during Review Period, he traded 1,361 million shares of different companies worth Rs. 77,102 million through 322,893 orders. The analysis of trading data revealed that 34.03% of the trades were conducted through the Respondent.
- c) WY owned room No. 74, Old SE Building. He was carrying on his business activities from room 74 and 67 of Old SE Building.
- d) WY inter alia confessed in writing before the investigation team that:-

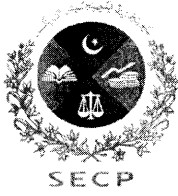
(i) *In the year 2011, I started business with the Respondent. Thereafter, Mr. Majeed Adam advised me to open an online account.*

(ii) *The Respondent used to pay me my share of commission through cash cheques.*

(iii) WY commenced trading with Respondent on February 2nd, 2009, which continued till October 04, 2016. His trading pattern revealed that till the year 2011, he traded with the Respondent with lower quantum, thereafter a significant increase in his trading quantum through the Respondent has been witnessed.

Years	Trading % Respondent
2008	-
2009	19.61%
2010	9.62%





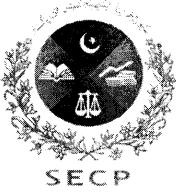
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2011	3.55%
2012	23.29%
2013	83.44%
2014	99.26%
2015	99.24%
2016	99.68%

- (iv) WY used to accumulate trade orders from clients and placed orders with the Respondent in his own name. During the period from March 2012 to March 2016, his total 124,287 trade orders were executed whereof 124,275 trade orders were entered through KATS terminal MEM14518, which constitutes 99.99% of the total entered trade orders. The KATS terminal MEM14518 pertains to the Respondent.
- (v) The KATS Terminal MEM14518 was installed/activated on March 26, 2012. From the next day of its installation i.e. March 27, 2012 till March 21, 2016, the said terminal was used exclusively for trading of WY.
- (vi) For fixing of any technical default of KATS terminal MEM14518, PSX was usually requested through telephone number 021-32400154. The said telephone number was mentioned in SAOF of WY with the Respondent. Besides, as per available record the calls for IT support services in this regard were made by WY and his employee Mr. Basit.
- (vii) The Commission vide letter dated April 10, 2013, sought explanation from WY as a client of the Respondent for execution of wash trades and thereafter vide letter dated May 06, 2013 warning was issued to WY in the matter. On April 24, 2013 i.e. after the seeking explanation, PSX was requested to flag the KATS MEM14518 with RMGS, a systematic utility developed and implemented by PSX to filter the Wash Trades into the Trading System. The coincidence of both the events implies a direct relationship of WY's with the KATS MEM14518 of Respondent.
- (viii) Comparison of amount of commission earned by the Respondent from WY with its total brokerage income shows that the Respondent generated significant portion of its brokerage income through trading of WY as is evident from the following:-

Year ended	Respondent Commission income		
	As per Audited Accounts	From WY	
		Amount	%
2012	8,290,863	822,405	9.92%





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2013	11,067,752	3,733,077	33.73%
2014	32,076,194	5,296,016	16.51%
2015	33,533,605	5,614,939	16.74%
2016	42,705,020	3,643,734	8.53%
<b>Total</b>	<b>127,673,434</b>	<b>19,110,171</b>	<b>14.97%</b>

(ix) The documents related to the following banks accounts/instruments of WY show the relationship of WY with the Respondents as is given hereunder against each:-

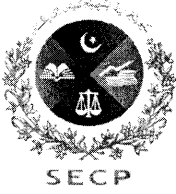
Bank	Account No	Branch	Observations from account opening forms
Meezan Bank Limited	0111786786	Stock Exchange Branch	Wamiq is a Senior Dealer Equities at the Respondent
Dubai Islamic Bank	0177430003	Stock Exchange Branch	The Respondent has been mentioned as employer of WY

5. It appeared from the foregoing that the Respondent *prima facie* was running unregistered branch office though unaccredited agent viz. WY in violation of PSX Rule Book.

6. The Commission took cognizance of the aforementioned alleged violations and served the SCN under section 150 of the Securities Act to the Respondent. The Respondent was directed to file written reply within 7 days of the receipt of the SCN.

Chief Executive of the Respondent (**CEO of the Respondent**) vide letter dated October 9, 2017 filed written reply to the Notice. Besides, the case was scheduled for hearing before the Authorize Officer on February 6, 2018. CEO of the Respondent Mr. Abdul Majeed Adam along with two representatives Mr, Khurram Jah and Mr. Muhammad Sameer attended the hearing in the Commission's Headquarter Islamabad. The CEO of the Respondent claimed that he has no relationship with the complainant Mr. Mazhar-ul-Haq and he said complainant has no complaint against the Respondent. WY was only a client of the Respondent and had only been provided IKATs by the Respondent. WY was neither a representative nor an employee of the Respondent. No financial transaction neither cash cheques were ever given to WY by the Respondent. The submissions made by him in response of the SCN and verbally during the course of hearing are summarized as under:-





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- a) *WY was neither our agent nor the company itself has any kind of responsibility in regard to the affairs of WY, it is stated that he was only our client in regard to sale and purchase of shares.*
- b) *Respondent never had any type of "business relationship" with WY whatsoever nor did Respondent ever represent WY as an agent, representative, employee or officer of Respondent or introduced WY as an agent, representative, employee or officer of Respondent to any person at any time.*
- c) *WY was not a registered and/or authorized agent of any broker of the Exchange and that he was trading with various brokers through their "online" (IKATS) service as an individual client under his own name and no broker provided him office.*
- d) *No KATS terminal were installed in Room 74, it is submitted that the Room no 74 is registered on WY name under "Leave and License Agreement" with the Exchange since 13th, November 2003 and no claims have ever been received by the Exchange against Respondent on account of WY.*

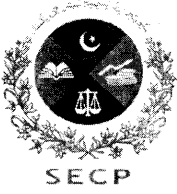
7. I have heard the arguments presented by CEO and Representative of the Respondent during the hearing. Additionally, I have perused the available record, existing regulatory framework, written response filed by the Respondent. The primary allegation against the Respondent is that it was running unregistered branch office through its unaccredited agent viz. WY, and failed to provide its General Ledgers to the investigators. The Respondent has denied the allegations with the contention that WY was only its client and repeatedly showed its willingness to provide ledgers and records only pertaining to WY. I have considered the submissions made by the Respondent in writing/verbally during hearing and reviewed the available record including investigation report.

8. Based on evidences and chain of events mentioned above, I have reasons to conclude that it is established that the Respondent was negligent in observing the activities of its client, i.e. WY, operating from within the premises of PSX, was used as a tool to defraud the public, enabled misuse of public assets and did not take notice of the quantum of WY's trading through the Respondent. Therefore, the Respondent has been found guilty of misconduct in terms of section 150(5) of the Securities Act, as:-

- a) the Respondent, in violation of section 74 of the Securities Act has failed to observe a high standard of integrity, fair dealing, act with due care, skill and diligence; and
- b) the Respondent, in violation of section 139 of the Securities Act, 2015 has failed to provide the investigators with its General Ledgers.



*[Handwritten signature]*



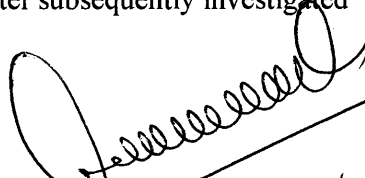
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9. In view of the foregoing and considering the violations, I, in exercise of the powers conferred upon me by virtue of section 150 of the Act, hereby impose a penalty of **Rs. 100,000/- (One Hundred Thousand Only)** on the Respondent.

10. The Respondent is directed to deposit the aforesaid penalty in the account of the Commission being maintained in the designated branches of MCB Bank Limited within 30 days of the date of this Order and furnish Original Deposit Challan to this office.

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



  
(Zafar Abdullah)  
Commissioner (SMD)

Announced on March 5, 2018  
Islamabad.