



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
(Securities Market Division)

Before The Director (Securities Market Division)  
In the matter of Show Cause Notice issued to  
Salman Majeed Securities (SMC-Private) Limited

Date of Hearing: October 20, 2010

Present at Hearing:

Representing Salman Majeed Securities (SMC-Private) Limited

- |      |                          |                         |
|------|--------------------------|-------------------------|
| (i)  | Mr. Salman Majeed Sheikh | Chief Executive Officer |
| (ii) | Mr. Fazal Mahmood        | Consultant              |

Assisting the Director (SMD)

- |      |                      |                    |
|------|----------------------|--------------------|
| (i)  | Mr. Syed Asad Haider | Joint Director     |
| (ii) | Mr. Umair Zahid      | Assistant Director |

**ORDER**

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1 (13) SMS/MSW/SMD/2010/01 dated October 06, 2010 ("SCN") under Rule 8 (a) & (b), and Code of Conduct prescribed in Third Schedule ("Code of Conduct") of the Brokers and Agents Registration Rules, 2001 (the "Brokers Rules") read with Rule 12 of the Brokers Rules, issued by the Securities and Exchange Commission of Pakistan (the "Commission") to Salman Majeed Securities (SMC-Private) Limited (the "Respondent").
2. At the outset, it is important to elucidate the facts of the case. The Respondent is a member of Lahore Stock Exchange (Guarantee) Limited and is registered with the Commission as a broker under the Brokers Rules. On August 10, 2010, the Commission enquired from the Respondent regarding movement of securities pertaining to CDC sub-account holders from Main Account to House Account of the Respondent during the period from February 2010 to April 2010 as the said securities were not a part of proprietary trading of the Respondent.



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The Respondent was required to respond to the Commission stating the possible reasons for above-mentioned movement of securities by August 17, 2010.

3. The Respondent, vide letter dated August 16, 2010, requested for additional time of 10 to 12 days to submit the reply, owing to the overseas visit of its Chief Executive Officer ("CEO"). The Commission acceded to the request, and granted extension up to August 27, 2010. Subsequently, the Respondent, through letter dated August 26, 2010, sought the account-wise and company-wise details of securities which had been moved from Main Account to House Account as referred in the Commission's letter dated August 10, 2010.
4. The Commission vide letter dated September 03, 2010, advised the Respondent that the above-said details must be available with it as the securities were moved to the account which are being maintained and operated by the Respondent. Accordingly, the Respondent was required to submit the requisite response to the Commission based on the details and record maintained by it. However, the Respondent requested the Commission, vide letter dated September 07, 2010, received by the Commission on September 15, 2010, for further extension in time up to second week of October 2010 due to the reason that the subject data to be scrutinized was voluminous.
5. Given the fact that sufficient time extension had already been provided by the Commission in order to respond in the matter, the Respondent was directed to furnish its reply by September 27, 2010. The Respondent informed the Commission vide letter dated September 26, 2010 that no entry was found pertaining to transfer of securities from Main Account to House Account. The Respondent also attached a statement of CDC showing intra-account movement of securities, which pertained to movement of securities from September 01, 2010 to September 24, 2010.
6. It is reiterated that the required information regarding movement of securities pertained to the period from February 2010 to April 2010, whereas the Respondent provided information for an irrelevant period that was September 01, 2010 to September 24, 2010. In addition, the information given by the Respondent also contradicted with the statement made in its letter dated September 07, 2010 that the subject data was voluminous. This evidenced, prima facie, that the information provided by the Respondent was misleading and incorrect.



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7. Consequently, the Respondent was informed, through letter dated September 28, 2010, about the submission of misleading and incorrect information through its letter dated September 26, 2010. The Respondent was also apprised that over seven weeks had elapsed since the Commission had initially required the Respondent to submit the appropriate details relating to the matter.
8. However, in complete disregard to the Commission's letter, no information or reply was received from the Respondent during or after the stipulated time given. Therefore, in view of the above conduct of the Respondent, the SCN was issued to the Respondent to explain as to why action may not be taken against it under Rule 8 (a) & (b) of the Brokers Rules. The CEO of the Respondent was required to appear in person or through an authorized representative before the undersigned at the Commission's Islamabad Office on October 20, 2010 for a hearing.
9. The Respondent submitted the written reply to SCN which was received on October 13, 2010, the key points of which are summarized as follows.
  - (a) *The Chief Executive Officer of the Brokerage House in fact proceeded to Dubai on August 16, 2010. This fact is substantiated by the photocopy of the passport (enclosed) of the C.E.O which shows his exit from Pakistan. Thus the request so made was true and genuine.*
  - (b) *We hurriedly provided the CDC statement regarding status of securities from September 01, 2010 to September 24, 2010 only to inform you regarding the position prevailed on the dates as reflected in the CDC statement. This was not done with any malafide intention. The idea behind this immediate information was to show you that our hands are clean and we caused no financial loss to our clients. As evidence of the latest position, we submitted you the CDC statement from September 01, 2010 to September 24, 2010. In the meanwhile, we also started sifting and scrutinizing our accounts regarding the period from February 2010 to April 2010 in order to communicate the information as required by you.*
  - (c) *We may point out that the letter dated 28-09-2010 was received by the employee of the Brokerage House and in those days, the Chief Executive Officer was suffering from Acute Lambo Sciatica Syndrome which disabled the movement of C.E.O from September 27, 2010 to October 06, 2010 (M.C enclosed). He could not attend the Brokerage House during his ailment.*
  - (d) *As a result of scrutinizing movement of securities, we may point out that the said securities were moved as the clients have their debit balances and the payments due to the Brokerage House. The movement of the securities was made with the expressed written authority of the clients.*



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- (e) *There was no intention to withhold the information regarding the transaction of securities as required by the Commission. The reason for delayed reply was that much of the time consumed in Foreign Journey/Eid Holidays, illness, in processing and scrutinizing accounts of the clients. That we have no motive for providing wrong or false information.*
10. On the hearing date, Mr. Salman Majeed Sheikh, CEO of the Respondent along with Mr. Fazal Mahmood, Consultant/Representative of the Respondent (the "Representative") appeared before me and reiterated the written submissions made on behalf of the Respondent, as mentioned above. In addition to the same, the following further assertions were made.
- (a) The Representative mentioned that the delay in providing of the required information was due to reasons as illness, foreign travel of the CEO and Eid holidays, and was not intentional or for any malafide reasons.
- (b) It was further contended by the Representative that no complaint has ever been received by the Commission against the Respondent to date and there is no previous history of violations of rules and regulations by the Respondent.
- (c) The Representative and the CEO assured that they will be more vigilant and careful in the future and will ensure strict compliance of all the rules and regulations in the future.
11. Additionally, the Representative prayed that keeping in view the aforementioned submissions, the Commission may take a lenient view in this matter because the delay in providing information was not willful or to cause any offence.
12. I have examined the facts, evidence and documents on record, in addition to written and oral submissions of the Respondent. It is established that the information provided by the Respondent with its letter dated September 26, 2010 was irrelevant and was not the appropriate response to the Commission's query. Moreover, no statement was made in the letter dated September 26, 2010 which could indicate that the Respondent was still scrutinizing the clients' accounts for the relevant period in order to submit the reply to the Commission, as mentioned in the written response to SCN by the Respondent.



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13. Moreover, in no less measure it is noted by this office that not providing information in the first instance is a clear violation of clause D (2) of the Code of Conduct prescribed in the Brokers Rules read with Rule 8 (iv) thereof. Further, providing information to the Commission that is false is contra to the prohibition imposed in Rule 8 (viii) of the Brokers Rules.

14. The violation of Code of Conduct and the provisions of the Brokers Rules attract the penal provisions of Rule 8 (a) & (b) of the Brokers Rules that empowers the Commission to suspend the registration of a broker or impose a fine. The penal provisions are replicated as follows:

*8. Suspension of registration.-*

*(i)...to (xiii)...*

*The Commission may, if it considers necessary in the public interest so to do, by order in writing:-*

*(a) suspend the registration of a broker for such period as may be specified in the order; or*

*(b) impose on a broker a fine not exceeding one hundred thousand rupees.*

15. In view of the contraventions as aforementioned of Code of Conduct and the Brokers Rules, whilst giving due consideration to the prayer of the Respondent to take a lenient view, I am not exercising the power to suspend the registration of the Respondent at present. However, in exercise of powers under Rule 8 (b) of the Brokers Rules, I hereby impose on the Respondent a penalty of Rs. 25,000/- (Rupees Twenty Five Thousand Only). In addition, the Respondent must note, that it is legally incumbent upon it to follow the regulatory framework the dictates of which emphasize on exercising due skill, care and diligence and maintenance of high standard of integrity, professionalism and fairness in the conduct of its business at all times. Accordingly, I strongly advise the Respondent to ensure compliance with law and directives of the Commission in the future for avoiding any punitive action under the law.



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16. The matter is disposed of in the above manner and the Respondent is directed to deposit the fine in the account of the Commission being maintained in the designated branches of MCB Bank Limited not later than thirty (30) days from the date of this Order and furnish the copy of the deposit challan to the undersigned.
17. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.

A handwritten signature in black ink, appearing to read 'Imran Inayat Butt', is positioned above the printed name and title.

Imran Inayat Butt  
Director  
Securities Market Division

Announced on November 3, 2010  
Islamabad.