



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

(Securities Market Division)

Public Offering And Regulated Persons Department

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File No. 1(7) SMD/PRPD/LSE/2016

April 25, 2016

Chief Executive officer

Harvest Smartrend Securities (Pvt.) Limited

2-Race course Road

Lahore.

Fax: 92-42-565-36303972

Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED FEBRUARY 25, 2016 BEARING NO. 1(7)SMD/PRPD/2016

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

(Muhammad Farooq)
Additional Director (PRPD)

9/c

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Through Courier

Before the Executive Director (PRPD)
In the matter of Show Cause Notice Issued to Harvest Smartrend Securities (Pvt.) Ltd

Date of Hearing March 18, 2016

Present at the Hearing

Representing Harvest Smartrend Securities (Pvt.) Limited

(i) Mr. Shahid Pervaiz Authorized Representative

Assisting the Executive Director/HOD (PRPD)

(i) Mr. Nasir Askar Director (PRPD)
(ii) Mr. Sabeel Ahmed Management Executive (PRPD)

ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(7)SMD/PRPD/2016 dated February 25, 2016 ("SCN") served to M/s Harvest Smartrend Securities (Pvt.) Limited ("**Respondent**") by the Securities and Exchange Commission of Pakistan ("**Commission**") under section 22 of the Securities and Exchange Ordinance, 1969 ("**Ordinance**").

2. Brief facts of the case are that the Commission in exercise of 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 the then Lahore Stock Exchange ("**LSE**") and registered with the Commission as a broker under Brokers and Agents Registration Rules, 2001 ("**Brokers Rules**"). The TREC of the Respondent was forfeited by the then LSE vide notice dated July 03, 2015 under regulation 2(A) (1) of the General Rules and Regulations of LSE.

3. The Inspection team submitted the report ("**Inspection report**") on July 31, 2015 which highlighted the following violations of law:

(a) The net capital balance ("**NCB**") of Respondent as on June 30, 2014 was not calculated in accordance with the Third Schedule of the Securities and Exchange Rules, 1971 ("**SE Rules**"). NCB as on June 30, 2014 was overstated by Rs. 7.710 million by including shares of the then LSE amounting to Rs. 7.710 million in the NCB in contravention of SE Rules.

4. The Commission in light of the Inspection Report served a SCN to the Respondent under section 22 of the Ordinance. Hearing in the matter of aforesaid SCN was scheduled on March 18, 2016. Mr. Shahid Pervaiz, authorized representative of the Respondent ("**Representative**") attended the hearing on behalf of Respondent. The written response to the



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SCN was received by the Commission on March 14, 2016. The following stance was taken by the Respondent in its written response to the SCN:

(a) *"Pursuant to the promulgation of the Stock Exchanges (Corporatization, Demutualization and Integration Act, 2012 on May 9, 2012, the ownership in the Stock Exchanges has been segregated from the right to trade on the exchanges. Therefore, the membership card has now been replaced by:*

a) Shares in the exchange; and

b) Trading Right Entitlement Certificate (TREC)

Each membership card holder has received 843,795 shares of LSE along with a TREC. These shares are classified as 'Available for Sale'.

(b) *LSE Shares held by Harvest Smartrend have been partly sold in the market and the transfer has been registered by SECP, which indicates that these shares are liquid assets and may be used in the settlement of any trade related or other liability.*

(c) *There has been no specific guidance on the treatment for the purpose of NCB by the SECP in respect of the shares issued by the Lahore Stock Exchange. Hence management has decided to include these shares in the NCB.*

(d) *Upon a reference made to the Internal Auditor of LSE, he too advised that the shares may be included in computation of NCB as it appears to be the practice being followed by other Brokerage Houses. Also according to him, there had been no clarification from the SECP in this regards. The external auditors have also concurred with this treatment of LSE shares as part of the NCB*

We would like to emphasize that the inclusion of the LSE shares as available for sale was based on our understanding of the nature of the shares and not a willful violation of the SECP regulations."

5. The Representative during the hearing also adopted the above mentioned stance. In the end, the Representative assured that they would ensure compliance with the applicable laws, rules and regulations in letter and spirit.

6. I have heard the arguments presented by the Representative at length during the hearing. Additionally, I have perused the available record and written response filed by the Respondent.

7. In its written response and verbal submissions, the Respondent quoted the following reasons for including the shares of then LSE while calculating NCB:

(i) The Respondent sold a part of the then LSE shares in the market which indicated that these shares were liquid in nature.

(ii) There was no specific guidance from the Commission or the then LSE with respect to treatment of LSE shares for NCB purposes.

(iii) The internal auditor of LSE also advised the Respondent that the LSE shares could be included for computation of NCB.





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8. I have considered the submission of the Respondent. The Commission has issued detailed guidelines on July 3, 2013 for calculation of NCB ("**Guidelines**"). With regard to inclusion of LSE shares in NCB, the Guidelines clearly states that only listed shares could be included. As far as the lack of specific guidance from the Commission is concerned, the Respondent should have approached the Commission for seeking any guidance in the matter, if required. Further, the Respondent was asked to provide documentary evidence with regard to the advice sought from the then LSE. However, the same could not be provided by the Respondent.

9. It is pivotal for maintenance of investor's confidence that the broker should follow the rules, regulations and procedure formulated by the Commission in letter and spirit. A broker should be perceived as professional with high integrity and perform its functions in a fair, proficient and impartial manner.

10. Based on the foregoing discussion, I am of the considered view that the Respondent did not calculate its NCB in accordance with the Third Schedule of the SE Rules. The violation attracts penal provision under section 22 of the Ordinance. However, I am not imposing any penalty on the Respondent in view of the following reasons:

- (i) The Respondent has already been suspended by the then LSE.
- (ii) The Respondent admitted that this is the only instance of noncompliance which occurred due to incorrect understanding of the guidelines issued by the Commission.
- (iii) The assurance given by the Respondent that they would comply with the regulatory framework in letter and spirit in future.

The Respondent is however strictly warned to comply with the applicable regulatory framework and directions of the Commission in letter and spirit in future.

11. 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
Executive Director (PRPD)

Announced on April 25, 2016
Islamabad.