



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 05 of 2018

HK Securities (Pvt) Limited

...Appellant

versus

Commissioner (SMD), SECP

...Respondent

Date of hearing:

March 19, 2025

Present:

For the Appellants:

Barrister Iman Shahid (Legal Counsel)

For the Respondent:

1. Mr. Sohail Qadri, Director, Adjudication-I, SECP
2. Mr. Hammad Ahmed, Management Executive, Adjudication-I, SECP

ORDER

1. This Order shall dispose of Appeal No. 05 of 2018 filed by HK Securities (Pvt.) Limited (the Appellant) against the Order dated December 13, 2017 (Impugned Order) passed by the Commissioner, Securities Market Division, SECP (the Respondent) under section 150(1)(ii) and 150(2) of the Securities Act, 2015 (the Act).
2. The brief facts of the case are that the Appellant is a Trading Rights Entitlement Certificate (TREC) holder of the Pakistan Stock Exchange Limited (PSX) and is licensed as a securities



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broker. An onsite inspection of the Appellant was conducted by the Securities and Exchange Commission of Pakistan (the Commission). The inspection team during the inspection identified multiple violations including the misuse of trading terminal, non-segregation of clients' assets, having unregistered offices/branches, and the operations of the Appellant being run by unauthorized management. Keeping in view the exigent circumstances, the Commission vide order dated March 17, 2017, in exercise of powers conferred under Section 139 of the Act, conducted investigation into the matter. The investigation report submitted by the investigation team *inter alia* revealed that the Appellant was *prima facie* non-compliant with the provisions of Section 74 of the Act, Regulations 16, and 16(1) of the Securities Brokers (licensing and Operations) Regulations, 2016 (the Brokers Regulations) and clauses 4.18, 4.24 and 22 of the Pakistan Stock Exchange Rule Book (the PSX Rule Book). In light of the findings of the Investigation team, the Respondent issued a show-cause notice dated October 03, 2017 (the SCN), calling upon the Appellant to submit a written reply, and was also advised to appear before the Respondent on October 11, 2017 to explain the stance in person.

3. That after grant of multiple extensions, a written response of the Appellant was finally received by the Respondent on November 07, 2017 and a final hearing in the matter was held on November 09, 2017, wherein the authorized representative of the Appellant reiterated the submissions made in the written response. The Respondent not being satisfied with the response of the Appellant, and in view of the severity of the violations established against the Appellant and in exercise of the powers conferred under section 150(1)(ii) and 150(2) of the Act, cancelled the license of the Appellant as a securities broker of the Pakistan Stock Exchange and imposed a penalty of Rs. 5,000,000/- (Rupees Five Million) upon the Appellant.
4. That Appellant has preferred this appeal *inter alia* on the grounds that the inspection and investigation proceedings underlying the order were initiated in haste and without affording the Appellant adequate prior notice, which is in violation of the principles of natural justice. The Appellant stated that an inspection order dated March 14, 2017 was issued to the Appellant, which had mentioned that the inspection would commence from March 20, 2017, however,



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another inspection order was issued, through which the Appellant was informed that the inspection would take place on March 15, 2017, i.e within twenty-four hours of the inspection order and five (5) days prior to the date fixed for inspection. The Appellant stated that the Impugned Order is based on mere conjecture, lacks any credible documentary evidence and that the findings, particularly regarding alleged violations of Section 74 of the Securities Act, 2015 and Regulation 16(1) of the Brokers Regulations, rely solely on statements purportedly made by certain employees of the Appellant under duress and in a coercive environment. The Appellant added that these statements were not duly recorded in accordance with evidentiary standards, and no opportunity was given for their review or verification, while stating that such an act of the Respondent is in violation of Article 130 of the Qanun-e-Shahadat Order, 1984. The Appellant further argued that it has consistently denied the authenticity of the statements recorded by the investigation team and that the contents of the statements were fabricated by the Commission's investigation team, and in this regard, the Appellant has also lodged a formal complaint under Section 30(6) of the SECP Act, before the Chairman of the Commission, which still remains unanswered till date. Moreover, the Appellant also stated that it has been denied its fundamental right to a fair trial as enshrined under Article 10-A of the Constitution of Pakistan. The Appellant further submitted that the Commission confiscated all relevant documents, computers and cheque books from the Appellant's office and has yet to return or allow access to the record, despite repeated requests, and that in the absence of the confiscated record, the Appellant was left unable to adequately respond to the factual allegations made in the SCN. The Appellant further stated that instead of addressing this critical deficiency, the Respondent relied on an unverified claim by an unnamed "concerned officer" that only copies were seized, a claim categorically refuted by the Appellant. Additionally, the Appellant added that the Respondent's findings that the Appellant violated Clause 4.24 of the PSX Rule Book is equally untenable, as it is based on the erroneous classifications of a "house account" as a "client account". The Appellant argued that transactions cited as violations were from the Appellant's own account and did not involve clients funds. Therefore, no breach of the PSX Rule Book occurred. The Appellant further argued that it does not contest the procedural lapse in relocating its office without prior written approval from PSX, as this violation was an



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inadvertent oversight and not a wilful act on part of the Appellant. The Appellant stated that the PSX never raised any objection regarding this issue. In light of the above, the Appellant contended that the Impugned Order is based on flawed procedure, lack of evidence, misinterpretation of facts and a disregard of the due process. The punitive measures imposed are grossly disproportionate and constitute double punishment in contravention of Article 13 of the Constitution.

5. The Respondent countered the grounds of the Appeal and proffered arguments, delineating that the inspection was legally authorized and an inspection order was issued beforehand. The Respondent stated that the early visit by the inspection team did not render the inspection illegal, and any technical deviation does not vitiate the process. The Respondent further added that established case law supports that technicalities should not obstruct justice. The Respondent further stated that the findings are not solely based on the employees' statements; rather, they are supported by other offenses and documentary evidence. The Respondent added that the confessional statements were corroborated with records such as bank statements showing unlawful withdrawals. The Respondent further stated that the allegations of coercion are unproven. The Respondent contended that backups were left with the Appellant to facilitate ongoing operations. The Respondent further argued that the Appellant had adequate opportunity to respond, and the claim of total seizure and lack of access is inaccurate. The Respondent further stated that the Appellant was given ample opportunity to be heard. The Respondent further argued that the investigation and adjudication followed the due process of law. The Respondent further argued that the decision was not based on haste but a combination of statements and documentary evidence. The Respondent further stated that Clause 4.24 of the PSX Rule Book requires all payments over Rs. 25,000 to be made via traceable banking channels. The Respondent added that the review of *Bank Alfalah account (No. 0407-1003046818)* showed cash transactions in breach of this clause. The Respondent further stated that the Appellant admitted the transfer of office was without prior approval whereas the law mandated formal approval prior to relocation. The Respondent further stated that the claim of



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double punishment is unfounded, Article 13 (double jeopardy) applies to the same offense under the same law, which is not the case here. The Respondent added that the penalty and cancellation of license are authorized under Section 150(2) of the Securities Act, 2015, which allows multiple sanctions for misconduct.

6. That Bench has heard the arguments of both the parties and perused the record. The Bench considers that the integrity and transparency of regulatory enforcement actions must be judged not merely on procedural lapses but on the substance and fairness of the process. The Bench considers that although the inspection commenced prior to the originally notified date, the Appellant was duly informed, and this deviation, while irregular, does not in itself vitiate the legality of the proceedings. The Bench is of the view that the Appellant was afforded adequate opportunity to submit written replies and participate in multiple hearings, thus satisfying the requirement of natural justice. The Bench considers that the statements of the Appellant's employees were given under oath, bearing signatures and thumbprints, accompanied by declaration of voluntariness. The Bench considers that these statements were not isolated or uncorroborated but were supported by transactional records, bank statements and evidence pointing out to systematic misuse of client funds and unauthorized trading. The Bench considers the Appellant's claim of coercion remains unsupported by any independent evidence and is therefore unpersuasive. The Bench has noted that the allegation regarding total seizure of business records is not corroborated by documentary evidence. The Bench has further noted that the Respondent's assertion stating that only copies of records were taken and operational backups were left behind stands unrebutted and that the Appellant has failed to demonstrate how the alleged unavailability of records prevented it from responding to the allegations or from participating effectively in the adjudicatory process.
7. The Bench considers that the Respondent has substantiated its claim that cash transactions above Rs. 25,000/- were executed from the client-designated bank account in contravention of Clause 4.24 of the PSX Rule Book. The Bench has noted that no credible explanation or contrary evidence has been provided by the Appellant regarding these transactions. The Bench



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has noted that the assertion that the account was a “house account” lacks support and was contradicted by the account’s functional labelling and transactional history. The Appellant has admitted relocating its office without obtaining prior written approval from PSX, a regulatory requirement clearly stipulated in the Brokers Regulations and the Rule Book. The Bench considers that even if PSX was informally intimated, the absence of formal approval renders the operation of the new branch non-compliant with applicable regulations. The Bench is of the view that the invocation of Article 13 of the Constitution (protection from double punishment) is misplaced in the present context. The Bench has noted that Section 150(2) of the Securities Act, 2015 expressly permits concurrent imposition of administrative sanctions, including license cancellation and financial penalties and such dual sanctions, address different aspects of regulatory accountability and do not amount to ‘double jeopardy’. The Bench considers that the cumulative violations, ranging from unauthorized trading and misuse of clients’ assets to mismanagement, non-disclosure and operational misconduct are of a grave and systematic nature. These violations strike at the core of public trust in capital markets and warrant robust regulatory response.

8. In view of the foregoing, the Bench finds no reason to interfere in the Impugned Order. The instant Appeal is hereby dismissed without any order as to costs.

(Abdul Rehman Warraich)
Commissioner

(Zeeshan Rehman Khattak)
Commissioner

Announced on:

20 MAY 2025