



Securities and Exchange Commission of Pakistan

Securities Market Division
Licensing and Capital Issue Department

No. 1(59)SMD/LCID/KSE-2015

February 11, 2016

The Chief Executive OFFicer,
Amin Tai Securities (Pvt) Limited,
Suit No.612-617, Stock Exchange Building,
Stock Exchange Road,
Karachi

Subject: Order under Section 22 of the Securities and Exchange Ordinance, 1969

Please find enclosed herewith a copy of Order dated January 19, 2016, passed by Director/HOD (LCID), under Section 22 of the Securities and Exchange Ordinance, 1969, for information and compliance.

2. Please acknowledge the receipt of this letter and Order.

Yours truly,

Muhammad Farooq
Additional Director (BO)

OR G. ord.



Securities and Exchange Commission of Pakistan

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Before Director/HOD (LCID)

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

ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(59) SMD/LCID/KSE-2015 dated December 3, 2015 ("**Notice**") served to Amin Tai Securities (Private) Limited ("**Respondent**") by the Securities and Exchange Commission of Pakistan ("**Commission**") under Section 22 of the Securities and Exchange Ordinance, 1969 ("**Ordinance**"). The Respondent is Trading Right Entitlement Certificate Holder/Broker of the Pakistan Stock Exchange Limited ("**PSX**") and registered as a broker with the Commission under the Brokers Rules.

2. 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 *inter alia* the books and record required to be maintained by Respondent during the period from January 01, 2014 to December 31, 2014 vide order No. SMD-/MSRD-C&IW/(INS-KSE)(004)/2015 dated March 6, 2015.

3. The Inspection Team submitted the report ("**Inspection Report**") on May 14, 2015 which was shared with the Respondent in accordance with Rule 7 of the Inspection Rules. The Inspection Team observed that the Respondent was non-compliant with the following regulatory framework:

Regulatory framework	Alleged Nature of irregularity
Securities and Exchange Rules, 1971 (SE Rules).	a) Non-provision of working of Net Capital Balance Certificate (NCB). b) NCB was not prepared in accordance with the prescribed format.
Rule Book of Karachi Stock Exchange Limited	a) Non-Segregation of Clients' Assets. b) Non-maintenance of Standardized Account Opening Form. c) Non-registration of employees in into UIN database. d) Non-maintenance Know Your Customer and Customer Due Diligence Policy.
CDC Regulations	Discrepancies in Sub Account Opening Forms.





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4. In light of observation made in the Inspection Report, the Commission served the SCN to the Respondent under Section 22 of the Ordinance and the Respondent was called upon through its Chief Executive Officer to show cause in writing as to why penalty may not be imposed under Section 22 of the Ordinance.

5. The Chief Executive Officer of the Respondent vide letter dated December 7, 2015 submitted his written response to the Notice and *inter alia* requested that the matter may be adjudicated on the basis of response/comments submitted at the time of sharing of Inspection Report.

6. In order to arrive at decision, I have gone through the observations made by the Inspections Team and submissions/comments submitted against each of the observation which may be summarized as under:

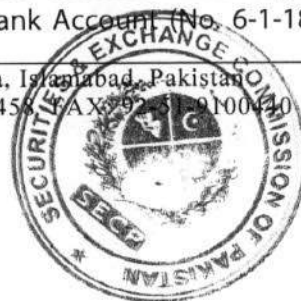
(a) Calculation of NCB Certificate: Rule 3 (e) of SECP Rules requires that **"every member shall report to the stock exchange weekly that he or the firm of which he is a partner had, at all times during the week to which the reports relates, a net capital balance of an amount not less than that specified in clause (b)..."**. The Inspection Team advised the Respondent to provide working of NCB reported for the first week of December, 2014. But, the same was not provided to the Inspection Team. The Inspection Team was of the view that aforesaid reporting was being done without any calculation of net capital balance.

The Respondent in response commented that Rule 3 (e) of SECP Rules requires reporting on a weekly basis that our NCB hasn't fallen below the prescribed level of Rs2.5 million at any point during the week. The requirement to provide NCB calculation is only twice a year by March 15 and September 15 to the Stock Exchange to which we are complying. Our NCB as on December 31, 2014 was Rs. 2,721,314,299, which was significantly higher than the requirement. The Respondent further pointed out that their NCB as on June 30, 2014 and December 31, 2013 was Rs1,826,158,888 and Rs1,586,015,778 respectively, which again was substantially higher than the prescribed limit. The Respondent did not maintain record of NCB calculation on a weekly basis as it was not a requirement. However, the Respondent informed that it ensures its NCB meets the minimum prescribed limit before sending our compliance report.

(b) NCB Format: The Inspection Team observed that the auditors of the Respondent submitted NCB on the format which did not match with the format prescribed by the Exchange through Notice No. KSE/N-4163 dated August 29, 2002.

The Respondent commented that the said narration was used because our external auditor was different from one who prepared the NCB certificate. However, all the other guidelines were adhered to when preparing the NCB.

(c) Non Segregation of Clients' assets by the brokers: The Inspection Team observed that the Respondent was maintaining a Bank Account (No. 6-1-18-20311-714-



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126144) with Habib Metropolitan Bank, Stock Exchange Branch for client's funds with zero balance as on December 31, 2014 and no activity was observed during the review period. The Respondent did not have any trade payables on December 31, 2014. The Inspection Team was of the view that a bank account should be maintained to receive/make payments from designated bank account.

The Respondent responded that they did not keep any of their clients' assets with them, and immediately paid any outstanding credit balances. This was the reason for zero balance in the bank account opened for clients. This is further supported from the fact that they had zero trade payables. However in order to comply with the regulations, the Respondent had opened a separate bank account with the words "client" in its title, for proceeds, if any, belonging to their clients.

(d) Non-maintenance of Standard Account opening Form (SAOF):-

(i) During the inspection, SAOFs were reviewed by Inspection Team on test check basis and observed that Clause 7, 8 & 9 of the SAOF did not match with Standardized Terms. Further, the Inspection Team observed that the forms were not properly filled-in and deficiencies were noticed by the Inspection team and were communicated to the Respondent.

The Respondent admitted that clause 7, 8 & 9 of the SOAF did not match with the standard terms which were amended in the year 2014. However, the Respondent was complying with the spirit of the amendments The Respondent assured that they have established a procedures to ensure that all SAOF are up to date and that the problem does not occur in future. With regard to other observations, the Respondent that the same happened due to oversight and have been subsequently rectified. The Respondent has put in procedures to ensure that these non-compliances do not occur in the future.

(ii) The Inspection Team reported that the Respondent did not provide copies of cheques of payments selected by the Inspection Team randomly.

The Respondent admitted that due to oversight, copies of certain cheques were not kept. However, the Respondent pointed out that none of their clients have lodged any compliant. Further, all payments are made through "A/C Payee Only" cheques and the same can be verified by their bank statements. Nevertheless, the Respondent assured that the problem would not occur in the future.

(e) Non-registration of employees in into UIN database: The Inspection Team noted that the Respondent had not registered its employees Amin Issa Tai Director and Sohail Amin Tai, Director/Chief Operating Officer in UIN database of NCCPL.

The Respondent responded that they were not registered in the UIN database of NCCPL because they were directors of the Respondent. However, their names have been updated in the UIN database subsequently. The Respondent assured that data of all employees





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would be updated regularly in the UIN database in future.

(f) KYC and CDD policy: The Inspection Team noticed that at the time of opening of account, the Respondent has no system of assigning risk rating to customers based on factors such as occupation, politically exposed person etc. The inspection team further noted that the Respondent did not have any system of updating the risk profile of a customer on the basis of any information obtained during the relationship and transaction behavior of the customers.

The Respondent responded that they had a system of assigning risk ratings to their customers which was defined in the policy i.e. personal appearance. During the meeting, the client was evaluated by the senior management based on factors such as occupation, politically exposed persons etc, and if the client was assessed to be low risk, then an account was opened for him/her. In other words, all their clients were low risk. With regard to subsequent changes in the risk profiling of the clients, the Respondent informed that they regularly assessed the risk profiles of their clients and if any client risk profile changed from low to high, they would initiate the process for closing his/ her account. However, till now no such event has occurred.

(g) Non-compliance of CDC Regulations: The Inspection Team observed that CDC Sub Account Opening Forms of certain clients were not properly filled and sub-account of one client was not provided to the Inspection Team. Besides, the Inspection Team noted that the signatures had not been obtained from the clients for the sub-accounts, in violation of Circulars dated October 04, 2013 & December 02, 2013.

The Respondent responded that deficiencies pointed out by the Inspection Team have been rectified and procedures have been put in place to ensure that these instances do not occur in future.

7. With regard to reporting format of NCB, I am of the view that the Respondent should follow the format specified by the Commission and Stock Exchange in letter and spirit. I take comfort from the facts that NCB of the Respondent was calculated as per the regulatory framework as the Inspection Team did not report any irregularity in this regard. As far as the weekly reporting under Rule 3 (e) of SECP Rules is concerned, I concur with the view of the Respondent had just to confirm to the exchange that its NCB was not less than the minimum specified by the exchange. With regard to observations of the Inspection Team regarding risk profiling of clients, the Respondent has stated that it does risk profiling of its clients and only open accounts of clients with a low risk profile. I am of the view that the Respondent should make this risk profiling process more formal with regular reporting to its senior management on the risk profiles of its clients. As far as the remaining observations are concerned, I am of the view these were procedural lapses on the part of the Respondent and most of them were rectified by the Respondent before or at the time of submission of comments to the observations, made by the Inspection Team





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8. I have examined the observations made by the Inspection Team, comments submitted by the Respondent thereto. I have taken into account the penal actions initiated by the Commission against the Respondent in the past. In view of the above, I am not imposing any monetary penalty on the Respondent. However, the Respondent is hereby advised to ensure strict compliance of regulatory framework, in future.

9. 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.

Islamabad.
Announced on January 19, 2016




Nasir Askar
Director/HOD(LCID)