



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 TS Securities (Private) Limited

*Date of Hearing:*

October 30, 2013

*Present at the Hearing:*

*Representing TS Securities (Private) Limited*

(i) Mr. Haseeb

Chief Operating Officer

(ii) Mr. Raheel Ashraf

Operations Manager

*Assisting the Director/HOD (MSRD)*

(i) Mr. Muhammad Tanveer Alam

Joint Director

(ii) Ms. Najia Ubaid

Deputy Director

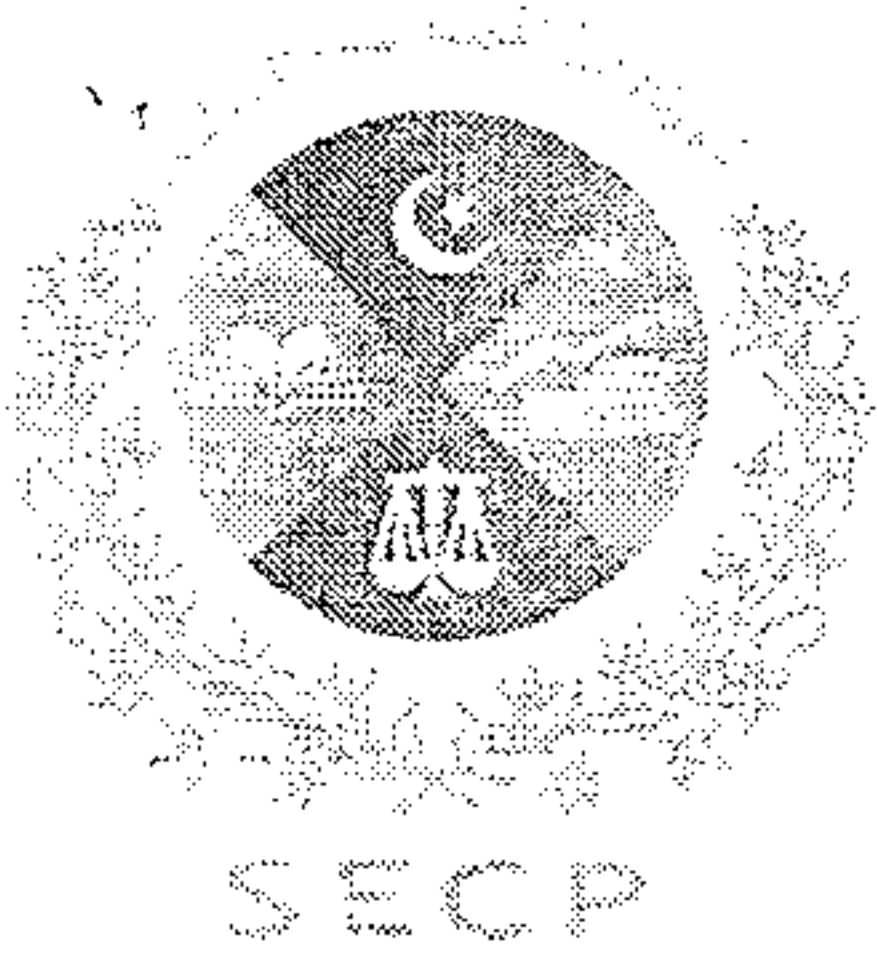
**ORDER**

1. This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(4) SMD/MSRD/C&IW dated September 17, 2013 ("SCN") served to TS 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

SECURITIES & EXCHANGE  
COMMISSION OF PAKISTAN  
NIC Building, 63 Jinnah Avenue,  
Islamabad, Pakistan





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

Continuation Sheet - 1 -

inspection of the books and records required to be maintained by the Respondent. The following officers of the Commission were appointed as inspectors ("Inspection Team") for the purpose:

- |                           |                    |
|---------------------------|--------------------|
| a) Mr. Muhammad Tanveer   | Deputy Director    |
| b) Mr. Adnan Ahmed        | Deputy Director    |
| c) Mr. Moizuddin Siddiqui | Assistant Director |

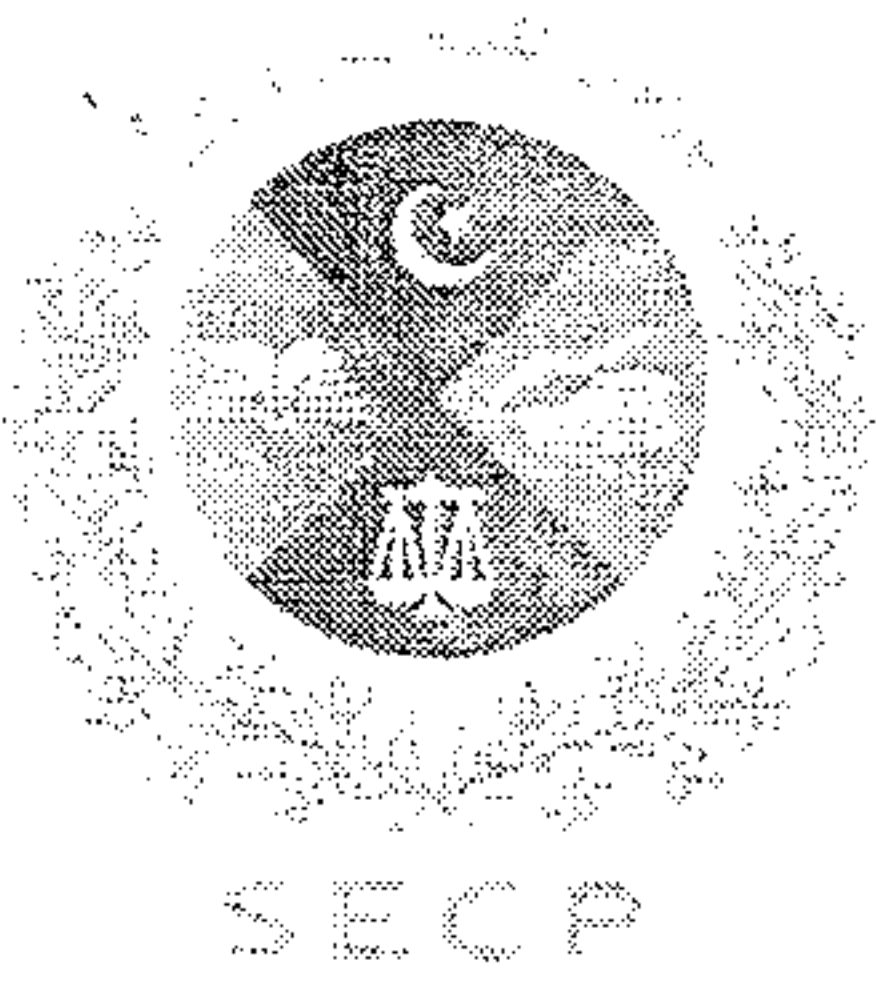
3. The Inspection Team submitted the report ("**Inspection Report**") on July 9, 2013 which was shared with the Respondent in accordance with Rule 7 of the Inspection Rules. The response of the Respondent in the context was received vide letter dated August 23, 2013. The Inspection Report revealed following irregularities in calculation of Net Capital Balance ("**NCB**") as on December 31, 2012 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**").

4. The Commission in light of the Inspection Report and the comments of the Respondent 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 October 2, 2013. However, the Respondent vide letter dated September 26, 2013 requested that hearing be fixed at Karachi and further requested for extension in time for submission of written response to the SCN till October 11, 2013. Acceding to the request of the Respondent, hearing was rescheduled for October 30, 2013 at the Commission's Karachi Office.

5. The Respondent's written response was received in the Commission on October 11, 2013. Mr. Haseeb, Chief Operating Officer of the Respondent and Mr. Raheel Ashraf, Operations Manager of the Respondent attended the hearing on behalf of the Respondent ("**Representatives**"). The following arguments were put forward by the Respondent in its written response to the SCN and by the Representatives of the Respondent during the hearing held on October 30, 2013:







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

Continuation Sheet - 2 -

- a) **Understatement of Bank Balances:** The Respondent in its written response stated that:

*"We have accounted for the net amount of Rs. (2,849,334) in the statement of NCB under heading of Accrued expenses and other liabilities instead of disclosing debit and credit balances separately. This fact was fully disclosed to the inspection team as envisaged in their inspection report wherein they have considered the overdraft bank balance of HMBL amounting to Rs. 3,967,841 in other liabilities. We understand that the netting off of bank balances is not a misrepresentation of facts accordingly; we believe that the bank balances were not understated in calculation of NCB. There difference was merely due to netting off of the debit and credit balances in various banks of the company."*

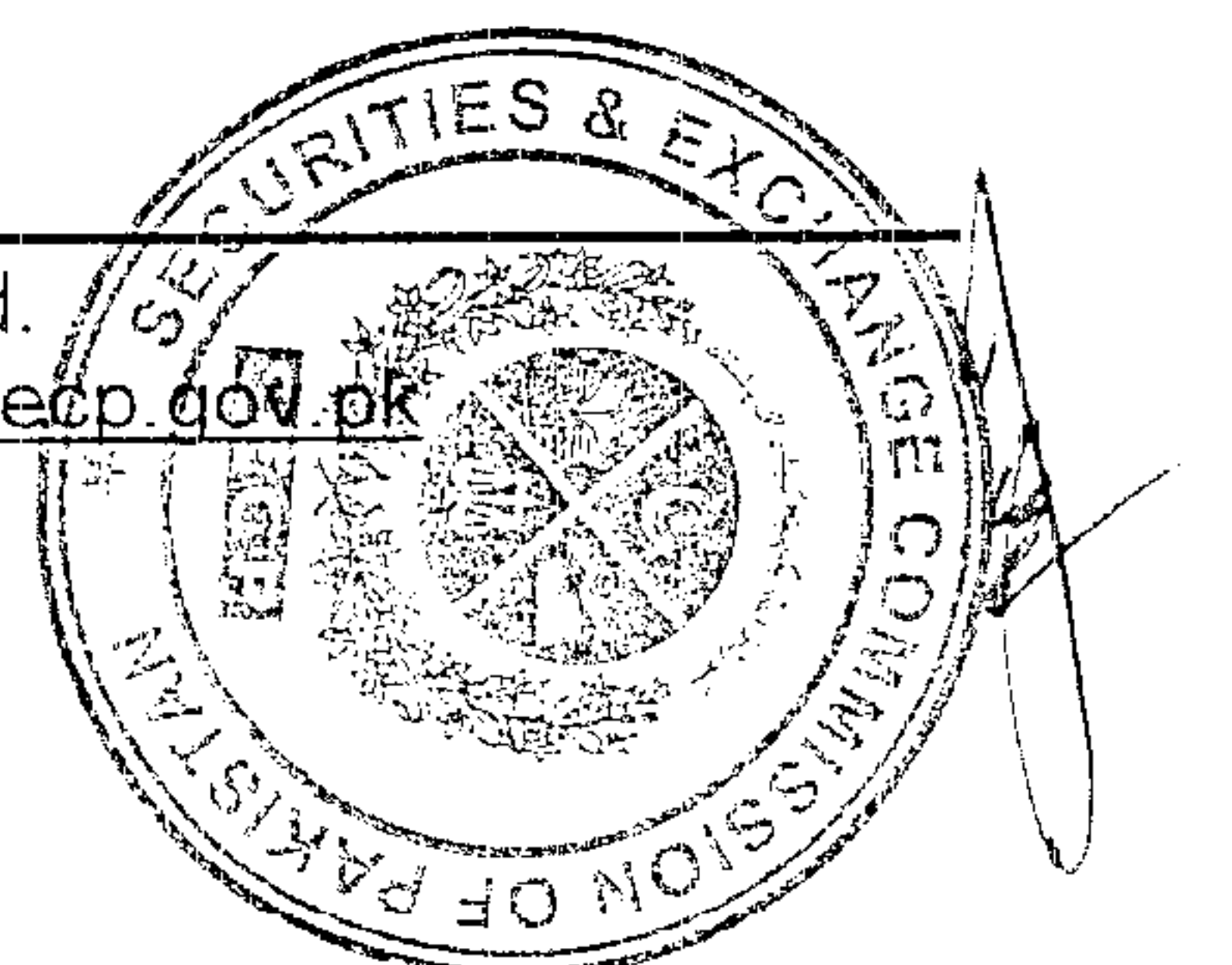
The Representatives of the Respondent during the hearing asserted the stance taken by the Respondent in its written response.

- b) **Understatement of Trade Receivable:** The Respondent with regard to understatement of receivables stated that:

*"We have calculated trade receivables within 14 days on the average basis of debtors. The reason behind this treatment was that the Third Schedule to the Securities and Exchange Rules 1971 is silent as to the calculation basis of trade receivables overdue for more than 14 days and guidance for calculation basis was not available from other sources."*

The Representatives of the Respondent during the hearing, when enquired about the difference in the gross receivables figure of Rs. 12.258 million appearing in the trial balance as of December 31, 2012 and submitted by the Respondent in the NCB of Rs. 10.78 million, communicated that the figures were calculated by the auditors and agreed that they shall provide the reconciliation of two. However, the Respondent again provided the breakup of trade receivables accounted for in the calculation of NCB and not the reconciliation of the difference between two differently reported figures.

- c) **Understatement of calculation of securities purchased for client:** With regard to understatement of investment in listed securities, the Respondent stated that:





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

Continuation Sheet - 3 -

*"We understand that we have not held any securities of our clients in our main account for this purpose notwithstanding the fact that we have rights to sell these securities by virtue of authority given by our customers at the time of opening their account. With this context, we have not considered these amounts in calculation of NCB. Had we accounted for these balances in calculation of NCB, it would have resulted in enhancing our exposure limit in the capital market; which we have never intended."*

The Representatives of the Respondent asserted the above position and communicated that the understatement of securities was because of the securities of clients available in our house account for pledging purpose and the pledge authority was provided by the clients in this context.

- d) **Understatement of Trade Payables:** The Respondent in the written response communicated that:

*"We have also calculated trade payable outstanding for more than 30 days on the basis of average position of the trade creditors."*

The Representatives of the Respondent avowed the above stance and communicated that in the absence of the guidelines from the Commission, they used to calculate the receivables and payables on average basis. They further added that after the issuance of guidance by the Commission, the Respondent shall prepare the NCB accordingly.

- e) **Understatement of accrued expenses and other liabilities:** The Respondent in its written response stated that:

*"The difference is primarily due to the netting off of bank balance of HMBL with other debit bank balances amounting to Rs. 1.18 million and loan to directors amounting to Rs. 4.5 million. Further a few accruals could not be accounted for as at December 31, 2012 due to late receipt. Further, the NCB relates to our position as on December 31 since we are following 30<sup>th</sup> June as our financial year end, therefore, it is not a routine practice to close the accounts as at 31<sup>st</sup> December."*







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

Continuation Sheet - 4 -

The Representatives of the Respondent reiterated the above stance, further clarifying that the difference was primarily because of the misclassification and netting of the bank overdraft balance and assured that it will follow the guidelines issued by the Commission for calculation of NCB in future.

f) **Segregation of client funds:** The Respondent communicated that:

*"The segregation of client funds account was not opened because there is no proprietary trading of TS Securities and because many clients instructed us to retain funds with us. However, after the pointing out of this fact in the audit this account has been opened and we request that you take a lenient view on this."*

The Representatives of the Respondent during the course of hearing were asked to provide evidence of the fact that a separate account for handling the clients' funds has been opened. The same was provided by the Respondent vide letter dated October 31, 2013.

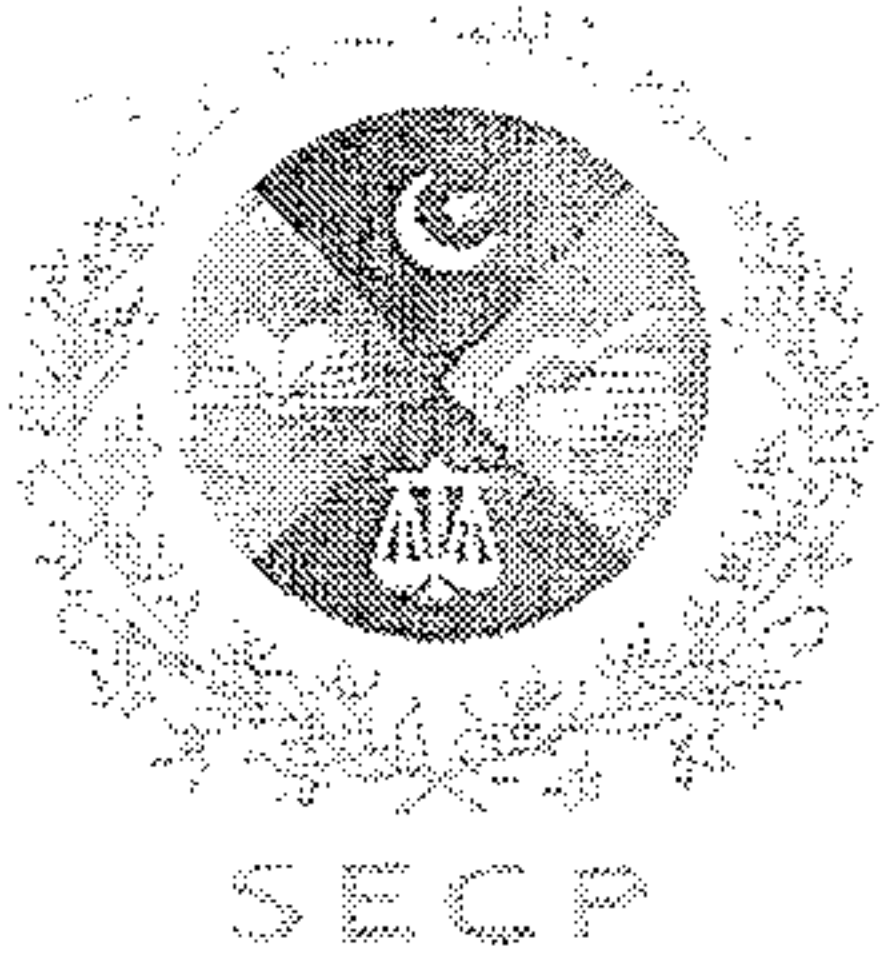
g) **Collateral Accounts:** The Respondent in its written response stated:

*"This condition does not apply to us because we only deal in the ready market we have no future or leverage transaction."*

The Representatives of the Respondent during the hearing communicated that back office record was not updated and the reconciliation of the differences in back office record and CDC account was not provided to the Inspection Team. The Respondent agreed to provide the reconciliation of the differences in back office and CDC account record. Moreover, the Representatives of the Respondent added, that earlier when it was not possible to obtain funding by pledging the shares directly from clients' accounts, shares were moved to house account, but now all the securities pertaining to clients have been moved to their respective accounts and the house account of the Respondent purely depicts Respondent's position.

6. 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





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

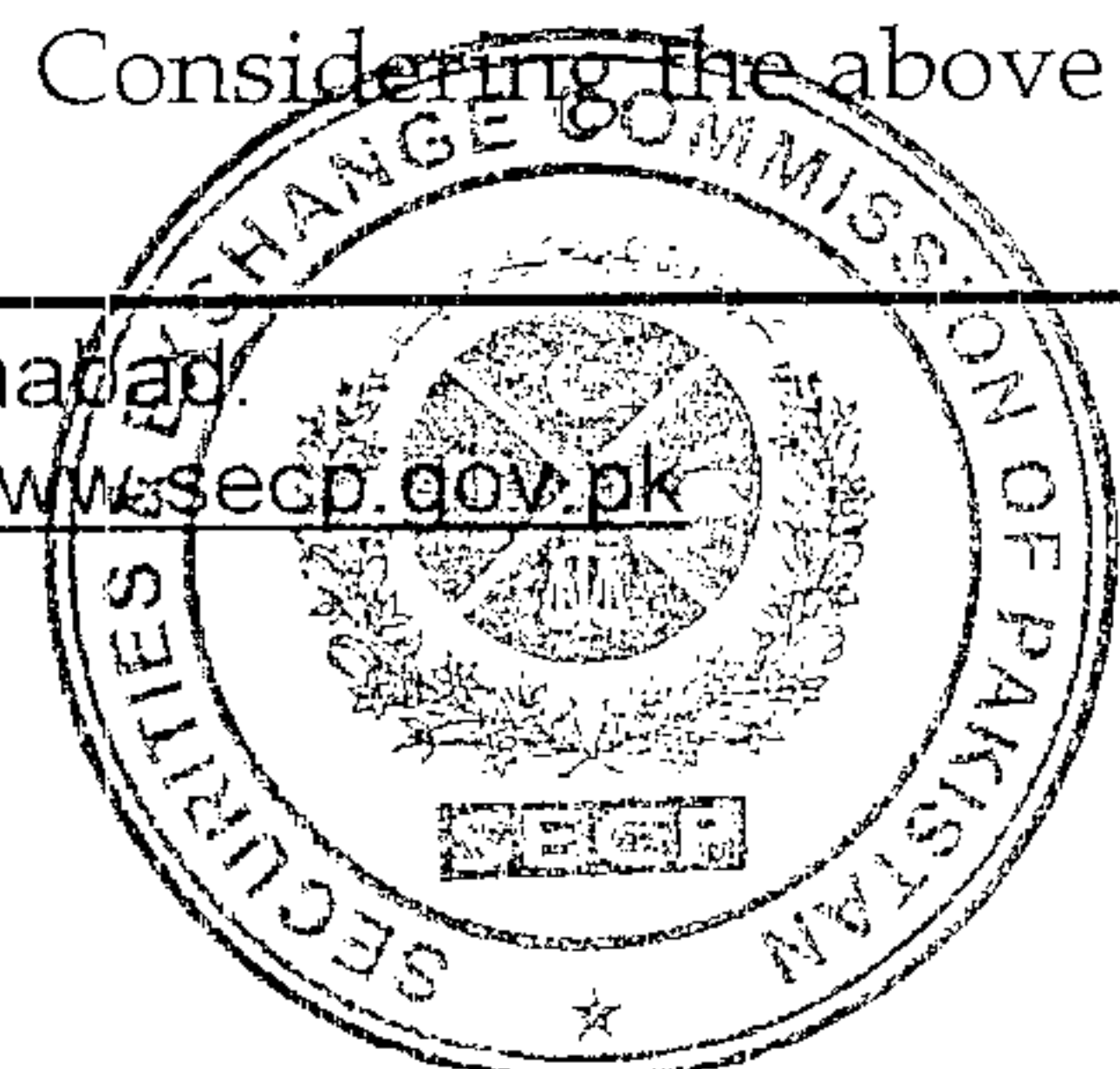
Continuation Sheet - 5 -

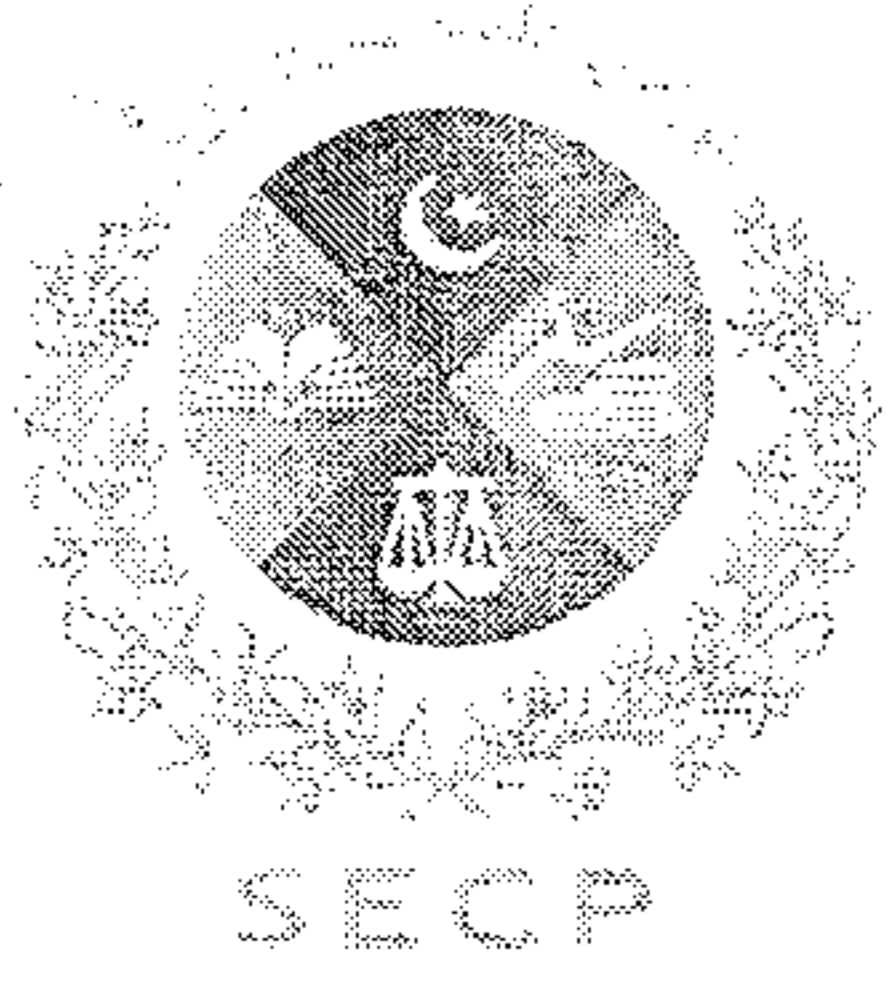
reply filed by the Respondent. Accordingly, my findings on the arguments and assertions made by the Respondent to the issues raised in the SCN are as follows:

- a) The difference in the figures of trade receivables, trade payable and the accrued expense was a result of misclassification of the bank overdraft and the aging methodology adopted by the Respondent for calculation of NCB. For aging methodology the Respondent in its written response and the Representatives of the Respondent, during the course of hearing confirmed that they will follow the guidelines issued by the Commission in the context.
- b) The Representatives of the Respondent, during the course of hearing communicated that a separate bank account for handling the clients' funds has been opened and the evidence of the same was provided by the Respondent vide letter dated October 31, 2013.
- c) Moreover, the Representative of the Respondent during the course of hearing agreed to provide reconciliation of the difference in the figure of receivables appearing in the trial balance and NCB statement as of December 31, 2012. However, the same information was not provided.

7. 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 by not preparing the NCB Certificate in accordance with the Rules 1971, failed to perform its responsibilities. In order to maintain the investors' confidence and ensure smooth functioning of the market, the Commission has articulated rules, regulations and procedures prescribing the minimum set of standards that a broker has to follow.

8. The violation of the Rules and Regulations is a serious matter. From the above, it is evident that the Respondent although maintaining proper books of accounts has failed to prepare NCB in accordance with Third Schedule of the Rules 1971. Considering the above and





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

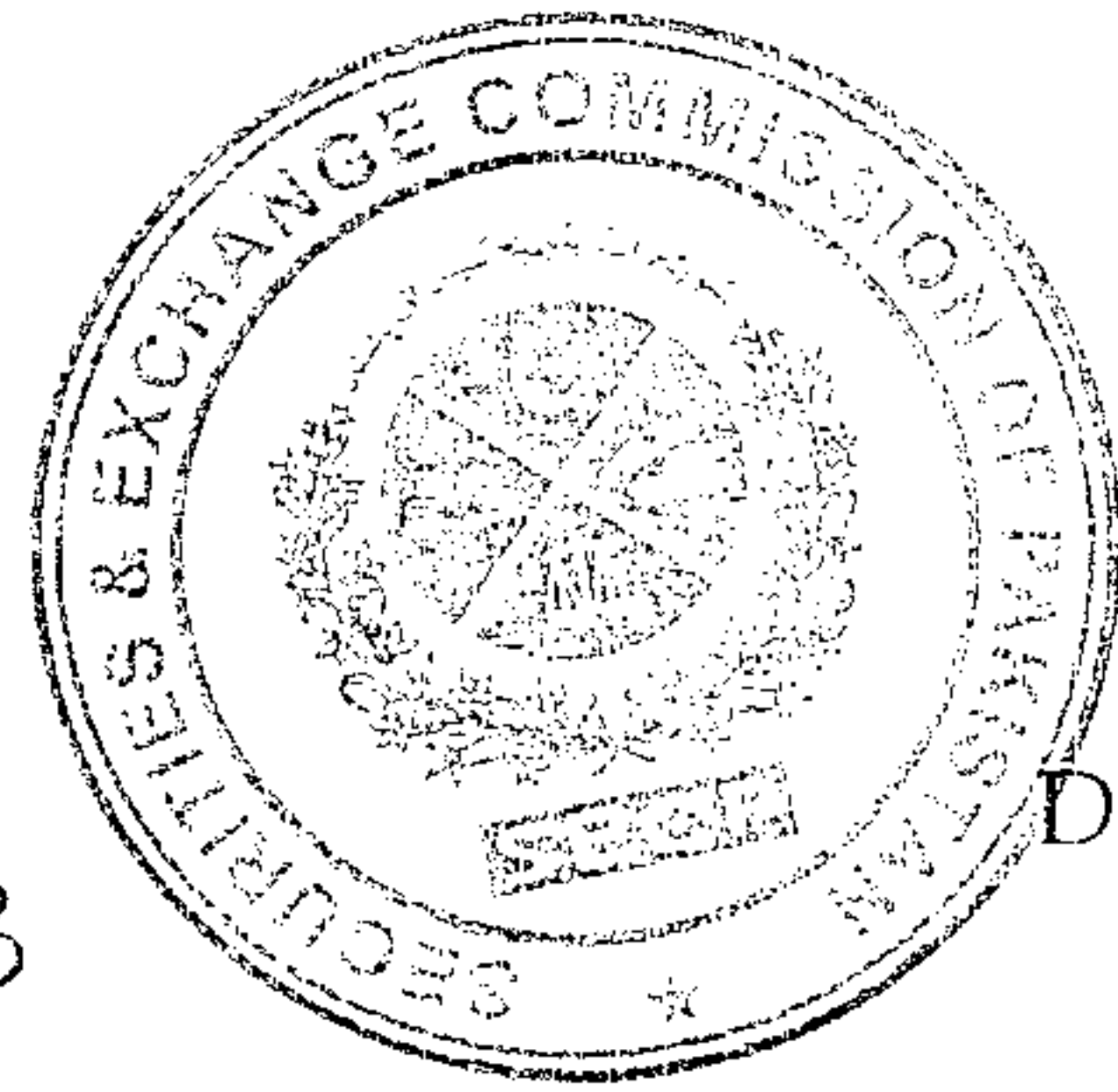
Continuation Sheet - 6 -

taking a lenient view in the matter, in exercises of the powers under Section 22 of the Ordinance, I hereby impose on the Respondent a penalty of Rs. 25,000/- (Rupees Twenty Five Thousand Only).

9. 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.

10. 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, 2013  
Islamabad.



  
(Imran Inayat Butt)  
Director/HOD (MSRD)