SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

(Securities Market Division)

Public Offering and Regulated Persons Department

File No. 1(78) SMD/PRPD/PSX/2016 December 26, 2016

Chief Executive Officer,
Akhai Securities (Private) Limited
Room No. 623, 6th Floor
Stock Exchange Building,
Stock Exchange Road,
Karachi.

Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED OCTOBER 21, 2016 BEARING NO 1(78) SMD/PRPD/PSX/2016.

Dear Sir,

Please find enclosed herewith a copy of order in the title matter for your record and necessary action.

Yours truly,

(Muhammad Farooq)
Additional Director (PRPD)

Through Courier

Before the Executive Director (PRPD)

In the matter of Show Cause Notice Issued to Akhai Securities (Pvt.) Limited

Date of Hearing	*December 02, 2016*
Present at the Hearing	
Representing Akhai Securities (Pvt.) Limited	
Mr. Javed Kassim	Nasir Javaid Maqsood Imran Chartered Accountants (Authorized Representative)
Assisting the Executive Director (PRPD)	
(i) Mr. Nasir Askar	Director (PRPD)
(ii) Mr. Muhamad Farooq	Additional Director (PRPD)
(iii) Mr. Sabeel Ahmed	Management Executive(PRPD)

ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(78) SMD/PRPD/PSX/2016 dated October 21, 2016 ("**SCN**") served to M/s Akhai Securities (Pvt.) Limited ("**Respondent**") by the Securities and Exchange Commission of Pakistan ("**Commission**") under section 22 of the Securities and Exchange Ordinance, 1969 **("Ordinance")** and 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 the its power under sub-section (1) of section 6 of the Ordinance read with rule 3 and rule 4 of the Stock Exchange Member (Inspection of Books and Records) Rules, 2001**("Inspection Rules")** ordered an inspection of the books and records of the Respondent who was a Trading Right Entitlement Certificate **("TREC")** holder of Pakistan Stock Exchange **("PSX")** and registered with the Commission as a broker under Brokers Rules.

3. The Inspection team submitted the report **("Report")** which highlighted the following violations of law:

*(a) The net capital balance ("**NCB**") as on December 31, 2015 was negative Rs 6.02 million and not 5.073 million i.e. the NCB was overstated by Rs 11.1 million in contravention of rule 2(d) of the Securities and Exchange Rules, 1971 ("**SE Rules**") rules by not including loans from directors amounting to Rs 10.5 million and mark-up accrued on loan of Rs 0.6 million.*

(b) The Respondent was non-compliant of circular 34 of 2009 with regard to nominating a Compliance Officer from amongst its employees. The inspection team noted that, the Respondent had designated Mr. Abid Akhai as Compliance Officer who is also the chief executive officer of Respondent which involves the conflict of interest between the two roles as handled by the same person.

(c) The inspection team noted that the Respondent did not send trade confirmations to its clients in contravention of rule 4(4) of the SE Rules.

4. The Commission in light of the Inspection Report 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 on November 04, 2016 which was rescheduled to December 2, 2016 on the request of the Respondent. The written response to the SCN was received by the Commission on November 11, 2016. Mr. Javed Kassim, the authorized representative of the Respondent **(Representative")** attended the hearing on behalf of Respondent through video link from Commission's Karachi office. The Respondent in writing and the Representative during the hearing took the following stance:

"(a) Regarding the NCB observation by December 31, 2015, we would like to inform you *that long term loan from directors amounting to Rs. 10.5 million which was provided by the director in the year 2004, and agreement has been prepared in May 2015 due to change in rules of SECP in respect of above calculation of NCB is not in negative and what our auditor has been provided the NCB of Rs. 5.073 million dated 31 December 2015, enclosed agreement for your record".*

The Representative of the Respondent during the course of hearing asserted that audited accounts for previous years also show its long term and markup free nature and thus there is no doubt about its being long term in nature. We are enclosing herewith copy of audited financial statements by another firm of chartered accountants for the year ended June 30 2015 showing classification under long term for the year 2014 and 2015 respectively".

Third Schedule rule 2(d) define net capital balance as current assets minus current liabilities calculated in specified manner therefore long term loan have been excluded from the calculation. Guidelines to SE Rules 1971 dated July 03, 2013 also clarifies criteria for long term nature under clause 7.1 as follow:

The balance of director's loan amount in which receipts/payments transactions pertaining to one-year period till the date of reporting period of NCB are recorded should be transferred as short term loan for NCB purpose irrespective of its classification/ disclosure in the books of accounts.

For this purpose, we are enclosing herewith copy of ledger account of director's loan showing no movement during the year under review thus justifying its exclusion from the short term loan.

Regarding markup of Rs 0.6 million we have deducted all markup payable for NCB up to December 2015 by the company and providing you copies of bank advices and NCB working for your review.

(b) We would like to inform you regarding the trade conformations send to our clients, we already send email of trade confirmations which was observation of inspection team, but your team never mentioned that they had received the email from Akhai Securities (Pvt.) Limited on 3rd June 2016 we are enclosing herewith again trade confirmations for your record.

(c) As far as compliance officer is concerned we have already replaced compliance officer Mr. Abid Akhai CEO of the company to its senior staff Mr. Muhammad Shahid Alwani, and the copy of the receiving of PSX has been attached herewith for your record".

5. 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 written response filed by the Respondent.

6. With regard to calculation of NCB, the Representative asserted that the loan of Rs 10.2 million was long term in nature and therefore it did not contravene the guidelines issued by the Commission. In support, the Representative provided copies of loan agreement dated May 04, 2015 and copy of audited financial statements of 2014-15 where the loan was classified as a

long term liability. With regard to non-inclusion of mark-up on loan amounting to Rs. 0.6 million, the Representative provided evidence of inclusion of the same amount in calculation of NCB. The Representative further stated that the said mark-up was due on running finance facility. Further, the Representative provided copies of bank statements to substantiate the fact. The evidence provided by the Representative was shared with the representative of the concerned department and he also agreed with the assertions made by the Representative during the course of hearing.

7. With regard to appointment of compliance officer, the Representative informed that the Respondent has appointed Mr. Muhammad Shahid Alwani as compliance officer of the Respondent. The Representative provided a copy of letter sent by the Respondent to PSX dated October 26, 2016 regarding appointment of compliance officer.

8. With regard to trade confirmations sent to the clients, the Respondent in its written response submitted on November 11, 2016 stated that they have sent trade confirmations to the inspection team via email on 3rd June 2016. The Representative during the course of hearing was advised to send the copy of trade confirmations sent to the clients to this office. The requisite information was received by this office vide email dated December 07, 2016.

9. In view of the above, it is apparent that the Respondent did not overstate its NCB. With regard to the other observations of the inspection team, the same have been rectified. Therefore, no penalty is being imposed on the Respondent. However, the Respondent is advised to strictly comply with the regulatory framework in letter and spirit in future.

10. 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.

Asif Jalal Bhatti 23/12/16
Executive Director/HOD (PRPD)

Announced on December 23, 2016
Islamabad.