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# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

## Adjudication Department- I

### Adjudication Division

*Before*

**Abdul Rehman Warraich, Commissioner (SMD)**

*In the matter of*

**First National Equities Limited through its Chief Executive**

**Under Section 150(1) and 150(2) of the Securities Act, 2015 read with Securities Brokers  
(Licensing and Operations) Regulations, 2016**

Number and date of Show Cause Notice (SCN)	1(67) SMD/Adj-1/LHR/2019 dated March 01, 2024
Date(s) of Hearing:	i. May 16, 2024 ii. August 12, 2024
Present at the Hearing(s):	i. Mr. Arslan Tahir (Company Secretary) ii. Mr. Ijaz Ahmed (Counsel)

### ORDER

1. This Order shall dispose of the proceedings initiated against First National Equities Limited (FNEL / **the Company / the Respondent**) under Section 150(1) and 150(2) of the Securities Act, 2015 (**the Act**) read with the Securities Brokers (Licensing & Operations) Regulations, 2016 (**the Regulations**) through Show Cause Notice (SCN) dated March 01, 2024.
2. The Company holds a Trading Rights Entitlement Certificate (TREC) of Pakistan Stock Exchange Limited (PSX) and is registered as a securities broker with the Securities and Exchange Commission of Pakistan (**the Commission**). The provisions of Section 150(1) of the Act stipulate that where a licensed person is, or was at any time, guilty of misconduct or the Commission is of the opinion that a licensed person is not a fit and proper person to remain a licensed person, the Commission may exercise its powers to suspend or cancel the license (whether in relation to all or any of its activities for which he is licensed) or publicly reprimand the licensed person. Section 150(2) of the Act further empowers the Commission separately or in addition to powers exercisable under Section 150(1) *inter alia* to impose penalty up to Rs. 50 million. The term 'Misconduct' is defined in Section 150(5) of the Act and encompasses a contravention of any of the provisions of the Act and the rules & regulations made thereunder.

### GROUND FOR INITIATION OF THE PROCEEDINGS

3. Proceedings against the Company were initiated under Section 150 of the Act on the following grounds:
  - a. **Financial Capacity and Conduct**: Poor credit history as reflected in Credit Information Bureau (CIB) reports, in violation of clause a(iii) of the Fit & Proper Criteria as laid out in the Annexure B to the Regulations;
  - b. **Misconduct including market manipulation**: Material adverse findings unearthed through an investigation conducted by the Commission, revealing involvement in manipulative market conduct, in violation of Regulation 16(2)(a), (b) & (h) of the Regulations along with clause d(ii) of the Fit & Proper Criteria; and

- c. Misconduct regarding settlement of APO's claim: Failure to comply with the directions of the Commission for settlement of claims of the Abandoned Properties Organization (APO), in violation of Section 150(5) of the Act.

#### Financial Capacity and Conduct

4. CIB reports as of November 30, 2023 showed that the Company and its Ex-Chief Executive Officer, namely Mr. Ali Aslam Malik had longstanding financial overdues in violation of clause a(iii) of the Fit & Proper Criteria, as tabulated below:

S. No.	Name	Designation	CIB Status as of November 30, 2023
1	First National Equities Limited	Brokerage House	<ul style="list-style-type: none"> <li>Overdues Past 365 days Rs.189,150,309 (21 times restructured in last five years)</li> <li>Rs. 61,173,000 (under litigation)</li> </ul>
2	Mr. Ali A. Malik	Ex-CEO/ Director of the Company	<ul style="list-style-type: none"> <li>Availed Running Finance Facility from Commercial Banks</li> <li>(i) Rs. 1,321,393,074 overdue more than 24 months</li> <li>(ii) Rs. 117,908,588 overdue more than 24 months</li> <li>(iii) Rs. 595,070,457 overdue more than 14 months</li> </ul>
3	First Florence Developers (Private) Limited	Mr. Ali A. Malik, Director of First Florence Developers (Private) Limited	<ul style="list-style-type: none"> <li>Overdues Past 365 days Rs. 658,987,722</li> <li>Rs. 626,669,000 (under litigation)</li> </ul>

#### Misconduct including market manipulation:

5. The Commission concluded investigations against the Company, initiated pursuant to Investigation orders dated February 04, 2020, June 14, 2021 and July 19, 2022 under Section 139 of the Act, with material adverse findings. These findings establish violations of clause d(ii) of the Fit & Proper Criteria and Regulation 16(2)(a), (b) & (h) of the Regulations, as the Company was found to have:
- indulged in actions that detracted from transparent and standard pricing on the securities markets;
  - encouraged sale or purchase of securities on account of customer(s) with the sole objective of its financial benefit or of its employees;
  - engaged in manipulative or deceptive conduct to give other users of the securities market a false or misleading impression as to the prevailing market conditions including supply, demand and prices.
6. Following three investigations have been concluded with material adverse findings against the Respondent, detailed as under:

Date of Investigation Order	Date of Show Cause Notice/ Order passed against the Respondent	Material Adverse Findings
February 04, 2020	SCN dated: August 25, 2020 Order dated: October 18, 2021	During the course of investigation, it transpired that in four (4) instances, the Respondent was involved in extending credit to its clients, to accrue financial benefits for itself, in violation of Rule 34 of the Securities (Leveraged Markets and Pledging) Rules, 2011 and Section 16 of the then Securities and Exchange Ordinance, 1969 (now repealed) which prohibits extension of credit to clients for the purpose of purchasing or carrying any security, except through permissible modes.
June 14, 2021	SCN dated: December 05, 2022 Order dated: March 28, 2023	<p>During the course of investigation, it was observed that the Company's share price rose significantly until a material decline between December 01, 2020 and April 14, 2021. It transpired that certain clients entered into unusual transactions which created a misleading trading impression in the market. It was observed that the trading was carried out by the Trader ID: 400 and not by the clients themselves. The Company failed to provide adequate justification or evidence in respect of the findings of the investigation team.</p> <p>The Company also failed to provide true and fair view of its state of affairs in its annual audited financial statements for the period ended June 30, 2020. The Company was found to have contravened Section 84, 139(2) and 139 (3) of the Act.</p>



<b>Date of Investigation Order</b>	<b>Date of Show Cause Notice/ Order passed against the Respondent</b>	<b>Material Adverse Findings</b>
July 19, 2022	SCN dated: April 03, 2023 Order dated: June 09, 2023	During the course of investigation, it transpired that the Company had actively traded in the scrip of Treet Corporation Limited (TREET). The trading data obtained by the investigation team from the PSX depicted that trading in the Company's proprietary accounts as well as in its clients' accounts was carried out through Trader ID No. A400. The terminal was not exclusively used for proprietary trading and was being used to place orders in clients' accounts in violation of Regulation 28 of the Regulations.

7. The afore-mentioned investigation reports / orders are self-explanatory and provide the relevant details regarding the violations that have been established against the Respondent.

**Misconduct regarding settlement of APO's claim:**

8. The Commission received a complaint in year 2013 against the Company from Abandoned Properties Organization (APO), alleging that 324,430 shares of M/s EFU General Insurance Limited (EFU) and 618,814 shares of M/s Pakistan State Oil Company Limited (PSO) were handed over to the Company for disposal. However, the sale proceeds realized by the Company were not transferred to APO. APO demanded that the Company should either return the shares or refund the sale proceeds.
9. The Commission vide its Order dated February, 04 2014, passed under Section 24 of the Central Depositories Act, 1997, directed the Company to settle the claim of APO, as per the undertaking dated December 30, 2013 submitted by the Company committing to clear all liabilities pending towards APO by March 31, 2014.
10. The Company failed to fulfill its commitment. As enunciated under the said Order of the Commission dated February 04, 2014, the Company had agreed to pay Rs. 149 million (based on the closing prices of PSO and EFU shares as of April, 05 2013) but paid only Rs. 6 million during October 2013 to June 2015 and failed to pay the remaining amount. Thus, the Company failed to settle the claim of APO and also to comply with the direction of the Commission, in violation of Section 150(5) of the Act.

**Past record of the Company:**

11. In addition to the abovementioned allegations, numerous adjudicatory proceedings concluded by the Commission against the Company in the past, discussed in subsequent paras, also indicated its continued misconduct and poor compliance track record as a licensed securities broker.

## SHOWCAUSE NOTICE AND FURTHER PROCEEDINGS

12. The aforesaid contraventions of law, *prima facie*, attract the penal provisions laid out under Section 150(1) and 150(2) of the Act. Accordingly, the Commission while taking cognizance of the aforementioned non-compliances, served a SCN upon the Respondent, requiring it to submit its written reply within 14 days of the date of the SCN. In response to the SCN, the Respondent vide its letter dated March 14, 2024 requested for extension in time to provide written reply to the SCN. The Respondent again vide its letter dated March 29, 2024 requested for extension to provide written response to the SCN.
13. Subsequently, a hearing in the matter was fixed for April 24, 2024. However, the Respondent vide its letter dated April 23, 2024 informed that the official responsible for submission of reply to the SCN was severely ill and again requested for adjournment in the matter. Another hearing in the matter was fixed for May 10, 2024. The Respondent vide its letter dated May 09, 2024 again requested for adjournment due to engagement of the legal counsel.
14. Further hearings in the matter were conducted on May 16, 2024 and August 12, 2024 which were attended by Mr. Arslan Tahir (Company Secretary) and Mr. Ijaz Ahmed (Counsel) as Authorized Representatives on behalf of the Respondent.

## CONTENTION OF THE COMPANY

15. The written and verbal arguments of the Respondent are summarized in the ensuing paras.

### Financial capacity and conduct of the Company

16. The Respondent contended that no penalties or sanctions may be imposed based on the contents of the CIB report(s), mainly on the basis of following arguments:
  - a. In most cases, the overdue amounts are disputed and are under litigation.
  - b. In other cases, the Respondent is making efforts for restructuring of the overdue amounts.
  - c. Penal action should only be taken once it is established that the Respondent has failed to pay the overdue amounts even after the conclusion of judicial proceedings and/or restructuring efforts.
  - d. The Respondent did not have access to CIB reports issued by the State Bank of Pakistan and was therefore unaware of the exact overdue amounts reflected in those reports.
17. The Respondent made the following submissions and explanations regarding the overdue amounts appearing in the CIB reports which is analyzed below:

#### Bank of Punjab:

- a. The Company has submitted the process of restructuring a loan of Rs. 189,150,309 with the Bank of Punjab has been initiated, however no agreement for the same was furnished. A restructuring agreement dated December 22, 2021 provided by the Respondent was of an outstanding amount of Rs. 200.702 million.
- b. Mr. Ali Aslam Malik also stated to be in the process of restructuring a loan of Rs. 595,070,457 with the Bank of Punjab, however no agreement for the same was furnished. The restructuring agreement is yet to be finalized. A restructuring agreement dated December 22, 2021 provided by the Respondent was of an outstanding amount of Rs. 558.77 million.

Summit Bank (Now: Bank Makramah):

- c. The bank has filed a suit in the Hon'ble Lahore High Court against Mr. Ali Aslam Malik, First Florence, and others on February 28, 2020, seeking recovery of Rs. 626,668,867. The matter is under litigation. However, the evidence as provided as did not match with the overdue amount of Rs. 658 million appearing in the CIB report.
- d. The bank has filed another suit in the Lahore High Court on February 28, 2020, against Mr. Ali Aslam Malik, First Florence, First National Equities Limited, and others for recovery of Rs. 1,489,282,431. However, the evidence as provided did not match with the overdue amount of Rs. 1.321 billion appearing in the CIB report.
- e. The bank filed another suit for recovery of Rs. 61 million against the Company, which was dismissed by the Banking Court IV, Lahore vide order dated January 18, 2024.

Faysal Bank:

- f. The Respondent claimed that the bank had withdrawn its claim of Rs. 117 million on December 12, 2023 and the matter was settled. However, clear evidence has not been provided by the Respondent.

Bank Alfalah

- g. The bank has filed a suit against the Company and Mr. Ali Aslam Malik in the High Court of Sindh on January 31, 2024, for recovery of Rs. 656,016,547. The matter is under litigation.

#### **Misconduct including market manipulation**

- 18. The Respondent has contended that no penalties or sanctions be imposed based on the findings of the investigation(s). The contention is based mainly on the following arguments:
  - a. The Respondent has made efforts to address the issues identified during the investigation by complying with the directions / restrictions imposed through the eventual adjudication orders. Considering the Respondent's willingness to make the necessary improvements, the Commission should take a lenient view in the matter.
  - b. Findings of the specified investigations were never shared with the Respondent for comments.
  - c. After concluding the investigation(s), the Commission has already filed criminal cases against a few individuals related to the Respondent. It is appropriate to wait for the court's decision in the criminal proceedings before initiating or concluding any civil/regulatory proceedings and imposing any penalties or sanctions on the Company. In case the court acquits the accused in the criminal proceedings, there will be no justification for undertaking civil/regulatory proceedings on the same grounds.

#### **Misconduct regarding settlement of APO's claim**

- 19. The Respondent has prayed that no penalties or sanctions be imposed on this ground. The contention is based mainly on the following arguments:
  - a. The primary responsibility for non-settlement of the matter lies with APO which withdrew from agreed terms. The dispute is currently subjudice before the Sindh High Court.



- b. The Commission's order is also subjudice before the Appellate Bench since March 17, 2014.

## CONCLUSIONS

20. The facts and circumstances of the case have been examined in the light of the applicable provisions of law. The written as well as verbal submissions and arguments of the Respondent have also been examined.

### Financial capacity and conduct of the Company

- a. A licensed person, holding customers' assets in fiduciary capacity, is subject to a higher standard of financial integrity and discipline owing to the responsibilities entrusted by the law.
- b. CIB reports play an important role in evaluation of the Fit and Proper Criteria. These reports help to assess the financial capacity and conduct of a person by analyzing their credit history. The purpose is to determine whether the person possesses sound financial position and is fair and diligent in the financial matters and dealings.
- c. There can be two approaches to evaluate the financial capacity and conduct of a person on the basis of CIB reports - a mechanical approach where a person is considered unfit if there are overdues on a particular date and vice versa, or an analytical approach where a person is evaluated for propriety on the basis of credit history and is considered unfit only if there is a history of financial overdues over a sustained period of time. The second approach is more appropriate as it relies on the financial discipline, capacity and conduct reflected through CIB reports over a sustained period of time. A mechanical approach may be inadequate to properly assess whether the default or delay in payment of financial dues was due to poor capacity or conduct.
- d. The Fit and Proper criteria create an exception in case the financial overdues mentioned in the CIB reports are disputed/under litigation. The purpose of this exception is not to enable unscrupulous persons to use litigation as a means to retain the license. Instead, this exception is meant to allow persons whose financial capacity and conduct are generally satisfactory but are undergoing litigation in financial matters due to circumstances which seem beyond their control and are likely to be temporary. Such instances of litigation ought to be rare and bonafide.
- e. A recurrent pattern of overdue loans, litigation and restructuring of loans over a sustained period illustrates that the person either has unsound financial position or is not fair/diligent in the financial matters and dealings, or both.
- f. The CIB reports of the Company and the other details regarding disputes with financial institutions, litigation in several cases, and repeated restructurings of loans indicate that the Company has a long and persistent track record and pattern of financial irregularities and impropriety.
- g. The Respondent's argument that it is unaware of the amounts appearing in the CIB reports is not a valid defense. The Respondent ought to keep abreast of the overdue amounts appearing in the CIB reports. In any case, the overdue amounts appearing in the CIB reports have been shared by the Commission with the Respondent.
- 38.

- h. Updated CIB report dated May 21, 2024 has also been obtained from the State Bank of Pakistan (SBP) which continues to reflect overdue amounts as follows:

S. No.	Name	Designation	CIB status as of May 21, 2024
1.	First National Equities Limited	Brokerage House	<ul style="list-style-type: none"> <li>Overdue past 365 days Rs. 926,176,139 (23 times restructured in last five years)</li> <li>Rs. 712,189,547 (under litigation)</li> </ul>
2.	Mr. Ali A. Malik	Ex-CEO/Director/ Sponsor of FNEL	<p>Availed Running Finance Facility from Commercial Bank(s)</p> <ul style="list-style-type: none"> <li>Rs. 1,321,393,074 overdue more than 24 months</li> <li>Rs. 68,608,810 overdue more than 24 months</li> <li>Rs. 724,375,153 overdue past 90 days</li> </ul>
3.	First Florence Developers (Private) Limited	Mr. Ali Aslam Malik, Director of First Florence Developers (Private) Limited	<ul style="list-style-type: none"> <li>Overdue Past 365 days Rs. 658,987,722</li> <li>Rs. 626,669,000 (under litigation)</li> </ul>

- i. There is a long list and history of disputes, litigations and restructurings with various financial institutions regarding overdue amounts, as per the afore-summarized CIB report.
- j. Evidently, the Company and its Ex-CEO have failed to demonstrate adequate financial capacity and proper conduct in financial dealings with various financial institutions which has led to a number of disputes, litigations and restructurings.
- k. It is concluded that the financial capacity and conduct of the Company does not meet the standards expected of a Trading and Self Clearing securities broker.
- l. It is important to emphasize that this conclusion is not based on whether certain financial dues were outstanding at a certain point in time. Rather, this conclusion is based on the analysis of the credit history of the Company which is replete with amounts becoming overdue and becoming the subject of litigation or restructuring. Evidently, the Company is both unable and unwilling to meet its financial obligations towards multiple financial institutions on a sustained basis.

#### **Misconduct including market manipulation**

- m. The Company's argument, that no penal action should be taken against it on account of various acts of market manipulation until the criminal proceeding filed by the Commission against the relevant individuals are concluded, is not plausible.
- n. Pendency of criminal proceedings in case of certain violations does not merit exclusion of those matters from the purview of civil/regulatory proceedings. The purpose of civil/regulatory proceedings is to evaluate the seriousness of the violations that have taken place and decide whether it is appropriate to impose financial penalties, restrictions on the



activities of the licensed person, or both.

- o. Criminal proceedings have been initiated against various individuals related to the Company and not against the Company itself. The findings of the investigations provide sufficient cause to take penal action against the Company which failed to implement appropriate checks and balances and allowed manipulative activities to take place over a considerable period of time.
- p. It is important to distinguish between the principles for conviction in case of criminal cases and those in case of civil proceedings. Conviction in criminal proceedings require the allegations to be proven beyond doubt whereas verdict in civil proceedings require the decision to be based on balance of probabilities i.e. preponderance of evidence.
- q. Considering the contents and findings of the investigation reports, it is concluded that the Company failed to implement adequate checks and balances or a professional code of conduct. Various individuals connected to the Company engaged in activities which compromised the integrity of the market and resulted in undue gains to those individuals at the expense of other investors in the market. The Company facilitated the actions of these individuals.
- r. The findings of investigations were duly shared with the Respondent by the Investigation Team and during the adjudication proceedings, the Respondent was given due opportunity of representation in the matter before establishment of violations against it. Therefore, the Respondent's claim that the investigation report was not shared is unfounded.

#### **Misconduct regarding settlement of APO's claim**

- s. The Respondent's has contended that no penal action should be taken on the ground that the dispute with APO is subjudice before the Sindh High Court and the Commission's order is subjudice before the Appellate Bench.
- t. As the dispute between the two parties is still before the court, it is considered that this matter may be re-examined by the Commission once the pending matters are decided by the relevant courts.

#### **Track record of the Company**

21. The following adjudicatory proceedings concluded by the Commission against the Company in the past, illustrate its history of non-compliances, weak internal controls and misconduct:

S. No.	Regulatory Framework	Grounds	Order Date	Penalty Imposed
1	The Regulations	Regulation 28: Failed to execute trading in proprietary account through designated trader and terminal	June 9, 2023	250,000

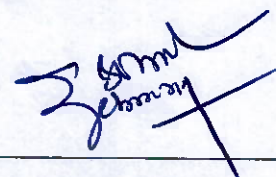
S. No.	Regulatory Framework	Grounds	Order Date	Penalty Imposed
2	The Act	Section 84: Misreporting of shareholding in Financial Statement. Section 139: Failed to provide complete information to the investigation team	March 28, 2023	250,000
3	The Regulations	Regulation 4(e): Failed to comply with FPC (Financial Soundness). Regulation 16(1)(h): Failed to remain compliant with licensing condition	March 6, 2023	500,000
4	AML Regulations, 2020	Failed to identify the ultimate beneficial owners of clients	December 15, 2022	30,000
5	Securities & Exchange Ordinance, 1969 & Securities (Leveraged Markets & Pledging) Rules, 2011	Provided financing other than permitted mode of financing	October 18, 2021	600,000
6	AML Regulations, 2018	Incomplete Screening of Database Periodic Screening not conducted Failed to Identify Beneficial Owners Policy & Procedures were not updated Validation through NADRA Verisys not performed	November 18, 2000	475,000
7	AML Regulations, 2018	AML Policy was not updated Failed to conduct ongoing monitoring of clients Failed to conduct due diligence of clients Failed to document justification for categorizing customers as low risk	August 2, 2019	200,000
8	Securities & Exchange Ordinance, 1969	Negative Net Capital Balance	February 20, 2015	500,000



S. No.	Regulatory Framework	Grounds	Order Date	Penalty Imposed
9	CDC Act, 1997	Unauthorized movement / handling of shares of APO	February, 4, 2014	500,000

## DECISION

22. Upon considering the above-stated facts and circumstances, supplemented by the Company's long history of irregularities, it is decided that the Company i.e. First National Equities Limited, is no more fit for carrying out activities relating to keeping the custody of securities and money belonging to its customers. The license of the Company in relation to its activities to the extent of keeping custody of securities and money belonging to its customers as "Trading & Self Clearing Broker", is cancelled forthwith.
23. The Company may continue to operate as a "Trading Only" securities broker in compliance with the applicable regulatory framework.
24. The Company is directed to take immediate steps for complete transfer of its custody and clearing functions, including those pertaining to the proprietary business, to a Professional Clearing Member or a Trading and Clearing securities broker and ensure compliance with all other requirements of the law, in this respect, within thirty (30) days of the date of this Order.
25. This Order is being issued without prejudice to any other action(s) that may be initiated/ taken against the Directors, the Company and/or its officers responsible for the violations of the aforesaid provisions of the law.



(Abdul Rehman Warraich)  
Commissioner (SMD)

### **Announced:**

April 14, 2025  
Islamabad.

### **Copy to:**

1. Pakistan Stock Exchange (PSX)
2. Central Depository Company (CDC)
3. National Clearing Company of Pakistan (NCCPL)
4. Supervision Division, SECP
5. Licensing & Registration Division, SECP



