



Securities and Exchange Commission of Pakistan  
Securities Market Division

Through Courier

Before The Director / HOD (MSRD)

In the matter of Show Cause Notice issued to Seven Star Securities (Private) Limited  
under Section 22 of the Securities and Exchange Ordinance, 1969

*Date of Hearing:*

October 29, 2014

*Present at the Hearing:*

*Representing Seven Star Securities (Private) Limited*

(i) Mr. Abid Abdul Rashid

Head of Operations

*Assisting the Director/HOD (MSRD)*

(i) Mr. Muhammad Tanveer Alam

Joint Director

(ii) Ms. Najia Ubaid

Deputy Director

**ORDER**

1. This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(37) SMD/MSRD/C&IW/2014 dated September 2, 2014 ("SCN") served to Seven Star Securities (Private) 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 Section 22 of the Securities and Exchange Ordinance, 1969 ("**Ordinance**") read with Rule 8 of the Brokers and Agents Registration Rules, 2001 ("**Brokers Rules**").

2. Brief facts of the case are that the Commission in exercise of its powers under Sub-section (1) of Section 6 of the Ordinance read with Rule 3 and Rule 4 of the Stock Exchange Members (Inspection of Books and Record) Rules, 2001 ("**Inspection Rules**") ordered an inspection of the books and record required to be maintained by the Respondent. The following officers of the Commission were appointed as inspectors ("**Inspection Team**") for the purpose vide order dated April 30, 2014:

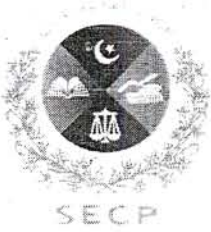
a) Mr. Kashif Ali

Deputy Director

b) Mr. Mian Muhammad Imran

Deputy Director





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3. The Inspection Team submitted the report ("Inspection Report") on July 15, 2014 which was shared with the Respondent in accordance with Rule 7 of the Inspection Rules. The response of the Respondent in the context was received vide letter dated August 4, 2014. The Inspection Report highlighted that the Respondent failed to maintain proper books of accounts; segregation of clients' assets and Standardized Account Opening Forms ("SAOFs"); did not have collateral account and failed to comply with the requirements of proprietary trading specified in the regulatory framework.

4. In light of the Inspection Report and the comments received from the Respondent, the Commission served a SCN to the Respondent under Section 22 of the Ordinance and Rule 8 of the Brokers Rules. Hearing in the matter of aforesaid SCN was scheduled for September 16, 2014 at the Commission's Head Office in Islamabad. However, the Respondent vide letter dated September 4, 2014 requested for change in venue to the Commission's Karachi Office. Acceding to the Respondent's request, hearing was rescheduled to October 29, 2014.

5. The arguments put forward by the Respondent in its written response to the SCN submitted vide letter dated October 29, 2014 are reproduced below:

a) **Improper Books of Accounts:**

*"Proper books of accounts are being maintained by Seven Star Securities (Pvt) Ltd (SSSL). Half yearly accounts were drafted by an accountant who remained with SSSL for few months. There accounts were to be reviewed by SSSL statutory auditors. However, the draft was, therefore, submitted without scrutiny and review. The mistake is regretted.*

*Difference of figures in draft account and Net Capital Balance Certificate (NCB) noted in paragraphs 3.1 to 3.4 are results of position explained above. The figures given in NCB are correct and supported by ledgers. Copies of ledger accounts were provided to SECP auditors along with complete books of accounts. SSSL did not avail any advantage and has shown higher (actual) figures of Short Term Loan of Rs. 37.71 m and Trade Payables of Rs. 109.3m. Copy of NCB is enclosed (Annexure - 1). You would appreciate that the mistake is not intentional and willful."*

b) **Segregation of Clients Assets:**

*"SSSL maintained four separate bank account of client fund. The aggregate amount payable to clients (Trade Payables) was correctly shown in NCB. We regret that these accounts were not properly segregated and intermingled. SSSL is now maintaining separate accounts of clients for payables and receivables."*





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c) **UIN database:**

"SSSL updated employees UIN database with NCCPL on 23<sup>rd</sup> September 2014 as soon as pointed out by SECP auditors. Copies of reports are enclosed (Annexure-2)."

d) **Irregularities in SAOFs:**

"SSSL has updated client SAOFs as confirmed earlier, copy of same is enclosed as (Annexure-3). Copy of relevant page of SAOF taking care of leverage market agreement is enclosed (Annexure - 4). SSSL has updated client SAOF as confirmed earlier. Paragraph 7 at page number 8 clearly provides for risks associated with online trading. Copy enclosed (Annexure - 5)."

e) **Proprietary Trading Regulations:**

"SSSL has now classified the accounts of CEO/Director to proprietary status. Copies of UIN database reports enclosed (Annexure - 6)."

f) **Acceptance of margins:**

"SSSL online software is synchronized with and follows KSE guidelines regarding risk management, margin financing etc. The software automatically picks only margin eligible and acceptable securities from KSE website. Hence there is no possibility of acceptance of non-margin eligible and acceptable securities from KSE web site."

g) **Circular 34 of 2009:**

"SECP allows waiver of Circular 34 of 2009. On SECP auditors observation we applied for waiver on 28<sup>th</sup> July 2014. Copy of request is enclosed (Annexure - 7)."

6. Mr. Abid Abdul Rashid, Head of Operations of the Respondent ("**Representative**") attended the hearing on behalf of the Respondent on October 29, 2014 at the Commission's Karachi office. The arguments put forth by the Representative of the Respondent during the course of hearing are summarized below:

- a) Explaining maintenance of proper books of accounts, the Representative communicated that the audit of half yearly accounts of the Respondent was not conducted and the accounts were prepared by the Respondent's accountant which could not be verified. The Representative added that misclassification of expenses, income, assets and liabilities by the accountant was the reason of differences identified in the NCB and the trial balance of the same date by the inspection team. The Representative admitted the error and communicated that it has now been rectified.
- b) With regard to segregation of clients' assets, the Representative accepted the error and assured future compliance of the regulatory requirements regarding it. The





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Representative added that the difference is because of improper accounting as explained earlier, however, again assured that the same shall not take place in future.

- c) Regarding updated UIN data base, the Representative stated that the Respondent did not unregister few of its employees who left the employment. The Representative apprised that now the UIN database has been updated and that he has provided evidence of the same along with the written response. The Representative further communicated that the directors of the Respondent have been properly classified as proprietary.
- d) With reference to updating the SAOFs, the Representative stated that certain amendments required by the regulatory framework were not incorporated, however, the same have now been made and evidence of the same is provided to the Commission along with the written response.
- e) Regarding specific terms and conditions in SAOFs pertaining to internet trading, the Representative agreed that the same shall be updated at the earliest.
- f) In the context of acceptance of securities as margins, the Representative asserted that the Respondent has a real time electronic system to calculate the margin requirements and the Respondent only accept eligible securities for exposure requirements. The Representative added that the identification of this issue by inspection team can be the result of some misunderstanding, as the system was in place at the time when inspection was carried out.
- g) The Representative informed that it has written an application to the Commission for relaxation in the matter of certification required to be obtained by the employees of the Respondent from the Institute of Capital Markets ("ICM"). The Representative when apprised that the said relaxation can be obtained only through ICM, stated that the Respondent shall now write to ICM and shall ensure compliance in the future.

7. I have heard the arguments presented by the Representative of the Respondent at length during the hearing. Additionally, I have perused the available record and the written response filed by the Respondent. Accordingly, my findings on the arguments and assertions made by the Respondent to the issues raised in the SCN are as follows:





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- a) In the matter of improper books of accounts and the differences identified by the inspection team in the NCB and the trial balance of the same date, the Representative communicated that it was because of misclassifications by the accountant. The Representative further asserted that now the books of accounts maintained by the Respondent are in strict compliance with the applicable regulatory framework and this can be verified at any time by the Commission.
- b) With regard to segregation of clients' assets, the Representative accepted the fact that segregation of clients' funds was not maintained in true spirit. However, the Representative assured future compliance with the specific requirements as specified in the regulatory framework and communicated that the Commission can subsequently verify the same in future.
- c) Regarding SAOF, the Representative provided updated SAOFs and communicated that the discrepancies identified by the inspection team have now been rectified. With regard to the update pertaining to internet trading agreements, the Representative confirmed that the same has also been complied with.
- d) In the context of compliance with Circular 34 of 2009, the Representative agreed to contact ICM for relaxation and assured future compliance with the specific regulatory requirements.
8. The Respondent being registered with the Commission as a broker takes the responsibility of the custodian of clients' assets and is expected to act diligently, prudently and cautiously. Maintaining segregation of clients' funds is not only the regulatory requirement but is also significant for protection of investors' interest and to ensure smooth functioning of the stock market. Specific requirements pertaining to the segregation of clients' assets are specified in detail in the KSE Rule Book. The Respondent should follow the regulatory provisions in letter and spirit and keep clients' funds segregated to ensure compliance with statutory requirements.
9. After a detailed and thorough perusal of the facts, evidence/information available on record, contentions and averments made by the Representatives of the Respondent during the course of the hearing, it is evident that the Respondent during the inspection ~~has~~ failed to





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fulfill its regulatory obligations by not maintaining proper segregation of clients' assets; proper books of accounts; and updated SAOFs.

10. The violation of the rules and regulations is a serious matter. However, the Representative of the Respondent during the course of hearing and the Respondent in its written response communicated that they are now maintaining proper books of accounts and have made requisite amendments in the SAOFs. They further assured compliance with the regulatory requirements of maintaining segregation of clients' assets in letter and spirit.

11. Therefore, taking a lenient view, in exercise of the powers conferred upon under Section 22 of the Ordinance, I hereby impose a penalty of Rs. 25,000/- (Rupees Fifty Thousand Only) on the Respondent. Moreover, the Respondent is directed to:

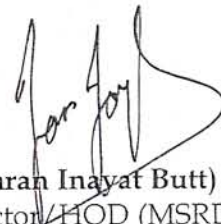
- i) comply with the Rules 1971 and the guidelines issued by the Commission in letter and spirit; and
- ii) ensure segregation of clients' assets and provide copy of bank statement of bank account tagged as clients' account as of December 31, 2014 along with copy of trial balance of the same date depicting gross trade payables and trade receivables position by January 15, 2015.

12. 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 a copy of the deposit challan to the undersigned.

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.

Announced on November 26, 2014  
Islamabad.



  
(Imran Inayat Butt)  
Director/HOD (MSRD)