



Securities and Exchange Commission of Pakistan

Securities Market Division

Public Offering and Regulated Persons Department

File No. 1(57) SMD/LCID/KSE-2015-1845

March 15, 2016

The Chief Executive Officer,
Next Capital Limited,
8th Floor, Horizon Tower,
Plot No. 2/6, Block-III,
Clifton, Karachi

Subject: Order in respect of Show Cause Notice dated December 3, 2015 Bearing Number 1(57) SMD/LCID/KSE-2015

Dear Sir,

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

Yours truly,

Muhammad Farooq
Additional Director (PRPD)

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At: me



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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 Next Capital Limited

ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(57) SMD/LCID/KSE-2015 dated December 3, 2015 ("**Notice**") served to Next 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 Limited (Formerly Karachi Stock Exchange) ("**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)(288)/2014 dated December 09, 2014.

3. The Inspection Team prepared the report ("**Inspection Report**") and the same was shared with the Respondent on April 20, 2015 in accordance with Rule 7 of the Inspection Rules.

4. 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).	a) The following observations were noticed regarding net capital balance (" NCB ") as on June 30, 2014: i) Margin deposit was overstated by Rs 960,958/- ii) Trade receivable was overstated by Rs 3,407,878 million. iii) Investment in securities was understated by Rs 4,236,061/- iv) NCB was overstated by Rs 132,775/- b) Trade confirmation to clients were not sent.





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	c) Non-maintenance of books of accounts
SECP Guidelines dated July 03, 2013	As per SECP Guidelines, charging mark-up/late payment charges or any charges with any other name on the balance of trade receivable is strictly prohibited...
Rule Book of PSX	a) Non-maintenance of Standardized Account Opening Form. b) Copies of cheques not maintained. c) Telephone recordings not maintained. d) Know your customer ("KYC") and customer due diligence ("CDD") e) Non-compliance with the general obligations regarding leveraged markets. f) Absence of proper credit risk assessment of clients. g) Non-segregation of clients' assets. h) Non-registration of employees in into UIN database. i) Non-compliance with branch regulations
CDC Regulations	a) Discrepancies in Sub Account Opening Forms. b) Non-obtaining of signatures on "Account Setup Reports" after opening of sub-accounts

5. In light of observation made in the Inspection Report, the Commission served the SCN 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.

6. The Chief Executive Officer of the Respondent vide letter dated December 17, 2015 submitted his written response to the Notice.

7. 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 which may be summarized as under:

S#	Observation of Inspection Team	Observation of the Respondent
1	The following observations were noticed regarding net capital balance ("NCB") as on June 30, 2014:	With regard to overstatement in margin deposit, the Respondent stated that the figure in the NCB was based on certificate

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	<p>i) Margin deposit was overstated by Rs 960,958/-</p> <p>ii) Trade receivable was overstated by Rs 3,407,878 million.</p> <p>iii) Investment in securities was understated by Rs 4,236,061/-</p> <p>iv) NCB was overstated by Rs 132,775/-</p>	<p>received from PSX and therefore, no overstatement was done. As far as the overstatement in trade receivables is concerned, the Respondent stated that they included money market and forex trade receivables as the SECP Guidelines dated July 3, 2013 were silent about it. With regard to understatement of investment in listed securities is concerned, the Respondent stated that they did not include investments in units of cash funds as they were not clear about its inclusion in the NCB. The Respondent further stated that if the calculations of the inspection team are agreed to, the resultant difference is miniscule and is not a material amount.</p>
2	Trade confirmations to clients were not sent.	<p>The Respondent informed that due to glitch in its IT system, some trade confirmation may have not been sent to the clients. The Respondent further stated that the glitch has been removed and such instances would not occur in future.</p>
3	Maintenance of books of account	<p>The Respondent stated that the instances observed by the inspection team may be an inadvertence of the account head.</p>
4	Charging mark-up in respective clients ledgers	<p>The Respondent stated that no late payment charges were levied by us during the year ended June 30, 2014. As per industry practice, the Respondent used to charge late payment charges but the practice was discontinued after introduction of the guidelines. Our audited financial statement does not contain any line item as late payment charges. Further, none of our clients have objected to their account balances.</p>
4	Maintenance of SAOF	<p>The Respondent informed that they had tailored their account opening forms w.e.f March 2015. Further the discrepancies noticed in the SAOF have been rectified.</p>
5	Copies of cheques not maintained.	<p>The Respondent stated that they maintain record for a period of minimum five years. However, the instances quoted in the</p>





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		inspection report may be one of instances where the copies may have been misplaced. Nevertheless, the transaction trail can be verified from other books of accounts such as bank statement, etc.
6	Telephone recordings not maintained.	As per PSX, telephone recordings are to be kept for six months. The inspection team called for recordings of February and March 2014 in November 2014. The recordings could not be provided as the same were more than six months old at the time of request.
6	KYC and CDD	The board of the Respondent approved the KYC policy on February 26, 2015 and the same has been made part of our new account opening form.
7	Non-compliance with the general obligations regarding leveraged markets.	The Respondent stated that our previous account opening form contained a section on leverage market transaction agreements with terms and conditions and risks associated. However the SAOF does not contain any section on leveraged market transactions, we have drafted a fresh agreement to be executed between us and our leveraged market clients.
8	Absence of proper credit risk assessment of clients.	The Respondent stated that credit risk assessment of a client is conducted from record of credit information bureau, income tax returns and bank statements. No client is willing to share these details with us. Nevertheless, the credit worthiness of each client is informally evaluated on the basis of his or her social and economic status and for this reason; the Respondent has not incurred any significant write-offs in client receivables. Further, every client is accepted on the basis of referrals.
9	Non-segregation of clients assets	The Respondent provided the rationale for the differences noted by the inspection team.
10	Non-registration of employees in into UIN database.	The Respondent stated that the shortcomings noted by the inspection team have since been rectified.





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11	Non-compliance with branch regulations	The Respondent stated that the shortcomings noted by the inspection team have since been rectified.
11	Discrepancies noticed in CDC account opening forms.	The Respondent stated that the shortcomings noted by the inspection team have since been rectified.
12	Non-obtaining of signatures on "Account Setup Reports" after opening of sub-accounts	The Respondent stated that the shortcomings noted by the inspection team have since been rectified.

8. With regard to preparation of NCB, the Respondent is advised to follow the instructions of the Commission in letter and spirit. Further, the Respondent is advised to put in place a formal system for credit risk assessment of its clients and ensure proper segregation of clients' assets. 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

9. I have examined the observations made by the Inspection Team, comments submitted by the Respondent thereto. In view of the above stated facts, I am not imposing any penalty on the Respondent. However, the Respondent is hereby advised to ensure strict compliance of regulatory framework, in future.

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.



Nasir Askar
Director/HOD(LCID)

Islamabad.
Announced on January 19, 2016