



Securities and Exchange Commission of Pakistan

Securities Market Division

Through Courier

Before The Director / HOD (LCID)

In the matter of Show Cause Notice issued to Pak Meezan Securities (Pvt) Limited under Rule 8 of the Brokers and Agents Registration Rules, 2001

Date of Hearing:

June 22, 2015

Present at the Hearing:

Representing Pak Meezan Securities (Pvt) Limited

(i) Mr. Asif Malik

Chief Executive Officer

Representing Karachi Stock Exchange Limited

(i) Mr. Ghufraan

Deputy General Manager

Assisting the Director/HOD (LCID)

(i) Mr. Nauman Khan

Deputy Director

ORDER

1. This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. SMD(SCN)/LCID/BRK-179/2015 dated May 26, 2015 (“SCN”) served to Pak Meezan Securities (Pvt) Limited (“Respondent”), Trading Right Entitlement Certificate Holder/Broker of the Karachi Stock Exchange Limited (“KSE”) by the Securities and Exchange Commission of Pakistan (“Commission”) under Rule 8 of the Brokers and Agents Registration Rules, 2001 (“Rules”).

2. Brief facts of the case are that as a part of an application dated August 21, 2014 for renewal of registration as broker under the Rules, the Respondent submitted its Net Capital Balance (“NCB”) Certificate as required in clause 11 of the Form A under the Rules to the Commission. M/s. Mushtaq & Co, Chartered Accountants (“Auditor”) issued duly signed NCB certificate of the Respondent as of December 31, 2013.

3. In terms of Rule 2(d) of the Securities and Exchange Rules, 1971 (“SEC Rules”) read with Clause 19.3.2 of the Regulations Governing Risk Management of the Exchange (“Risk Management Regulations”), the NCB is to be calculated in accordance with the Third Schedule to the SEC Rules. Moreover, the NCB Certificate is required to be duly audited/verified in terms of Clause 19.3.2 (c) of the Risk Management Regulations which provides that:-

“the certificate shall specify that the Net Capital Balance calculated have been duly audited/verified by the auditor”.

**SECURITIES & EXCHANGE
COMMISSION OF PAKISTAN**

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4. As part of an exercise conducted by the Commission regarding the verification of NCB Certificates of all registered TREC holders directly from the auditors, the Auditor was asked by the Commission to confirm the issuance and verify the contents of the NCB Certificate of the Respondent through letter dated May 07, 2015. The Auditor vide letter dated May 09, 2015 expressed its inability to verify NCB Certificate as submitted by the Respondent along with the application dated August 21, 2014. The Commission through letter dated May 21, 2015 provided an opportunity to the Respondent to clarify its position with regard to above referred NCB certificate. However, no reply was received.

5. In light of the above, the Commission served a SCN to the Respondent under Rule 8 of the Rules. Hearing in the matter of aforesaid SCN was scheduled for June 08, 2015. However, the Respondent failed to attend the said hearing. The Respondent was provided second hearing opportunity on June 16, 2015 at the Commission's Office in Karachi which was rescheduled for June 22, 2015. The Respondent vide letter dated June 05, 2015 submitted its written response to the SCN.

6. The arguments put forward by the Respondent in its written response to the SCN are reproduced below:

"In this regard it is reiterated that no any business activity has been initiated from the very date of its incorporation/registration, furthermore one of our employee who was deputed for this assignment has left the job and we ourselves have been investigating the matter.

Nevertheless our net capital is Rs.2,522,000/- being cash in hand as on 31-12-2013.

In view of the above it is, therefore, requested to kindly withdraw the above referred notice in the interest of justice."

7. Mr. Asif Malik, the Chief Executive Officer ("**Representative**") attended the hearing on June 22, 2015 at Commission's Karachi Office through video conference. Mr Ghufuran, DGM KSE also attended the hearing on behalf of Karachi Stock Exchange. The arguments put forth by the Representative of the Respondent during the course of hearing are summarized below:

- (i) The Representative informed that the Respondent is the member of KSE & ISE since 2004.
- (ii) He apprised that the Respondent has curtailed his brokerage business to an extent of proprietary trading since year 2008.
- (iii) He explained that the said situation was actually happened due to their ex-employee, who left the Respondent after deception and he is still trying to figure out the cause of said situation.





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(iv) He further informed that his core business is ship breaking based in Giddani with a name Meezan Shipbreaking Company.

(v) At the end, the Respondent requested the Commission to take lenient view in the matter as the situation occurred due to misunderstanding.

8. Subsequently, the Respondent vide letter dated June 27, 2015 submitted a copy of cash cheque bearing number 10797754 dated March 12, 2014 as payment against NCB. The drawer of the said cheque is M/s Meezan Ship Breaker while the beneficiary is unknown. I have serious doubts about the evidence provided by the Respondent as it is inadequate and deficient.

9. I have heard the arguments presented by the Representatives at length during the course of hearing. Additionally, I have perused the available record and the written response filed by the Respondent. I am of the view that it is the primary responsibility of the Respondent to maintain and submit the validated record to the Commission. Moreover, the said NCB certificate was enclosed as part of application for renewal of registration which was duly signed by the Chief Executive Officer of the Respondent and forwarded by the KSE. After a detailed and thorough perusal of the facts, evidence/information available on record, it is evident that the NCB certificate submitted by the Respondent to the Commission was not issued by the Auditor.

10. The Commission has very serious reservations on such conduct of the Respondent that can be termed as misrepresentation and deception and are performed only for the continuity of its business. The Respondent is required to demonstrate fairness in the conduct of its business and is not expected to submit any false/misleading information and to engage in such act that compromise its integrity and reputation.

11. The justification provided by the Respondent that his ex-employee was involved in the submission of false NCB certificate has no merits. This shows that the Respondent has very weak controls and no proper systems and procedures are being in placed by the Respondent. Broker is engaged in very sensitive business of handling the public money, so it has lot of obligations to comply with. It has to maintain high standards of integrity and fairness in the conduct of its business.

12. From above, it is very evident that the Respondent failed to act with due skill, care and diligence in the conduct of its business. Submission of false document to the Commission is a serious matter and I am of the considered opinion that Respondent has violated clause (viii) of Rule 8 of the Rules and has failed to comply with the requirements of the code of conduct laid down in





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the Third Schedule of the Rules. Therefore, in exercise of powers under Rule 8 of the Rules; I hereby **suspend** the registration of M/s Pak Meezan Securities (Pvt) Limited as a Broker of KSE for a period of six months with effect from July 01, 2015 till December 31, 2015

13. 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.




(Imran Inayat Butt)
Director/HOD (LCID)

Announced on June 30, 2015
Islamabad.