



Securities and Exchange Commission of Pakistan

Securities Market Division

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Through Courier

Before The Director / HOD (MSRD)

In the matter of Show Cause Notice issued to Global Securities Pakistan Limited under  
Section 22 of the Securities and Exchange Ordinance, 1969

*Date of Hearing:*

December 11, 2014

*Present at the Hearing:*

*Representing Global Securities Pakistan Limited*

(i) Mr. Wajid Hussain

Chief Executive Officer

(ii) Mr. Yousuf Rauf

Chief Financial Officer

*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(40) SMD/MSRD/C&IW/2014 dated November 26, 2014 ("SCN") served to Global Securities Pakistan 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 June 26, 2014:

a) Mr. Mian Muhammad Imran

Deputy Director

b) Mr. Adnan Ahmed

Deputy Director





SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 1 -

3. The Inspection Team submitted the report ("Inspection Report") on September 24, 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. Upon evaluation of the Inspection Report, irregularities in calculation of Net Capital Balance ("NCB") as on December 31, 2013 were observed and it appeared that NCB certificate was not in accordance with the Third Schedule of the Securities and Exchange Rules, 1971 ("Rules 1971"). The Inspection Report further highlighted that the Respondent failed to maintain proper segregation of clients' assets and Standardized Account Opening Forms ("SAOFs"); did not have collateral account and duly approved Know Your Customer ("KYC") & Customer Due Diligence ("CDD") policy; was imposing late payment charges to its clients and failed to update UIN database maintained by NCCPL as 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 December 11, 2014 at the Commission's Head Office in Islamabad.

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

a) **Improper calculation of NCB:**

*"The Net Capital Balance (NCB) was computed as per our understanding of the Regulations, in good faith, which was also verified by the Chartered Accountants, as rightly mentioned in the Report. As per annexure II of final report in respect of Global securities Pakistan Limited issued on September 24, 2014 by Securities & Exchange Commission of Pakistan the total difference in Global and SECP working in aging of trade debts for calculating the net capital balance was Rs. 822,621. Therefore the difference was Rs. 822,621 and not 15.74 million. The copy of aforesaid annexure is attached as annexure I for your review.*

*Aforesaid difference of Rs. 822,621 was under 14 days receivable pertaining to Money Market (MM) and (FX) brokerage. Reason for the difference was the GSPL's understanding that brokerage receivable is specifically allowed to be included for the purpose of calculation of NCB in terms of item No. 2.7 (subject matter) of Guidelines/Clarifications in respect of Third*





SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 2 -

Schedule of Securities & Exchange Commission Rules, 1971 dated July 03, 2013. The said clause is reproduced below for your review.

"Amount receivable other than brokerage business such as consultancy income receivable should not be included for the purpose of calculation of NCB". Therefore, as per GSPL understanding of the aforesaid clause the amount of Rs.822,621 can be included in the computation of NCB. Furthermore, we have committed a mistake in the data presentation by including corporate finance consultancy fee of Rs.12.75 million in book value of trade receivables and the same was excluded as provision for bad doubtful funds. Hence the impact on NCB is Zero. Nonetheless, considering the observations of the Inspection Team, GSPL will ensure that in future, only amounts pertaining to shares trading operations will be included in computing the receivables for NCB. Amount relating to LPC cannot be excluded from receivables as it is difficult to ascertain that whether the LPC amount was included in clients debit balances as of December 31, 2013. Further clarification in this regard will be given to the commission at the time of hearing."

b) **Irregularities in SAOFs:**

"Discrepancies pointed out by the inspection team have been removed and the concerned staff will ensure full compliance of the regulations pertaining to the maintenance of SAOF. Amendment as per clause 8 of the special terms and conditions of Standard Account Opening Form (SAOF) has been made and addendum to SAOF to 700 active clients has been sent. GSPL will ensure that the SAOF will be updated in future from time to time as and when required by the Karachi Stock Exchange. Documentary proofs and evidences will be provided to the Honorable Commission during hearing scheduled on December 11, 2014."

c) **Imposing late payment charges:**

"As stated earlier GSPL wishes to clarify that it does not extend credit to its clients, except as legally permissible. It is clearly evident from GSPL's book of accounts that Late Payment Charges ("LPC") were being recovered only to cover the cost of funds GSPL borrowed from the banks. Comparison between the cost of funds incurred and the amount collected on account of LPC during the period under review is attached.

In order to comply with section 16 of SE ordinance and in accordance with the Leverage Markets and Pledging Rules, 2011 GSPL had commenced Regulated Margin Financing facility to its clients in March 2014 despite various operational constraints. GSPL has made its best efforts to convince clients to avail Regulated MF Facility allowed by the Commission. It took GSPL five months to develop in house software to manage MF transactions with NCCPL. Currently, amounts aggregating to Rs. 51 million have been provided to clients through MF facility, which is also in the interest of the capital market. Keeping in view current position as enunciated above, we humbly request the Honorable Commission to take a





SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 3 -

- lenient view on the issue as GSPL is committed to completely remove LPC by December 31, 2014."
- d) **Collateral Account:**  
"Collateral account has been opened and in the future GSPL will ensure strict compliance of the clause 4.19.1(c) of chapter 4 of the Rule Book. Documentary evidence will be provided to the Commission at the time of hearing."
- e) **KYC and CDD Policy:**  
"KYC Policy has been approved by the Board of Directors and will be submitted with Commission at the time of the hearing.  
Global is committed to fully comply with KSE guidelines with regards to KYC and CDD. GSPL response in this regard was based on the understanding of clause 3.6-3.7, 5.2 and 7.2 of the guidelines issued by KSE regarding KYC and CDD."
- f) **Segregation of clients assets:**  
"At outset we reiterate our stance and wish to clarify that GSPL is not using the funds of clients for its own purpose, which are always kept in the separate Bank Account. Funds received from clients were being credited to the respective clients on the same day and by the day end. However, the amounts indicated by the inspection team was deposited in the running finance account but the same were transferred to Client Money Account on the realization date. Hence no benefit whatsoever has been taken by GSPL in this regard. GSPL has more than 700 active clients and it was difficult to ascertain at the time of receipt of payments that whether the client has a credit balance with GSPL. GSPL reconcile the amounts received and transfer the amounts payable to clients in the Client Money Account before day end.  
Nonetheless, considering the observations of the Inspection Team, GSPL has started to deposit and issue cheques to clients from client money account(s) only and transferred made to running finance account on the basis of closing balance of payable amount to client. The documentary evidence will be provided at the time of appearing before the honorable Commission."
- g) **UIN database:**  
"All employees have been registered in CDC UIN database as per the requirement. Management has taken a serious note of the employees engaged in trading with other brokerage houses. The employees mentioned in the list have closed their account with other brokerage houses. Documentary evidence will be submitted before Commission at the time of hearing."
- h) **Non-provision of information:**  
"The information we received with respect Primera Investments Group Limited have already been submitted with honorable Commission vide letter dated September 22, 2014."





SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 4 -

6. Mr. Wajid Hussain, Chief Executive Officer and Mr. Yousuf Rauf, Chief Financial Officer ("Representatives") attended the hearing on behalf of the Respondent on December 11, 2014. The arguments put forth by the Representatives of the Respondent during the course of hearing are summarized below:

- a) With regard to improper calculation of NCB, the Representatives stated that it was because of misunderstanding. The amounts pertaining to money market operations were included in the calculation of trade receivables; however, the same was deducted as provision for doubtful debts. The Representatives asserted that the Respondent shall strictly calculate NCB in accordance with the guidelines issued by the Commission. Regarding inclusion of late payment charges in the receivables the Representatives argued that it was not practically possible to identify and ascertain the outstanding amount of late payment charges and separate them from ledger of each clients' receivables. However, the Representatives added that the practice of imposing late payment charges has immediately been stopped.
- b) The Representatives further communicated that since imposing late payment charges was a business practice, the Respondent was also doing that. Subsequent to pointing out by the inspection team the Respondent has not only stopped imposing late payment charges but has switched to margin financing regime. The Representatives during the course of hearing provided date wise data of margin financing facility availed by its clients.
- c) With reference to the irregularities identified in the SAOFs, the Representatives stated that the same has been rectified and the changes made were communicated to the clients as an addendum to the SAOFs. The Representatives presented the TCS receipts to substantiate that the changes have been shared with all the clients. The Representatives also provided copies of SAOFs for which discrepancies were pointed out by the inspection team, as referred to in the inspection report.
- d) The Representatives apprised that the Respondent has now opened collateral account and provided evidence of the same during the course of hearing.
- e) The Representatives during the course of hearing informed that the requirements related to KYC and CDD were already part of "GSPL Equity Settlements Operations Manual". However, the Respondent upon identification of the inspection of the





SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 5 -

KYC and CDD Policy approved from its Board and copy of the same was provided by the Representatives. They further added that the Respondent shall ensure effective implementation of the KYC and CDD Policy in light of the guidelines issued by the KSE.

- f) With regard to segregation of clients' assets, the Representatives stated that the Respondent makes all possible efforts to keep clients' funds segregated and never used the clients' money for its own benefit. The Representatives further added that the irregularities identified by the inspection team were the result of delayed payments from few of its clients for which payments were processed from running finance account of the Respondent and subsequently payments received from those clients were credited in the Respondent's bank account from which running finance facility was obtained. The Representatives reiterated that it had no intention of utilizing clients' funds for its own benefit. The Representatives during the course of hearing provided copy of the ledger of clients' bank account for November 7, 2014 as an evidence of maintenance of segregation of clients' assets. The Representatives assured that in future the Respondent shall ensure compliance and keep the clients' funds segregated in true letter and spirit.
- g) The Representatives during the course of hearing provided documents evidencing updated UIN database of its employees.
- h) In reference to non-provision of information pertaining to Primera Investment Group Limited ("**Primera**") which is a major shareholder of the Respondent, the Representatives communicated that information provided by Primera was shared with the Commission, as soon as it was received. The Representatives agreed that they shall again seek the required information from Primera and shall provide the same to the Commission.

7. I have heard the arguments presented by the Representatives 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:





SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 6 -

- a) With regard to irregularities in the calculation of NCB, the Representatives took a plea that the differences as identified by the inspection team were because of taking into account money market operations and late payment charges in the calculation of NCB and assured that in future the calculation shall strictly be made in accordance with the guidelines issued by the Commission.
- b) Regarding late payment charges, the Representatives asserted the written stance of the Respondent and stated that the Respondent has now started utilizing margin financing facility and immediately stopped imposition of the late payment charges to its clients. The Representatives as an evidence of conversion to the margin financing facility, provided margin financing position of the latest date.
- c) Regarding SAOF, the Representatives provided updated SAOFs and assured that the discrepancies identified by the inspection team have now been rectified.
- d) The Representatives also provided evidence of the opening of collateral account and updated UIN database.
- e) With reference to the KYC and CDD Policy, the Representatives provided duly approved KYC and CDD Policy. In particular reference to the para 8 of the SCN, the Representatives assured effective implementation of KYC and CDD Policy and further stated that the Respondent shall keep complete record of risk profiling of its clients.
- f) Regarding segregation of clients' assets, the Representatives during the course of hearing and the Respondent in its written response communicated that the Respondent had never utilized clients' money. The Representatives clarified that at some instances the amounts received from clients were credited in the running finance account of the Respondent but mainly because of the reason that the Respondent earlier paid on their behalf. The copy of bank ledger of the account tagged as clients' account provided by the Representatives during the course of hearing, depicts that all the deposits and withdrawals appearing in the bank statement of that date were either received from the clients or paid to the clients, as per the narration stated in the ledger. However, in absence of the trade payables position of the date, it was not possible to comprehend that proper segregation of clients' assets is being maintained by the Respondent. The Representatives, in response to the queries rose during the hearing, assured that in future all the payments received and made to the clients of the





SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 7 -

Respondent shall be routed through bank account tagged as clients' account. The Representatives further added that the Commission can verify the same at any time in future.

- g) The Respondent during the course of inspection was required to provide the information pertaining to its major shareholder to the inspection team. However, no such information was provided till the date of finalization of the inspection report. Moreover, the Respondent did not even respond to the referred portion of inspection report when comments of the Respondent were sought on it. The above referred instances depict casual attitude of the Respondent towards the Commission. The Representatives during the course of hearing stated that they shall provide requisite information sought by the Commission pertaining to Primera. However, no such information was provided by the Respondent till the date of this Order.

8. The Respondent being registered with the Commission as a broker is expected to conduct its business with diligence and ensure full compliance of the law and relevant rules and regulations. Additionally the Respondent takes the responsibility of the custodian of clients' assets and is required to act diligently, prudently and cautiously. 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 strictly 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 period failed to fulfill its regulatory obligations by not maintaining proper segregation of clients' assets; imposing late payment charges; not providing the information sought by the Commission and not calculating NCB in accordance with the guidelines issued by the Commission.

10. The Representatives of the Respondent during the course of hearing and the Respondent in its written response communicated that they have stopped imposing late payment charges to its clients. They also ensured to follow the regulatory requirements







SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 8 -

regarding segregation of clients' assets in letter and spirit and assured compliance with the entire applicable regulatory framework in future.

11. Therefore, in exercise of the powers conferred upon under Section 22 of the Ordinance, I hereby impose a penalty of Rs. 100,000/- (Rupees One Hundred 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 December 26, 2014  
Islamabad.



  
(Imran Inayat Butt)  
Director/HOD (MSRD)