



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 Reliance Capital (Pvt) Limited under Rule 8 of the Brokers and Agents Registration Rules, 2001

Date of Hearing:

June 08, 2015

Present at the Hearing:

Representing Reliance Capital (Pvt) Limited

(i) Mr. Uzman Nabi

Company Secretary

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/BRL-176/2015 dated May 26, 2015 (“SCN”) served to Reliance Capital (Pvt) Limited (“Respondent”), Trading Right Entitlement Certificate Holder/Broker of the Lahore Stock Exchange Limited (“LSE”) 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 the as a part of an application dated August 15, 2014 for 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. Muhammad Ayub & Co, Chartered Accountants (“Auditor”) issued duly signed NCB certificate of the Company as of August 15, 2014.

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

NIC Building, 63 Jinnah Avenue,
Islamabad, 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 08, 2015. The Auditor vide letter dated May 11, 2015 expressed its inability to verify NCB Certificate as submitted by the Respondent along with the application dated August 15, 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 at the Commission's Head Office in Islamabad. The Respondent vide letter dated June 15, 2015 submitted its written response to the SCN.

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

"In this regard, it is humbly stated that Reliance Capital (Pvt) Limited is the members of Lahore Stock Exchange since year 2008. It was a dormant membership which is presently in the process of being operational as per the guidelines of SECP.

The membership was initially owned by Late Mian Saleem Saigol a renowned industrialist of Pakistan. Mian Saleem Saigol got this membership against the settlement of his receivables from Crescent Standard Brokerage & Investment Services Limited (a Crescent Group Company) in the year 2008. This settlement was specifically done under the instruction of SECP.

The membership was later converted to corporate as per the requirements of LSE and Mian Saleem Saigol appointed me as the Chief Executive of the company as Mian Sahib himself did not have the required experience to become the CEO. Later when Mian Saleem Saigol became ill he transferred his shareholding in the company to his son Mian Imran Saigol in year 2012.

Ayub & Company (Chartered Accountants) were appointed as chartered accountants of the company for the last few years. It is a matter of deep concern for us that the Net Capital Balance Certificate sent by Reliance Capital to SECP has not been verified by Ayub & Company. It is important to note that since Reliance Capital as a company is not doing any business at present so the company would not benefit from anything by intentionally providing a fake NCB certificate. Actually the requirement of getting the NCB certificate from a QC rated chartered accountant firm was over looked by us resulting into current situation.





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We strongly apologize for this negligence and assure you of providing a fresh NCB certificate from the QC rated chartered accountant firm at the earliest."

7. Mr. Uzman Nabi, Company Secretary ("**Representative**") attended the hearing on June 08, 2015. The arguments put forth by the Representative of the Respondent during the course of hearing are summarized below:

- (i) The Representative communicated that the Respondent is in the process of reviving the entity as currently its status is dormant.
- (ii) He explained that the said situation was actually happened due to their ex employee Mr. Faisal, who left the Respondent after deception.
- (iii) He strongly apologized for this negligence and ensured to provide a fresh NCB certificate from the QC rated chartered accountant firm at the earliest.
- (iv) At the end, the Representative requested the Commission to take lenient view in the matter as the situation occurred due to misunderstanding.

8. I have heard the arguments presented by the Representative 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 registration as broker which was duly signed by the Chief Executive Officer of the company and forwarded by the LSE. 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.

9. 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.

10. 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.






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11. 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 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 Reliance Capital (Pvt) Limited as a Broker of LSE for a period of six months with effect from July 01, 2015 till December 31, 2015.

12. 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.