

# Securities and Exchange Commission of Pakistan

Securities Market Division  
Market Supervision and Registration Department  
\* \* \*

No. 1(12) SMD/PRPD/PSX/LSE/2016

January 4, 2017

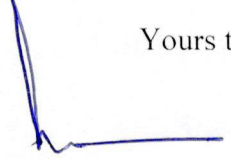
**M/s. Highland Securities (Pvt.) Limited,**  
Through it's Chief Executive Officer,  
Room No. 413, 4<sup>th</sup> Floor,  
Lahore Stock Exchange Building,  
19-Kayaban-e-Aiwan-e-Iqbal, Lahore

**Subject: ORDER IN THE MATTER OF SHOW CAUSE NOTICE DATED  
SEPTEMBER ISSUED TO M/S. HIGHLAND SECURITIES (PVT.) LTD.**

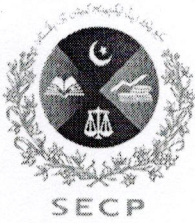
Dear Sir,

Please find enclosed an order dated December 30, 2016, issued by the Executive Director (PRPD) on the captioned matter, for your information and necessary compliance.

Yours truly,

  
**(Tahir Mahmood Kiani)**  
Joint Director (PRPD)

Encl: Order dated December 30, 2016



# Securities and Exchange Commission of Pakistan

Securities Market Division  
Public offering and Regulated Persons Department

## Before the Executive Director (PRPD)

**In the matter of Show Cause Notice issued to Highland Securities (Pvt.) Limited, under Section 22 of the Securities and Exchange Ordinance, 1969**

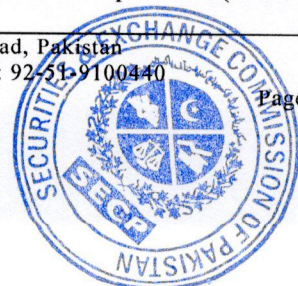
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|--|---|
| <b>Date of Hearing:</b>                        | September 9, 2016   |
| <b>Present at the Hearing:</b>                 | October 26, 2016  |
| <b>Representing Respondents</b>                | (i) Mr. Majid Mahmood Khan, Director<br>(ii) Shahzad Hussain Shah, Accountant   |
| <b>Assisting the Executive Director (PRPD)</b> | (i) Mr. Nasir Askar, Director, PRPD<br>(ii) Tahir Mahmood Kiani, PRPD<br>(iii) Syed Ali Kazim, Assistant Director, SSED |

## ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice No.1(11) SMD/PRPD/PSX/2016 dated September 9, 2016 ("**Notice**") issued to Highland Securities (Pvt.) Limited, (**the Respondent**) under section 22 of the Securities and Exchange Ordinance, 1969 (**Ordinance**) read with rule 8 of the Brokers and Agents Registration Rules, 2001 ("**Brokers Rules**").

2. The facts of the case are that the Respondent was a Trading Right Entitlement Certificate Holder of the Lahore Stock Exchange Limited ("**LSE**") now Pakistan Stock Exchange Limited ("**PSX**") and is registered as a broker with the Securities and Exchange Commission of Pakistan ("**Commission**") under the Brokers Rules. The Commission vide order dated December 1, 2015 appointed an Inspection Team to inspect the books and record of the Respondent. The Inspection Team observed that the net capital balance ("**NCB**") of the Respondent as of June 30, 2015 was Rs. 6.48 million and same was not calculated in accordance with Third Schedule of the Securities and Exchange Rules, 1971 (**SE Rules**). As per the inspection team, the NCB of the Respondent was overstated by Rs. 7.50 million and the actual NCB has negative balance of Rs. 1.02 million. As per the inspection team, the Respondent reported Trade Receivables ("**TR**") of Rs. 8.35 million in its NCB whereas the actual TR of the Respondent were Rs. 0.84 million therefore the TR were overstated by Rs 7.50 million.

3. In view of the above, the Commission served the Show Cause Notice ("**SCN**") to the Respondent as on September 9, 2016 under Section 22 of the Ordinance read with Rule 8 of the Brokers Rules. The hearing in the matter was scheduled on September 23, 2016 and October 13, 2016. However, no one appeared before the Commission on the said dates. The Respondent was contacted and the Respondent informed that it did not receive the SCN. The SCN was again sent to the Respondent and in order to provide final hearing opportunity to the Respondent, the hearing was re-fixed for October 26, 2016. On the given date, Mr. Majid Masood Khan, Director of the Respondent and Mr. Shahzad Hussain Shah, Accountant of the Respondent (**Authorized**





**Representatives)** appeared before me. The verbal arguments made by the Authorized Representatives during the hearing are summarized hereunder:

*"With regard to observation that the actual net capital balance of the Respondent as on June 30, 2015 was negative by Rs. 1.02 million and NCB was overstated by Rs. 7.50/- in contravention of rule 2(d) on October 31, 2016. The Respondent submitted that outstanding balance of Mr. Majid Masood Khan (director of the Respondent) of Rs. 8,123,886 as on June 16, 2015 was received/adjusted within fourteen days, account receivable overdue balance that was appeared in ledger of Mr. Majid Masood Khan was Rs. 7,832,512/- on June 30, 2015 was related to less than fourteen days that's why we not incorporated while calculating overdue balance."*

At the end of the hearing, the Authorized Representatives were advised to submit the written response to the SCN at the earliest. The written response to the SCN was received from the Respondent on December 28, 2016 after reminders dated November 29, 2016, December 2 and December 22, 2016 from the Commission.

5. I have heard the arguments presented by the Authorized Representatives during the hearing. Additionally, I have perused the available record and written response filed by the Respondent on December 28, 2016

6. With regard to inspection team's observation of overstatement of TR by Rs. 7.50 million (*out of which Rs. 7.0 million pertained to the account receivable from Mr. Majid Masood, director of the Respondent*), the account of Mr. Majid was examined and the following are the observations:

- (i) The opening balance as on June 16, 2015 was debit amounting to Rs 8.12 million and the closing balance as on June 30, 2016 was debit amounting to Rs 7.8 million i.e. the trade receivable decreased by amounting to Rs 0.320 million.
- (ii) Review of the closing balance during the period from June 16, 2015 to June 30, 2015 revealed that the closing balance was always in debit. The maximum debit balance was Rs 10.039 million as on June 23, 2015 and minimum debit balance was Rs 6.913 million as on June 26, 2015.
- (iii) During the period from June 16, 2015 to June 30, 2015, 2.76 million shares of various companies amounting to Rs. 53,257,497/- were purchased and 2.74 million shares of various companies amounting to Rs 53,557,869 were sold.
- (iv) Review of the purchase and sale transactions during the period from June 16, 2015 to June 30, 2015 revealed that substantial portion of the transactions pertained to shares purchased during the period and subsequently sold during the period.
- (v) The written arguments of the Respondent and the verbal assertions of the Authorized Representatives i.e. ***all the outstanding receivable as on June 16, 2015 was received and all the trade receivable from Mr. Majid Masood were less than 14 days*** could not be substantiated.





Based on the above observations, it is established that the Respondent included TR in the calculation of NCB which were overdue by more than 14 days.

7. In light of the facts stated in Para 6 above, the NCB of the Respondent was not calculated in accordance with Third Schedule of the SE Rules read with the guidelines issued by the Commission for calculation of NCB in violation of rule 2(d) of the SE Rules. Violation of rule 2(d) of the SE Rules attract the penal provisions of section 22 of the Ordinance and rule 8 of the Broker Rules.

8. As per the regulatory framework of the securities exchange, a securities broker can take exposure of up to 25 times of its NCB. Since the NCB of the Respondent was negative, it could not take any exposure. However, the Respondent took exposure by overstating its NCB. Therefore, in exercise of the powers under section 22 of the Ordinance, a penalty of Rs. 50,000/- (fifty Thousand rupees only) is being imposed on the Respondent. Further, the Respondent is warned to ensure strict compliance of regulatory framework in letter and spirit in future as any future violation of the regulatory framework may result in higher penalties and suspension of license as securities broker.

9. The Respondent is further directed to deposit the penalty in the account of the Commission being maintained in the designated branches of MCB Bank Limited within 30 days of the date of this Order and furnish Original Deposit Challan to this office.

10. 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.



**Asif Jalal Bhatti**

Executive Director (SMD)

Islamabad.

Announced on December 30, 2016