



Securities and Exchange Commission of Pakistan

Securities Market Division
Licensing and Capital Issue Department

No. 1(60)SMD/LCID/LSE/2015

February 11, 2016

JS Global Capital Limited,
Through its
Chief Executive Officer,
6th Floor, Faisal House,
Sharah-e-Faisal,
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
Joint Director (BO)

Copy for information:

Mr. Rashid Sadiq,
Chief Executive Officer,
RS Corporate Advisory (Pvt) Limited,
First Floor, Plot No.62, Central Commercial Area (CCA),
Block-T, Phase-2, Defence Housing Authority,
Lahore Cantt

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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 **JS Global capital Limited**

Date of Hearing:

December 22, 2015

Present at Hearing:

Representing the Respondent:

- (i) Mr. Rasid Sadiq, Chief Executive, RS Corporate Advisory (Pvt.) Limited
- (ii) Mr. Kamran Nasir, Chief Executive Officer, JS Global Capital Limited
- (iii) Ms. Sofiya Ansari, Head of Risk Management and Compliance Department, JS Global Capital Limited

Assisting the Director/HOD (LCID)

- (i) Mr. Muhammad Farooq, Additional Director, (LCID-SMD)
- (ii) Mr. Muhammad Tanveer Alam, Additional Director (SSED-SMD)

ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(60) SMD/LCID/KSE-2015 dated October 12, 2015 ("**Notice**") served to JS Global Capital 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 ("**PSX**") (formerly Karachi Stock Exchange Limited ("**KSE**") and registered as a broker with the Commission under the Brokers and Agents Registration Rules, 2001 ("**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 onsite inspection of the, *inter alia*, the books and records of Respondent covering the period from July 01, 2013 to June 30, 2014 vide order No. SMD-/MSRD-C&IW/(110-1(26)2014 dated November 26, 2014.





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3. The Inspection Team submitted the report ("**Inspection Report**") on June 30, 2015. The Inspection Team observed that the Respondent was non-compliant with the following regulatory framework:-

Regulatory framework	Alleged Nature of irregularity
Section 16 of the Ordinance.	Extension of financing in contravention of Regulatory Framework
Securities and Exchange Rules, 1971 (SE Rules).	Net Capital Balance Certificate (NCB) was not calculated in accordance with Third Schedule of Rule 2(d)] of SE Rules.
Rule Book of Karachi Stock Exchange Limited	a) Know Your Customer (KYC) and Customer Due Diligence (CDD) b) Non-Segregation of Clients' assets

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. Mr. Rashid Sadiq, Chief Executive Officer RS Corporate Advisory (Pvt.) Limited ("**Representative**") vide letter dated November 25, 2015 submitted written response to the Notice.

5. Furthermore, in order to provide an opportunity of being heard in person, the matter was scheduled for hearing on December 17, 2015, which on the request of the Representative was adjourned and rescheduled for December 22, 2015. On the given date the Representative, Mr. Kamran Nasir chief executive of the Respondent and Ms. Sofiya Ansari, Head of Risk Management and Compliance Department of the Respondent (hereinafter collectively called "**Authorized Representative**") appeared before me. The arguments put forth in writing and verbally during the course of hearing are summarized below:

a) Financing to its clients in contravention of section 16 of the Ordinance: During the inspection it was observed that Respondent had extended financing to its clients without executing the same through NCCPL, *prima facie*, in violation of section 16 of the Ordinance.

In this regard, the Authorized Representative explained that the instances pertained to 2013 when the Respondent's margin financing system (MFS) was not fully integrated with the system of NCCPL. The Respondent worked with NCCPL to address the problems between the two systems to make it fully functional and improve its features for market level penetration. The "MFS marking of bulk transactions" functionality was provided by NCCPL in Feb. 2014 through download process integration and prior to it, the Respondent was manually marking every single MFS transaction.





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b) **The issue of calculation of NCB Certificate:** During the inspection it was observed that Respondent NCB was overstated by Rs 1.173 billion mainly on account of inclusion of investments in mutual funds, which were not tradable listed securities, in NCB calculations.

In this regard, the Authorized Representatives stated that observation was purely based on the difference in understanding and ambiguity prevailing in the calculating method. The Respondent selected one of the big four firms (Deloitte) as its external auditors who also certified that it has been calculated as per the schedule 3 and related rules and regulations pertaining to NCB calculation. Moreover, the Respondent is audited internally by Ernst and Young (another big four firm) and nothing in their reports has ever caused either the BOD or the executive management to believe that NCB was wrongfully calculated by the Finance Team and more so wrongfully assessed by Deloitte. The issue of difference between the calculation of the inspection team and the Respondent is hence, purely based on difference of interpretation and nothing else. The Respondent in future would prepare its NCB based on the understanding that we would reach with the Commission.

c) **Observation regarding Know Your Customer (KYC) and Customer Due Diligence (CDD):-** Concerning the observation of Customer identification, the Authorized Representatives stated that Respondent does conduct a KYC profiling exercise at the time of Account Opening as per the regulations. The KYC form caters to the requirements of investment profiling and source of income by asking the questions including, name of employer, nature of business, source of income, annual income, experience in stock. The Respondent ensured that client profiling has all the relevant information as per the regulatory requirements.

Concerning the risk assessment of the clients, the Authorized Representative contended that risk profiling of each client is applied in the system and provided some of the System screenshots of High Risk (Trader Risk Regime) and Medium Risk clients.

Concerning the issue of suspicious transaction reporting, Authorized Representatives stated that transactions and their patterns are monitored regularly to check suspicious transactions. However during the inspection period there was no suspicious transaction identified or reported. Subsequent to the inspection period, a suspicious transaction was identified and reported to the Financial Monitoring Unit on May 18, 2015.

d) **The issue of Non-Segregation of Clients' assets:-** The Inspection Team noticed that the Respondent had reported trade creditors of Rs. 313.458 million in its NCB as on June 30, 2014, however the bank accounts for clients funds showed a negative balance of Rs. 2.623 million. The huge gap in the amount of trade creditors and available funds in clients' accounts implied that clients' funds were not kept separate.





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In this regard, the Authorized Representative contended that that June 30, 2014 was the first day of Ramadan and, therefore, funds were transferred from our client's bank accounts (being PLS nature) to our current accounts to avoid zakat deduction from clients' assets. Post 1st day of Ramadan, all such funds were transferred to respective clients' accounts, which could be verified from bank statements.

6. I have heard the Authorized Representatives of the Respondent and Department Representative. With regard to inclusion of mutual funds in the calculation of NCB, the Commission has issued detailed guidelines for calculation of NCB and the said guidelines explicitly provide criteria for inclusion of listed securities into NCBS i.e. tradable listed securities. It is evident that Respondent's investments included units of Open end Funds, which are not traded and therefore should not have been included in the calculation of NCB. I have considered the assurance of the Respondent that it would calculate its NCB in line with SECP calculation in future and the fact that the adjusted NCB of the Respondent was still in excess of the minimum limit prescribed by the Exchange. I have reviewed the exposures taken by the Respondent and observed that the exposure of the Respondent did not exceed 25 times of the adjusted NCB. As far as the difference between amount of trade creditors and available funds in clients, accounts is concerned, the Respondent must ensure that no difference should exist between the two heads of account in future. Further, the Respondent should have properly satisfied the Inspection Team with regard to queries on the difference. As far as the observations on KYC and CDD are concerned, the Respondent should ensure implementation of KYC and CDC in letter and spirit as an effective KYC and CDD system helps in preventing identity theft, financial frauds, money laundering and terrorist financing. As far as the various other observations contained in the report are concerned, the same have since been rectified by the Respondent.

7. In view of the above, I am not imposing any monetary penalty on the Respondent. However, the Respondent is hereby strictly advised to ensure strict compliance of regulatory framework, in future.

8. 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)