



# Securities and Exchange Commission of Pakistan

Securities Market Division  
Public Offering and Regulated Persons Department  
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File No. 1(58) SMD/LCID/KSE-2015

March 10, 2016

**Patel Securities (Pvt.) Limited,**  
Through its  
Chief Executive Officer,  
145, Stock Exchange Building,  
Karachi Stock Exchange Road,  
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**  
Additional Director (PRPD)

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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 Patel Securities (Private) Limited

|                                  |   |
|----------------------------------|---|
| Date of Hearing                  | January 5, 2016   |
| Present at hearing               |   |
| Representing the Respondent      | (i) Mr. Abdul Aziz Patel, Chief Executive<br>(ii) Mr. Muhammad Farooq, Director<br>(iii) Mr. Muhammad Hashim, Manager           |
| Assisting the Director/HOD(LCID) | (i) Mr. Muhammad Farooq,<br>Additional Director, (LCID-SMD)<br>(ii) Mr. Muhammad Tanveer Alam<br>Additional Director (SSED-SMD) |

## ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(58) SMD/LCID/KSE-2015 dated December 3, 2015 ("**Notice**") served to Patel Securities (Private) 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 a Trading Right Entitlement Certificate Holder/Broker of the Pakistan Stock Exchange formerly Karachi Stock Exchange Limited ("**PSX**") 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 inspection of the *inter alia* the books and record required to be maintained by the Respondent during the period from January 01, 2014 to December 31, 2014 vide order No. SMD-/SSED-C&IW/INS-KSE(008)/2015 dated February 03, 2015.

3. The Inspection Team before submission of its Inspection Report shared its findings with the Respondent, in accordance with Rule 7 of the Inspection Rules. The Inspection Team observed that the Respondent was non-complaint of Securities and Exchange Rules, 1971 (SE Rules), Rule Book of PSX and CDC Regulations. The details of the alleged violations have been given in later part of the Order.





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4. In light of observations, mentioned in the Inspection Report, the Commission served the Notice to the Respondent, under Section 22 of the Ordinance.

5. The Chief Executive Officer of the Respondent vide letter dated December 9, 2015 submitted written response to the Notice. The matter was scheduled for hearing on January 5, 2016 at head office of the Commission. Mr. Abul Aziz Patel, Chief Executive, Mr. Muhammad Farooq Patel Director and Mr. Muhammad Hashim, Manager of the Respondent (collectively called hereunder **Authorized Representative**) attended the hearing through video facility available at regional office of the Commission at Karachi.

6. The contentions submitted against the observations of the Inspection Team by the Chief Executive of the Respondent in writing and verbally by the Authorized Representatives during the course of hearing may be summarized as under;

## **Non-compliances of SE Rules:**

(a) **Calculation of Net Capital Balance (NCB) and weekly reporting of NCB and improper Maintenance of books of accounts:-** The Inspection team reviewed the working of NCB for the period ended December 31, 2014 and observed that the NCB of Respondent was overstated by Rs 5.383 million. Pursuant to Rule 3(e) of SEC Rules, 1971 every member is required to report to the stock exchange that it had maintained net capital balance of an amount not less Rs. 2.5 million during the week. The Inspection Team asked the Brokerage House for provision of working of NCB, which was prepared in support of its reporting for the first week of December 2014. The said working was not provided. The Inspection Team inferred that aforesaid reporting was being done without any calculation of NCB. With regard to maintenance of books of accounts, the inspection team observed that detailed working of balances reported in NCB was not available with Respondent. Further amounts reported in the NCB were not appearing in the trial balance. Supporting documents for various adjusting entries were not available.

In response, the Authorized Representative informed that during the Review Period the Respondent lacked the services of a professional accountant. Moreover, the accounting entries were being entered on manual basis. This resulted in improper maintenance of books of accounts. As a result, the NCB was also calculated incorrectly. Subsequently, the Respondent engaged services of professional accountant who is conversant with ORACLE Accounting System. As a result, the accounts were properly prepared, the NCB as on June 30, 2015 was properly calculated.

## **Non-compliances of PSX Rule Book:**

(b) **Non-maintenance of Standardized Account Opening Form:** The Inspection observed various deficiencies in the account opening forms like clause 7 and 8 of the SAOF did not match with standard terms, list of transaction fee, commission to be charged by the broker was not attached, details of nominee were not filled in, etc.

In this regard, the Authorised Representative stated that "the discrepancies identified by Inspection Team in SOAFs have been rectified and forms have been updated".





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Concerning the observation with regard to commission fee to be mentioned in the forms, the Authorised Representative stated that the commission is charged at uniform rate from all the clients. The Authorised Representative further stated that there are no regulations for commission fee to be charged by the clients.

(c) **Copies of cheques were not provided:** During the course of inspection, copies cheques were not provided to the inspection team, which were required to be kept in record pursuant to Clause 9 of SAOF record for a minimum period of five years.

The Authorised Representative stated that during the course of inspection, counterfoils of the cheques as well the ledgers were presented to the Inspection Team for verification of the payments. The counterfoils and debited/accepted ledgers may be considered as proof of payments.

(d) **KYC/CDD/Risk Assessment policy:** The Inspection Team noticed no KYC/CDD policy has been prepared and approved by the Respondent. The Inspection Team also observed that Respondent has not done customers profiling into low, medium and high risk categories

The Authorised Representative stated that due Diligence is done properly. No dispute ever rose with clients. Investment on behalf of clients is done according to their instructions. All the proper procedures are being adopted, if any procedure is missing, the same would be followed accordingly.

(e) **Absence of Collateral Account:** The Inspection Team noticed that Collateral Account has not been opened by Respondent, required to be maintained under its participants account in CDS.

The Authorised Representative agreed with the observation of the inspection team.

(f) **Trade Confirmation of Clients' orders:** During the Review period, trade confirmations of selected transactions were not provided to the inspection team.

The Authorised Representative stated that as per Practice purchase/sale bill was given to the client at the close of Market. This bill may be considered as trade confirmation of clients order.

(g) **Segregation of Clients' assets by the brokers:** The Inspections Team noticed that Respondent was maintaining its Client Bank account with Habib Metropolitan Bank Limited bearing number 20311-714-134399 reflecting debit balance of Rs. 356,191 as on December 31, 2014 whereas, trade payables on that date were Rs. 2,906,817. Said huge gap implied that clients' funds were not kept in separate bank account.

In this regard, the Authorised Representative stated that subsequent to the observation of the Inspection Team, the clients' assets have been segregated.

## Non-compliance of CDC Regulations

The inspection team reviewed the sub account opening forms and observed that column of Zakat Status was not properly filled, section "D" was not properly filled, etc





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The Respondent informed that the forms have been subsequently updated.

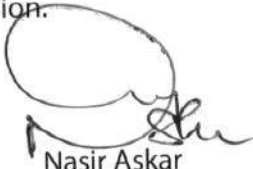
7. After detail and through review of the facts, evidence/information available on record, assertions made by Chief Executive of the Respondent in writing and Authorized Representatives verbally, it is evident that the Respondent has admittedly failed to maintain proper books of accounts which resulted in improper calculation of NCB. In this regard the Respondent informed that it had hired the services of a professional accountant and assured that proper books of accounts would be maintained and NCB would be prepared, as per regulatory requirements, in future. The Respondent further stated that NCB as of June 30, 2015 was prepared in accordance with the guidelines given by the Commission. The Respondent does not have any board approved KYC/ CDD policy. With regard to KYC and CDD, the Respondent should be aware of the fact that KYC and CDD are becoming much more important globally for preventing identity theft, financial frauds, money laundering and terrorist financing. I, therefore, strongly advise the Respondent to prepare, approve and implement CDD and KYC policy in letter and spirit, as effective implementation would safeguard it from being used for money laundering and terrorist financing activities. The Respondent was non-compliant with various clauses of Rule Book of PSX and CDC Regulations. It is pertinent to mention here that the Respondent has rectified most of these irregularities.

8. The violation of Rules and Regulations is a serious matter. However, keeping in view the assurance given by the Respondent, the rectifications of the irregularities done by the Respondent and the penal actions initiated in the past against the Respondent by this department, I hereby impose a penalty of Rs. 25,000 (Rupees twenty-five thousand) on Respondent. Moreover, the Respondent is directed to comply with the regulatory framework, in letter and spirit, in future.

9. The Respondent is further directed to deposit the fine 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.



  
Nasir Askar  
Director/HOD(LCID)

Islamabad.

Announced on January 19, 2016