



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
Adjudication Department

No. 1(3)SMD/ADJ/PMEX/2018

May 30, 2019

**Khadija Commodities (Pvt.) Limited**  
Through its Chief Executive Officer,  
21 Bungalow#9,  
Queen Road,  
Sargodha

**SUBJECT: Order in Respect of Show Cause Notice dated January 22,2019 Bearing Number No. 1(3)/SMD/ADJ/PMEX/2018**

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

**Muhammad Akram Farooka**  
Assistant Director



**Securities and Exchange Commission of Pakistan**  
Securities Market Division

**Through Courier**

**Before the Commissioner (SMD)**

**In the matter of Show Cause Notice issued to M/s. Khadija Commodities (Pvt.) Limited**  
**in terms of Section 94 of the Futures Market Act, 2016**

**ORDER**

This Order shall dispose of the proceedings initiated through the Show Cause Notice No. 1(3)SMD/ADJ/PMEX/2018 dated January 22, 2019 (“SCN”) issued to M/s. Khadija Commodities (Pvt.) Limited (the “Respondent”) under section 94 of the Futures Market Act, 2016 (the “Act”).

2. Brief facts of the case are as under:

- (i) The Respondent is a future broker of Pakistan Mercantile Exchange Limited (“PMEX”) licensed by the Securities and Exchange Commission of Pakistan (the “Commission”).
- (ii) The Commission received complaints from 13 individuals (“Complainants”). The Complainants alleged that they deposited an amount of Rs 17.83 million with the Respondent as fixed investment on monthly profit basis. The Respondent gave them profit ranging from 7% to 30% initially but the profit payments were subsequently discontinued.
- (iii) An investigation by the Commission under section 83 of the Act revealed that the Respondent was non-compliant with section 47, 59, 62 & 83(2)(a) of the Act, rule 22 of the Commodity Exchange and Futures Contract Rules 2005 (the “Commodity Rules”) read with section 63 of the Act, clause 3(d) of the Schedule to the Commodity Rules, regulation 5.8 of the PMEX Regulations and PMEX Circular 35 of 2012.

3. In view of the above noted violations, SCN was issued to the Respondent whereby it was called upon to explain as to why action should not be taken under section 94 of the Act. The Respondent was required to file its written reply to the SCN by January 29, 2019, and attend hearing on February 19, 2019 to present its explanation in person. A copy of the SCN was also delivered to the Respondent through PMEX.

4. The Respondent, however, neither submitted its written response to the SCN nor appeared on the date of hearing either itself or through its authorized representative. Two reminders were issued to the Respondent on February 11 and 26, 2019 but to no avail. The Commission made efforts to contact the Respondent on the telephone numbers available on PMEX’s website. However, the calls were not answered. It is pertinent to mention here that neither the SCNs nor the reminders returned undelivered.



# Securities and Exchange Commission of Pakistan

## Securities Market Division

5. Subsequent to the issuance of SCN, PMEX suspended the trading rights entitlement certificate of the Respondent for violations of the following provisions of the PMEX:

- (i) **PMEX General Regulations:** Regulation 3.13 (Segregation of client's assets), Regulation 5.8 (Approval of PMEX for agents of futures brokers) and Regulations 6.4 (Brokers prevented from using funds of Clients)
- (ii) PMEX Circular No. 35 of 2012 (Receipt and payments of funds must be through cross cheques, pay orders, demand drafts, etc.)

6. Given that the Respondent failed to appear in the proceedings initiated through the SCN, the matter is being decided ex-parte based on the information and documents available on record. My observation on the basis of examining the information available on record (including the findings of the investigation carried out under section 83 of the Act and events leading to the suspension order of PMEX) are as under:

- (i) The Respondent paid monthly fixed return to the Complainants. Further, the Respondent published its advertisement on YouTube (<https://youtube/fSGQn9Q85o4>), offering a return of up to 20% on trading accounts. Further, the Respondent guaranteed that the invested principal amount would be completely (100%) safe. Giving a fixed return on the invested amount and offering 100% capital protection is beyond the scope of regulated activities as defined in the Act, hence a violation of section 47 of the Act.
- (ii) One of the prerequisite of opening of account is prescribed in Section 59 of the Act that requires a futures broker to obtain an acknowledgement from the customer that he understands the nature and contents of risk disclosure statement. Review of the account opening documents of the Complainants by the investigation team revealed that the Respondent did not obtain risk disclosure statement from any of the Complainants in violation of section 59 of the Act.
- (iii) Section 62 of the Act requires that a futures broker shall not commingle the assets of its clients with its own assets. Regulation 3.13 of the PMEX General Regulations 2007 (the "PMEX Regulations") requires a futures broker to ensure that the management of their own and clients' funds is adequate and in accordance with the requirements set in the Regulations relating to the management or segregation of funds. Further, regulation 6.4 of the PMEX Regulations prohibits a futures broker from utilizing the funds of one client for and on behalf of another client or itself.

The investigation team sought details of bank accounts of the Respondent and the accounts used for funds of clients. The Respondent informed that it maintained a single bank account with MCB Bank Limited at Sargodha that was used by the Respondent as well as for maintaining clients' funds. The statutory auditor of the Respondent confirmed that the Respondent maintained a single bank account. The above facts revealed that the assets of the clients were commingled with that of the Respondent in violation of section 62 of the Act and Regulation 3.13 & 6.4 of the PMEX Regulations. Section 83(2)(a) of the Act requires a futures broker to produce before the investigation team any record or document as required by them. The investigation team required the





# Securities and Exchange Commission of Pakistan

## Securities Market Division

Respondent to produce various information to them. The Respondent failed to provide the following information till date in violation of section 83(2)(a) of the Act:

- (a) Soft copies of all clients ledgers for the period from January 1, 2016 to July 18, 2018.
- (b) Latest trial balance duly verified by the external auditor.
- (c) Trial balance as on December 31, 2017
- (d) Soft copies of all general ledgers for the period from January 1, 2016 to June 1, 2017.
- (e) Organogram of the Respondent along with details of staff containing functional breakup (marketing, technology, trading, compliance, etc. Also provide qualification and experience of staff).
- (f) Commission structure of the Respondent, along with approval of its board of directors.
- (g) Bank statements of all the bank accounts of the Respondent including accounts used for soliciting clients funds from January 1, 2016 to date.
- (h) Copies of all policies and procedures prepared by the Respondent.
- (i) List of associated entities/ persons of the Respondent, if any.
- (j) Details of loan/ financing facility obtained by the Respondent from banks and financial institutions.
- (k) List of directors along with the change of directorship since the inception of the Respondent.
- (l) Copies of receipts and payment to the Complainants.
- (m) Email/ any correspondence record with clients.
- (n) Copies of cash ledgers.
- (v) Rule 22 of the Commodity Rules read with section 63 of the Act requires a future broker to maintain proper books of accounts. It is construed from non-provision of information that books of accounts were not being maintained by the Respondent. The management of the Respondent itself admitted that majority of its transactions were in cash and most of the record pertaining to these transactions was not available. Non-maintenance of proper books of accounts is a violation of rule 22 of the Commodity Rules read with section 63 of the Act.
- (vi) Regulation 5.8 of the PMEX Regulations (Registration and De-Registration of Approved Persons) read with Procedure for registration of the Branch Office(s)/Authorized Person(s) of the Brokers requires a futures broker to obtain approval of PMEX for its authorized persons (A person appointed/employed by a Broker and who has been authorized by the Broker to access the ETS of the Exchange. This includes Agent/Sub-broker/Head of a Branch Office). The Respondent did not obtain approval from PMEX for appointment of Mr. Mohsin Mujtaba as its agent in violation of regulation 5.8 of the PMEX Regulations (Registration and De-Registration of Approved Persons) read with Procedure for registration of the Branch Office(s)/Authorized Person(s) of the Brokers.
- (vii) PMEX Circular 35 of 2012 states that all receipts from clients over Rs 25,000/- shall be accepted only in form of crossed cheques, pay orders, demand drafts, etc. Review of





# Securities and Exchange Commission of Pakistan

## Securities Market Division

the documents provided by the Complainants and the bank statement of the Respondent (obtained directly from the bank) by the investigation team revealed that the Respondent accepted cash in excess Rs. 25,000 from its clients in violation of PMEX Circular 35 of 2012. The top five cash amount credited into the bank account of the Respondent for the years 2015, 2016, 2017 and 2018 are as under:

| 2015 |                   |               |
|------|-------------------|---------------|
| #    | Date              | Amount in Rs. |
| 1    | September 1, 2015 | 1,500,000/-   |
| 2    | September 2, 2015 | 1,500,000/-   |
| 3    | October 15, 2015  | 1,500,000/-   |
| 4    | October 15, 2015  | 1,500,000/-   |
| 5    | October 27, 2015  | 1,000,000/-   |

| 2016 |                   |               |
|------|-------------------|---------------|
| #    | Date              | Amount in Rs. |
| 1    | April 5, 2016     | 1,800,000/-   |
| 2    | April 18, 2016    | 1,400,000/-   |
| 3    | November 16, 2016 | 1,000,000/-   |
| 4    | April 12, 2016    | 900,000/-     |
| 5    | July 26, 2016     | 900,000/-     |

| 2017 |                 |               |
|------|-----------------|---------------|
| #    | Date            | Amount in Rs. |
| 1    | May 18, 2017    | 1,200,000/-   |
| 2    | January 5, 2017 | 1,000,000/-   |
| 3    | January 5, 2017 | 1,000,000/-   |
| 4    | May 31, 2017    | 1,000,000/-   |
| 5    | June 14, 2017   | 1,000,000/-   |

| 2018 |                |               |
|------|----------------|---------------|
| #    | Date           | Amount in Rs. |
| 1    | April 11, 2018 | 2,060,000/-   |
| 2    | June 25, 2018  | 1,721,000/-   |
| 3    | March 1, 2018  | 1,300,000/-   |
| 4    | May 02, 2018   | 1,000,000/-   |
| 5    | March 21, 2018 | 995,000/-     |



(viii) Clause 3(d) of the Schedule to the Commodity Rules requires a futures broker to obtain permission of PMEX before advertising its business publically. The Respondent



# Securities and Exchange Commission of Pakistan

## Securities Market Division

published an advertisement on YouTube without obtaining prior approval of PMEX in violation of clause 3(d) of the Schedule to the Commodity Rules.

7. Carrying out activities beyond the scope of regulated activities, not obtaining risk disclosure statement from the clients, comingling of clients assets with its own, failure to provide record to the investigation team, non-maintenance of proper books of accounts, operating through an unauthorized person, receipts of cash of over Rs 25,000/- from clients, publishing advertisements without the approval of PMEX, absence of internal controls (as admitted by the chief executive of the Respondent) coupled with the fact that significant amount of the funds reportedly deposited by the Complainants were embezzled reveals that the Respondent was non-compliant with the clauses 1(a) (integrity), 1(b) (exercise of due care and skill), 1(e) (compliance with statutory requirements), 2(f) (fairness to clients), 2(h) (competence of broker), 3(e) (inducement of clients), 4(a) (general conduct) and 4(b) (failure to give information) of the Code of Conduct given in Schedule to the Commodity Rules read with Standards of Conduct given in section 57 of the Act.

8. In view of the gross violations of law, the Respondent is guilty of misconduct in terms of section 94(1)(a) of the Act. In exercise of powers conferred under section 94(1) of the Act, the license of the Respondent to act as a futures broker is cancelled with immediate effect. Further, the Respondent is barred from applying for any license under the Act for a period of ten years from the date of this order.

9. This order is issued without prejudice to the any action(s) that may be initiated against the Respondent and its directors responsible for the violations of the aforesaid provisions of the Act.



**Shauzab Ali**  
Commissioner (SMD)

**Announced on May 29, 2019**  
Islamabad