



Securities and Exchange Commission of Pakistan

Securities Market Division
Licensing and Capital Issue Department

No. 1(56)SMD/LCID/KSE-2015

February 11, 2016

Cassim Investments (Pvt) Limited,
26-28 Ground Floor,
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)

ORG. 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 Cassim Investments (Private) Limited

ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(56) SMD/LCID/KSE-2015 dated December 3, 2015 ("**Notice**") served to Cassim Investments (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 February 03, 2015.

3. The Inspection Team submitted the report ("**Inspection Report**") on May 11, 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-complaint with the following regulatory framework:-

Regulatory framework	Alleged Nature of irregularity
Securities and Exchange Rules, 1971 (SE Rules).	Net Capital Balance Certificate (NCB) was not calculated in accordance with Third Schedule.
Rule Book of Karachi Stock Exchange Limited	a) Non-maintenance of Standardized Account Opening Form. b) Non-Segregation of Clients' Assets. c) Non-maintenance Know Your Customer and Customer Due Diligence Policy
CDC Regulations	Discrepancies in Sub Account Opening Forms
Commission Circular 34 of 2009	Non-induction of skilled personals





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4. In light of observation made in the Inspection Report the Commission served the Notice 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 4, 2015 submitted his written response to the Notice. He further stated that the Respondent's comments submitted to the Inspection Team may also be treated as part of this reply.

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 and the same can be summarized as under;

(a) Calculation of NCB Certificate: The Inspection Team observed that the NCB of the Respondent was overstated by Rs. 53.04 million. The overstatement was due to inclusion of units of mutual fund in its NCB which were not on the exposure list of KSE.

In response, the Respondent commented that all differences mentioned by the Inspection Team have been noted and the NCB as on June 30, 2015 would be calculated in accordance with guidelines given by SECP. With respect to inclusion of units of mutual funds in the NCB, the Respondent requested that SECP may consider including units of mutual funds in NCB calculations as these funds are en-cashable / redeemable on demand and should be treated as cash/ cash equivalents.

(b) Non-maintenance of Standard Account opening Form (SAOF):- The Inspection Team noted that SAOF of one of the Respondent's client namely Bilquis Saleem was not provided to them, which implied that the SAOF did not exist. Further, the inspection team reviewed SAOFs of some of major clients and observed that clause 7 & 8 did not match the standard terms and conditions. Further, the inspection team randomly selected SAOF of various clients and noticed various deficiencies in them.

In Response, the Respondent provided SAOF of Bilquis Saleem to the Inspection Team and intimated that Clause 7 and 8 have been updated on all forms as pointed out by the Inspection Team and the deficiencies have been removed.

(c) KYC and CDD policy: The Inspection Team noticed that the Respondent has not formulated and implemented an effective KYC and CDD policy. Besides, the Respondent has not developed a system to implement instructions issued on KYC/CDD and to monitor suspicious or unusual transactions.

The Respondent responded that it had informed the Inspection team that the KYC and CDD Policy has been drafted and put forward to the Board of Directors for its approval. Subsequent to the conclusion of inspection, the policy has been approved by the Board. With regard to other observations of the Inspection Team regarding KYC/ CDD, the Respondent commented that due to its small size, all clients are known to management and it does not open accounts of clients which can be classified as high risk clients. Further, none of the transactions undertaken by the Respondent can be considered unusual or suspicious. The





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Respondent assured that it would implement a more formal system upon approval of KYC policy.

(d) Segregation of Clients' assets by the brokers: The Inspections Team noticed that the Respondent was maintaining one account for client's money. Clients bank account is reflecting balance of Rs 4.46 million as on December 31, 2014 whereas, creditors balance on that date reflecting amount of Rs 4.21 million.

The Respondent stated that they had provided receivable/payable list and bank reconciliation to the Inspection Team.

(e) Risk Management Regulations: The Inspection Team noticed that the Respondent did not take margins from clients and KSE Margins are deposited from House A/c & Directors account.

In response, the Respondent commented there were no violations of 19.5.8 and 19.5.9 of Chapter 19 as margins could be deposited from House and Director Accounts as long as the appropriate procedures were followed.

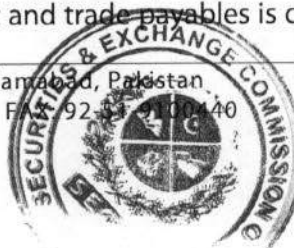
(f) Non-compliance of CDC Regulations: The inspection team selected, on random basis, a sample of account holders and reviewed their sub account opening forms. During the said review the team noted that particulars relating to the name of employer/business and address of employer/business in the form of Mrs. Ambreen Kanwal were not mentioned. Further, account opening form of Mr. Bilquis Saleem was not provided.

In response to the observation, the Respondent provided SAOF of Bilquis Saleem to the Inspection Team. The Respondent further stated that Ambreen Kanwal was its employee. She resigned in CY2015 and her account was being closed as per her request.

(g) Non-compliance of Circular 34 of 2009: The Inspection Team sought the number of employees of the Respondent, who have attained ICM certification.

The Respondent informed that none of the employee was certified from ICM. The Respondent further commented that Circular No. 9/2015 issued on April 8, 2015 has superseded Circular 34 of 2009. ICM certification would be obtained as per the requirements of the new circular.

7. With regard to calculation of NCB, I am of the view that the Respondent should follow the instructions issued by the Commission in letter and spirit. I have examined the NCB as of June 30, 2015 which has been prepared as per the requirements of the Commission. I have checked the total exposure taken by the Respondent during the period from July 1, 2014 to December 31, 2014 and the exposure was within the exposure limit calculated on the basis of NCB worked out by the Inspection Team. I do find some weight in the request of the Respondent for inclusion of mutual fund units in NCB as the units of mutual funds can be easily encashed, equity mutual funds invest in shares of listed companies which are eligible for inclusion in NCB calculation and that mutual funds are managed by non-banking finance companies which are regulated by the Commission. As far as the difference between balance in client's account and trade payables is concerned,





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the Respondent must ensure that there is no difference between the two heads of account. Further, the Respondent is duty bound to satisfy the Inspection Team with regard to queries on the difference. With regard to KYC and CDD, the Respondent should be aware of the fact that KYC and CDD are becoming much more important globally for preventing identity theft, financial frauds, money laundering and terrorist financing. The Respondent has informed that its KYC and CDD policy has been approved by the Board. Concerning the Respondent's view that it is a small company, I am of view that implementation of the KYC and CDD policy is size natural. I, therefore, strongly advise the Respondent to implement its CDD and KYC policy and other AML laws in letter and spirit, as effective implementation would safeguard it from being used for money laundering and terrorist financing activities. 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

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 view of the above, as well as LCI Department of Securities Market Division has affirmed that previously no administrative action has been taken against the Respondent, 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)