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SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

Order	
Name of the Company/ Respondent	M/s. H.H. Misbah Securities (Pvt.) Limited
Show Cause Notice No. & Issue Date	2(214) SMD/Adj-I/2020-720 dated July 18, 2025
Date(s) of Hearing	September 08, 2025
Case presented by	(i) Mr. Abdul Wahab – Chief Executive (ii) Mr. Shafqat Ali - Consultant <i>(as the Authorized Representatives)</i>
Provisions of law involved	Regulation 16(2)(ka)(iv) of the Securities Brokers (Licensing & Operations) Regulations, 2016 read with Section 150(2) and 150(5) of the Securities Act, 2015
Date of Order	September 30, 2025

This Order shall dispose of proceedings initiated through the Show Cause Notice 2(214) SMD/Adj-I/2020 dated July 18, 2025 (SCN) by the Securities and Exchange Commission of Pakistan (the Commission) against M/s. H.H. Misbah Securities (Pvt.) Limited (the Respondent /the Company) on account of contravention of Regulation 16(2)(ka)(iv) of the Securities Brokers (Licensing And Operations) Regulations, 2016 (the "Regulations") read with Sections 150(2) and 150(5) of the Securities Act, 2015 (the "Act").

2. The brief facts of the case are that the Respondent is a Trading Right Entitlement Certificate (TREC) holder of Pakistan Stock Exchange (PSX) and a registered securities broker with the Commission. The review of the annual audited financial statement for the year ended June 30, 2024 (FS 2024) revealed that the Respondent Company had obtained a short-term loan of Rs. 15,706,655 payable to a director which was, *prima facie*, obtained in contravention of the requirements of regulation 16(2)(ka)(iv) of the Regulations.

3. The provisions of Regulation 16(2)(ka)(iv) of the Regulations, *inter alia*, stipulates that a securities broker shall not accept any money or borrowing from its directors except in the form of subordinated loans, subject to the conditions as may be imposed by the Commission from time to time.

4. The term "misconduct" as defined in Section 150(5) of the Act includes contravention of any of the provisions of the Act, the rules, regulations made by the Commission or regulations made under the Act.

5. Accordingly, an explanation was sought from the Company vide email dated May 27, 2025 whereas, the Respondent Company vide email dated May 30, 2025, *inter alia*, submitted as under:

"The short-term loan is interest free and payable on demand, is provided by Directors. This loan does not meet the requirement of subordinated loan, therefore, it is classified as normal long taken for running of business. However, the Company is planning this loan as subordinated loan."

6. The explanation provided by the Company was not found satisfactory as the Company, *prima facie*, contravened the provisions of regulation 16(2)(ka)(iv) of the Regulations by acquiring a loan from directors which was not subordinated.

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7. Accordingly, SCN was issued to the Respondent, calling upon it to show the cause in writing as to why penal action may not be taken for contravening the afore-mentioned provisions of the law. In response to the SCN, the Respondent vide its letter dated August 01, 2025 submitted as under:

“ ...

As directed under para 9 of the SCN, we hereby submit our written response to the alleged non-compliance provided in the SCN as under:

1. *As per note 15 to the audited financial statements of year ended June 30, 2024, PKR 15,706,655/- was provided by the following persons:*
 - a. *Mr. Muhammad Hanif, a Sponsor holding 65% of the paid-up capital and the Director provided around PKR 11.7 million*
 - b. *Mr. Abdul Wahab, the major shareholder holding 25% of the paid-up capital and the Director provided around PKR 4 million*
2. *During our off-site review – 2024-2025 by the SECP, Mr. Imran Zafar vide his email dated June 20, 2025 raised explanation on short-term loan explained in note 15 above. **We explained him that the short-term loan was interest free and repayable on demand by the directors. As that loan did not meet the requirement of subordinated loan; therefore, it was classified as normal loan for running business by the Auditors. It was also explained that the Company is planning to categorize this loan as subordinated loan.***
3. *Despite the SECP did not give us any direction after our response, we refunded said loan to respective directors as per the following schedule:*
 - a. *Rs. 3.6 million has been refunded to Directors before June 30, 2025 resulting PKR 12,106,655/- outstanding as on June 30, 2025.*
 - b. *Rs. 2,553,328 has been refunded to Mr. Wahab and Rs. 5,000,000/- to Mr. Hanif on July 29, 2025.*
 - c. *Remaining Rs. 4,553,328 has been refunded to Mr. Hanif on July 30, 2025.*

Now, short loan from the sponsor/major shareholders and the directors stood NIL as on July 30, 2025.

4. *We have noted that provision of said loan was restricted by inserting Regulation 16(2)(ka)(iv) in the Securities Brokers (Licensing and Operations) Regulations, 2016 through SRO 770(I)/2018 dated January 29, 2018, but neither our Auditors nor the Frontline Regulators highlighted this non-compliance amount in any of the securities brokers including us. Therefore, we kept this loan amount in the Company's bank account to meet any exception in emergency when the payments from the clients would have been delayed due to the reasons beyond any control.*

In view of above submissions, we request the Commission to take a lenient view of this inadvertent non-compliance which had not compromised the interest of any customer or other stakeholders except the owners of the Company. We will make sure that in futures, no overlook will happen regarding any of the regulatory compliances.”

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8. In order to provide the Respondent an opportunity of personal representation, hearing in the matter was first fixed on September 08, 2025 which was attended by Mr. Abdul Wahab, Chief Executive and Mr. Shafqat Ali (Consultant) as the Authorized Representatives (**the Authorized Representatives**) through Zoom video link facility. During the course of hearing, the Authorized Representatives reiterated the stance as taken in response to the SCN vide letter dated August 01, 2025 and, *inter alia*, submitted as under:

- i. *That it is a standard industrial practice to obtain short terms loans from Directors to meet any contingent requirements.*
- ii. *The loan obtained from the Directors was interest free and repayable on demand.*
- iii. *The loan was obtained from major shareholders of the Company to meet short term emergency requirements in case of default by the clients and was used rather as a risk mitigation tool.*
- iv. *The loans have been repaid in full as on July 30, 2025.*
- v. *That the provisions for the restriction on loan from directors were inserted into the Regulations vide SRO dated January 29, 2018 i.e. later during the time. However, the auditors/ front line regulators failed to highlight this non-compliance to the Company.*

9. I have examined the facts of the case in light of the applicable provisions of the law and have given due consideration to the written as well as verbal submissions and arguments of the Respondent through the Authorized Representatives. I have also perused the relevant provisions of the Regulations along with the penal provisions provided under the Act. At this juncture, it is imperative to discuss the following legal and factual elements:

- i. Under **Regulation 16(2)(ka)(iv)** of the Regulations, securities brokers are required to accept loans from directors only if they are structured as subordinated debt, thereby ensuring the priority repayment of external creditors. Review of the FS2024 revealed that the Company had obtained a short-term loan of Rs. 15,706,655 payable to a director which was obtained in contravention of Regulation 16(2)(ka)(iv) of the Regulations. The contention of the Respondent that the loan was interest-free, repayable on demand, and availed from directors only as a short-term measure to meet emergency requirements is misplaced and untenable. Regulation 16(2)(ka)(iv) of the Regulations does not permit any exception based on the nature of repayment terms, absence of interest, or purpose of borrowing. The regulatory intent is to ensure that funds injected by directors are subordinated in nature so that the interests of external creditors and clients remain protected at all times. A repayable-on-demand arrangement, by its very nature, negates the requirement of subordination and poses the very risk which the provision seeks to prevent. Hence, the Respondent's reliance on its internal business exigencies as justification cannot absolve it from compliance with the mandatory requirement of the Regulations.
- ii. The Respondent's plea that the loans were subsequently repaid and that auditors or frontline regulators failed to highlight the non-compliance is equally devoid of merit. The obligation of regulatory compliance lies squarely with the licensed securities broker, and such responsibility cannot be shifted to auditors or onto supervisory mechanisms. The contravention materialized at the time the short-term repayable-on-demand loan of Rs. 15,706,655 was accepted from the director as subsequent repayment cannot retrospectively rectify the breach. The Respondent has itself admitted in its written explanation that "this loan does not meet the requirement of subordinated loan," which amounts to an unequivocal acknowledgment of non-compliance.

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Accordingly, the Respondent's defenses are neither supported by law nor by the facts, and the admitted position on record clearly establishes contravention of Regulation 16(2)(ka)(iv) of the Regulations.

10. In view of the above mentioned arguments, I am of the considered view that non-compliances/contraventions of the Regulation 16(2)(ka)(iv) of the Regulations have been established beyond doubt which attract the applicability of Section 150(2) read with Section 150(5) of the Act. Therefore, I, in terms of powers conferred upon me under Section 150(2) of the Act read with SRO 1545(I)/2019 dated December 06, 2019, impose a penalty of **Rs. 50,000/- (Rupees Fifty Thousand Only)** on the Respondent on account of established default.

11. The Respondent is, hereby, directed to deposit the aforesaid amount of penalty in the designated bank account maintained in the name of the Commission with MCB Bank Limited or United Bank Limited within thirty (30) days from the date of this Order and to furnish a receipted bank challan to the Commission forthwith. In case of failure to deposit the penalty, the proceedings under Section 162 of the Act will be initiated for recovery of the penalty/fines as arrears of land revenue pursuant to provision of Section 42B of the Securities and Exchange Commission of Pakistan Act, 1997(the "SECP Act").

12. Without prejudice to the above, in case the Respondent is aggrieved by this Order, it may, within thirty (30) days of the Order, prefer to file review application in terms of Section 32B of the SECP Act or may file an appeal to Appellate Bench of the Commission in terms of Section 33 of the SECP Act in accordance with the procedure for filing an appeal as laid down under the Securities and Exchange Commission of Pakistan (Appellate Bench Procedure) Rules, 2003.


1-30-09-2025

(Sohail Qadri)

Director/ Head of Department
Adjudication Department-I

Announced:
September 30, 2025
Islamabad.