



Securities and Exchange Commission of Pakistan
Securities Market Division
Public Offering and Regulated Persons Department

No. 1(64)SMD/LCID/2015

March 29, 2016

Chief Executive Officer,
First National Equities Limited,
179-B, Abu Bakar Block,
New Garden Town,
Lahore.

Subject: In the matter, Show Cause Notice Under Section 22 of the Securities and Exchange Ordinance, 1969

Reference to the subject matter, please find enclosed a copy of Order dated January 19, 2016 passed by Director / HOD (LCID), for information and compliance.

Yours truly,

Asima Wajid
Deputy Director (PRPD)

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Securities and Exchange Commission of Pakistan

Securities Market Division
Licensing and Capital Issue Department

Before Director / HOD (LCID)

In the matter of Show Cause Notice issued under Section 22 of the Securities and Exchange Ordinance, 1969 to First National Equities Limited

ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(64) SMD/LCID/2015 dated December 15, 2015 ("**SCN**") served to First National Equities Limited ("**FNE**") 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 (Previously Karachi Stock Exchange Limited) ("**PSX**") and registered as a broker with the Commission under the Brokers Rules.

2. As a part of Capital Adequacy requirement as stipulated in Regulation 19.3.2 of the Karachi Stock Exchange Limited Rule Book, 2014 ("**PSX Rule Book**") the FNE has submitted its Net Capital Balance ("**NCB**") Certificate as of June 30, 2015 to the PSX, which was verified/audited by Tariq Abdul Ghani Maqbool & Co, Chartered Accountants ("**Auditor**").

3. Review of NCB Certificate as of June 30, 2015 submitted by the FNE to PSX revealed that while calculating the NCB, FNE has excluded / understated its current liabilities amounting to Rs.432 million. As the annual audited financial statement as of June 30, 2015 of FNE showed total current liabilities of Rs.519 million while, for calculation of the NCB it has taken into account current liabilities of Rs.87 million only. Thus the NCB was prima facie, overstated.

4. Keeping the above in view, the Commission served the SCN to FNE under Section 22, of the Ordinance for prima facie violation of Rule 2(d) of the Securities and Exchange Rules, 1971 ("**SE Rules**"). On not receiving any written reply to the said SCN within stipulated time period, FNE vide letter dated January 14, 2016 was reminded to submit its written reply to the Commission. Accordingly, written submission to the above Notice was received in the Commission on January 18, 2016 wherein the FNE submitted that:

".....we must state this at very outset that the very premise on which the show cause notice has been based upon is flawed as the Company has rightly calculated its NCB of Rs.20.097 million as June 30, 2015 in accordance with Third Schedule to the SEC Rules.





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We submit that mentioning of Rs.519 million as current liabilities of the company as appearing in financial statement as of June 30, 2015, is neither admission nor conclusive proof of existence of the said liabilities. Excluding the figure of Rs.87million, the breakup of the remaining alleged current liabilities of Rs.431.849 million (which are denied as such as current liabilities) pertain to following three entities, namely

(i) Current maturity of Bank Alfalah Limited (BAF)	153.188million
(ii) Loan from Bank of Punjab (BOP)	135.307million
(iii) Payable to a trade creditor	143.352million
TOTAL	431.849million

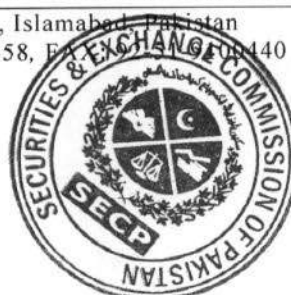
Here under is the management stance for not including these liabilities in the current liabilities for the purpose of calculating NCB as on June 30, 2015

i. **Current maturity of Bank Alfalah limited (BAF") - Rs.153.2 million**

The Company entered into restructuring agreement with BAF on June 27, 2014 (as amended on September 08, 2014) which stipulates mortgage of certain assets valuing Rs.153 million with right to acquire/ purchase/sell these assets as BAF may deem fit, and the Company would relinquish its rights / privileges on these assets and the Company would have no objection on this transaction, so executed. Hence, the loan shall be adjusted / settled against these assets of the Company pledged with BAF as reflected in the assets in the financial statements of the Company. Due to specific NCB calculation format in Third Schedule of SE Rules, 1971 these assets of the Company, which are now adjustable against current liabilities, cannot be shown in the current assets in order to offset the impact of this liability towards BAF. Therefore, the management of the Company believes that this liability towards BAF is adjustable at the action available with BAF and should be offset with the value of these properties and hence should not be considered in calculation of NCB.

ii. **Loan from Bank of Punjab ("BOP") - Rs.135.3 million**

The matter is under litigation in Sindh High Court since 2009 and the company has also filed counter claim against the bank. Based on the status of the case and opinion of the legal counsel, the company feels for all practical purposes and on ground realities that this liability is not payable in near future, at least within next twelve (12) months, as the claim of the bank has to be adjudicated upon by the honorable court. Pending such determination, there is no obligation upon the Company to make payment and since it is not possible to determine what and when decision would eventually be passed by the honorable court, the liability cannot be considered as current. It may also be noted that a liability becomes a current liability when it is payable on demand. Since recovery suite





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of the bank is pending litigation and since no demand has yet been raised, it is not payable on demand and hence cannot be treated as current.

Thus, the management believes that neither the Company has the obligation to settle the liability within next twelve months nor any demand has yet been raised in the light of the court decisions, or expected to be raised in near future (or within normal operating cycle) justifying to treat this liability as current. Furthermore, it may please be noted that any judgment pronounced by the courts of first instance are also subject to appellate remedies. Hence, management believes that it would be fair not to treat this liability as current for the purpose of calculating NCB of the company.

However, the company is in process of negotiating / out of court settlement with the BOP to restructuring its liability towards the bank through long term restructuring agreement. Many different options are under consideration negotiation for the settlement of liability and one of the options under consideration is the debt equity swap. We are hopeful that negotiations will be successful and completed very soon.

iii. Payable to a trade creditor – Rs.143.4 million

Like in the matter of BOP, the issue of the trade creditor M/s. Abandoned Properties Organization ("APO") is also being prepared and is being agitated before the Sindh High Court, Karachi hence there is no probability that the company is made to make any payments to APO within twelve months, considering important questions of law raised by the company, which dispute the very foundation on which the claim is made by APO.

From the above, as is quite evident, there is actually nothing due against the Company within twelve months as the term "current liability" (beyond Rs.87million) would imply under the Third schedule of the Securities and Exchange Rules, 1971, and the mere mentioning of the alleged liabilities as "current" is merely an employed metaphor by the auditors for accounting purposes only and is clearly superseded and subjugated by the clear stance of the company and the matter concerned are sub-judice, where the company has not only categorically denied existence of any liabilities as alleged but has also filed counter claim(s) in connected matter like BOP.

In view of the said it is clearly denied that any additional current liability exists as per the Third schedule to the Securities and Exchange Rules, 1971, other than Rs.87 million that has already been accounted for while calculating NCB. More, needless to add that any prejudicial conduct





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or subjugation of the Company's rights based on the said alleged liabilities pertaining to BOP would amount to interference into the matter without recourse to law.

At the end it would be pertinent to refer to the SECP show cause notice No. 1(28)SMD/MSRD/C&I/2014 dated November 28, 2014 on the same matter which was responded by the Company on December 5, 2014.

It is therefore, requested to please give due consideration to management stance and on account of the above submissions, it is humbly prayed that the notice under reply may kindly be considered as withdrawn."

5. I have examined the written submission of the FNE. With regard to calculation of NCB, I am of the view that the FNE should follow the format specified in Third Schedule of the SE Rules and guideline for calculation of NCB issued by Commission dated July 3, 2013 in letter and spirit. As per the, third schedule of the SE Rules and guidelines for calculation of NCB, no provision for excluding the current liabilities on the above said reasons is provided. Thus, the stance of FNE for excluding the current liabilities for calculation of NCB is not tenable.


6. In view of the above, FNE is hereby directed to recalculate its NCB in accordance with third schedule of SE Rules and guidelines for calculation of NCB issued by the Commission and submit the revised NCB to the Commission by April 30, 2016 positively.

7. 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)