

Before the Director (Market Supervision & Capital Issues Department)
Securities Market Division
Securities and Exchange Commission of Pakistan

In the matter of Show Cause Notice Dated October 12, 2012 issued to
M.R.A. Securities (Private) Limited, Broker Karachi Stock Exchange Limited

Date of Hearing: October 19, 2012

Present at the Hearing:

1. Mirza M. Baig (Manager)
2. Mr. Kamran Hanif (Assistant Manager)

Representing MS&CID:

1. Ms. Saima Shafi Rana (Deputy Director-MSCID)

Representing Inspection Team: *Through Video Conference (From Karachi)*

1. Mr. Muhammad Tanveer Alam (Joint Director-MSCID)
2. Mr. Kashif Ali (Deputy Director-MSCID)
3. Mr. Adnan Ahmed (Deputy Director-MSCID)
4. Mr. Moizuddin Siddiqui (Assistant Director-MSCID)

ORDER

1. This Order shall dispose of the proceedings initiated through Show Cause Notice No. 4/BRK-121/SE/SMD/2006 dated October 12, 2012 (**"the SCN"**) issued under Section 22 of the Securities and Exchange Ordinance, 1969 (**"the Ordinance"**) to M/s. M.R.A. Securities (Pvt.) Limited (**"the Respondent"**), TREC Holder of Karachi Stock Exchange Limited and a broker registered under the Brokers and Agents Registration Rules, 2001.

2. Brief facts of the case are that the Securities & Exchange Commission of Pakistan (**"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 (**"the Inspection Rules"**) ordered an inspection of the books and records required to be maintained by the Respondent.

3. The report dated July 27, 2012 submitted by the Inspection Team disclosed that despite several reminders by the Inspection Team, the Respondent did not produce majority of the books and accounts, information, documents, details, explanations and also provided no clarifications in this regard to the Inspection Team. Moreover major irregularities were observed in calculation of Net Capital Balance ('NCB') as on December 31, 2011 and were accordingly reported by the Inspection Team. Thereafter, the

Commission served a SCN to the Respondent, the contents of which are reproduced below:-

SUBJECT: SHOW CAUSE NOTICE IN THE MATTER OF INSPECTION OF BOOKS AND RECORD OF M/S. M.R.A. SECURITIES (PRIVATE) LIMITED – BROKER/TRE CERTIFICATE HOLDER, KARACHI STOCK EXCHANGE LIMITED.

WHEREAS, M/s. M.R.A. Securities (Pvt.) Limited ("MRA") is a TRE Certificate Holder of the Karachi Stock Exchange and registered as a broker with the Securities and Exchange Commission of Pakistan (the "Commission") under the Brokers and Agents Registration Rules, 2001 (the "Brokers Rules").

2. **AND WHEREAS**, the Commission in exercise of its powers under sub-section (1) of section 6 of the Securities and Exchange Ordinance, 1969 (the "Ordinance") read with rule 3 and rule 4 of the Stock Exchange Members (Inspection of Books and Record) Rules, 2001 (the "Inspection Rules") ordered an inspection vide order No. SMD/MS&CID-C&IW/10-1(33)/2012 dated March 30, 2012 of the books and records required to be maintained by MRA. The inspection team (the "Inspectors") submitted the inspection report to the Commission on July 27, 2012 which was forwarded to MRA in accordance with rule 7 of the Inspection Rules on August 1, 2012 and response thereof was received on August 15, 2012.

3. **AND WHEREAS**, on review of the inspection report it has come to the notice of the Commission that despite several reminders by the Inspectors during the course of subject inspection, MRA has not provided majority of the books of accounts, information, documents, details, explanations and clarifications etc. to the Inspectors as required by them under said provisions of the Ordinance.

4. **AND WHEREAS**, as per the inspection report, MRA was requested by the Inspectors to provide ledger accounts of 178 clients having aggregate ledger account balances of Rs. 419,615,755 (representing aggregate debit balances of Rs.263,426,416 in respect of selected 109 clients and aggregate credit balances of Rs.156,189,339 in respect of 69 clients) out of which ledger accounts of 14 clients having aggregate debit balance of Rs. Rs.181,496,461 (69%) and ledger accounts of 8 clients having aggregate credit balance of Rs. Rs.46,884,260 (30%) were not provided to the Inspectors.

5. **AND WHEREAS**, the said non-cooperation placed a significant limitation over the scope of work of the Inspectors and their ability to conclude their report in respect of MRA's compliance status with applicable regulatory framework.

6. **AND WHEREAS**, sub-section 3 of section 6 of the Ordinance provides that:

"Every Exchange and every director, officer member thereof shall furnish such documents, information or explanation relating to the affairs of the Exchange or, as the case may be, relating to the business on the Exchange of such director, officer or member as the Commission may, at any time by order in writing require."

7. **AND WHEREAS**, rule 8 (x) of the Brokers and Agents Registration Rules, 2001 provides that;

"Where the Commission is of the opinion that a broker has not co-operated in any enquiry or inspection conducted by the Commission, the Commission may, if it considers necessary in the public interest so to do, by order in writing suspend the registration of a broker for such period as may be specified in the order or impose on a broker fine not exceeding one hundred thousand rupees."

8. **AND WHEREAS**, *prima facie*, it appears that MRA, by not providing the requisite books of accounts, information, documents, details, explanations and clarifications etc. to the Inspectors, has violated the provisions of the Ordinance and rule 8 of the Brokers Rules.

9. **AND WHEREAS**, on review of the inspection report it has further come to the notice of the Commission that there were following discrepancies in calculation of Net Capital Balance ("NCB") of MRA as on December 31, 2011:-

- a. Overstatement of trade debtors by Rs. 97,328,225 by including MRA's proprietary debit accounts in trade debts
- b. Overstatement of creditors by Rs. 2,095,550
- c. Understatement of other liabilities by Rs. 38,802,180
- d. Understatement of debtors by Rs. 2,262,774
- e. Overstatement of cash balances by Rs. 445,850
- f. Overstatement of NCB by Rs. 136,319,031

10. **AND WHEREAS**, in terms of rule 3 of the Securities and Exchange Rules 1971 (the "1971 Rules") it is a duty of every member of the exchange to maintain at all times the prescribed NCB as calculated in accordance with the Third Schedule of the 1971 Rules. Further section 18 of the Ordinance provides that:-

"No person shall, in any document, paper, accounts, information or explanation which he is, by or under this Ordinance, required to furnish, or in any application made under this Ordinance, make any statement or give any information which he knows or has reasonable cause to believe to be false or incorrect in any material particular."

11. **AND WHEREAS**, *prima facie*, it appears that the NCB as calculated by MRA is not in accordance with the Third Schedule of the 1971 Rules and that MRA, by submission of overstated NCB, has given information which it had reasonable cause to believe to be false or incorrect in material particular in violation of section 18 of the Ordinance.

12. **AND WHEREAS**, sub-section (1) of section 22 of the Ordinance provides that:

"(1) If any person-

- (a) refuses or fails to furnish any document, paper or information which he is required to furnish by or under this Ordinance; or*
- (b) refuses or fails to comply with any order or direction of the Commission made or issued under this Ordinance; or*
- (c) contravenes or otherwise fails to comply with the provisions of this Ordinance or any rules or regulations made there under;*

the Commission may if it is satisfied after giving the person an opportunity of being heard that the refusal, failure or contravention was willful, by order direct that such person shall pay to the Commission by way of penalty such sum not exceeding fifty million rupees as may be specified in the order and in the case of continuing default, a further sum calculated at the rate of two hundred thousand rupees for every day after the issue of such order during which the refusal, failure or contravention continues."

13. **NOW THEREFORE**, you are hereby called upon to show cause in writing by **October 18, 2012**, as to why action as provided under section 22 of the Ordinance may not be initiated against you for violation as indicated above. You are further directed to appear in person or through an authorized representative (with documentary proof of such authorization), on **October 19, 2012 at 10:30 a. m.** at the SECP Headquarters – Islamabad. You are advised to bring all relevant record in original, which you may consider necessary for clarification/defense of your stance. This notice sufficiently discharges the Commission obligation to afford MRA an opportunity of hearing in terms of section 22 of the Ordinance and in case of failure to appear on the stated date of hearing it will be deemed that MRA has nothing to say in its defense and the matter will be decided on the basis of available record.

Sd

Hasnat Ahmad
Director

4. The Respondent submitted written reply to the SCN vide letter dated October 17, 2012. The following arguments were put forward by the Respondent in its written reply and during the hearing held on October 19, 2012.

a) Non submission of record

The Respondent submitted that most of its staff members were residing in affected areas of Karachi and due to poor law and order situation most of the public transport was not available. However, it tried its best to submit the requisite data. The Respondent acknowledged during the hearing that the Inspection Team provided it sufficient time and patiently approved its requests for extension in time for submission of the data. The Respondent further shared that it was apprehended as this was its first ever inspection conducted by the Commission and it wanted to be absolutely sure that data submitted to the Inspection Team was up to the mark and as per the relevant rules & laws. It had to manually check the record and therefore, the process got delayed. The Respondent admitted that the entire data could not be submitted due to the above mentioned reasons.

b) Overstatement of NCB

In this connection, the Respondent in its written response stated as follows:

"We will make effort to comply with your objections appear in person..."

However, it was observed during the above mentioned hearing, the Respondent did not comment on the stated issue.

5. I have examined all the arguments raised by the Respondent which are discussed and apprised hereunder in seriatim:

(a) Non submission of record

The Respondent's contentions that provision of record was not practically possible due to law and order situation in Karachi have no merit as business of the company otherwise was in process during that period. Contrary to the above contentions it was admitted by the representatives of the Respondent that sufficient time was provided to them for submission of the required books and accounts, information, documents, details, explanations. Moreover, they also admitted that providing a softcopy of the record hardly takes couple of minutes. Therefore, it is apparent that the failure of the Respondent to provide the record was willful coupled with their statement regarding manual checking of the record. The above statement transpired apparent misappropriation of the record which was purposely concealed and not submitted to the Inspection Team accordingly.

(b) Overstatement of NCB

The Respondent did not take any defense regarding the overstatement of NCB; hence the observation of the Inspection Team stands established.

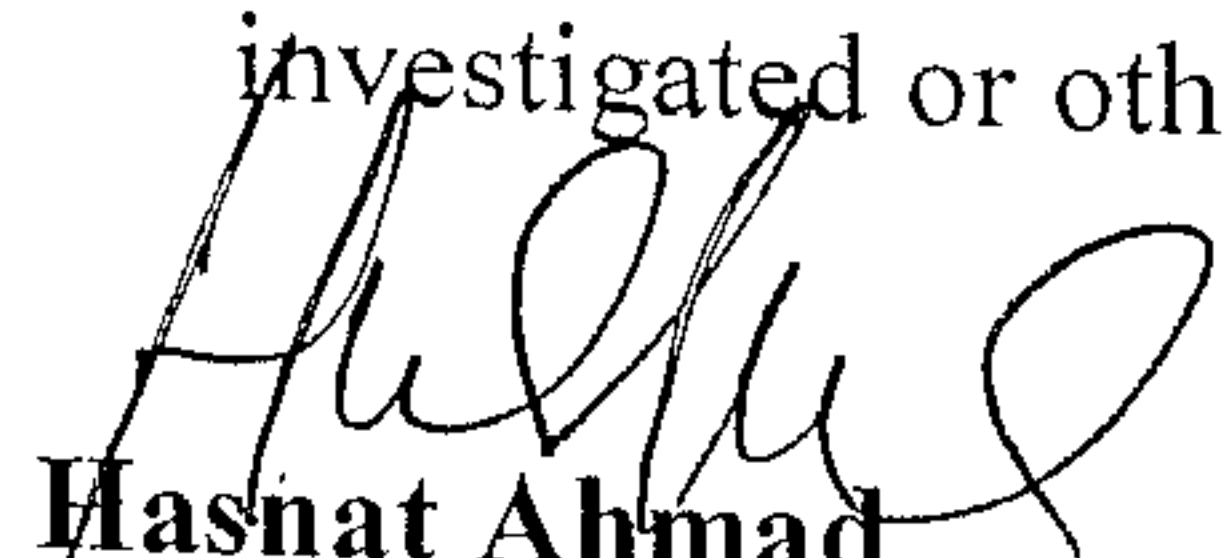
6. I have examined the facts, evidences and documents on record, in addition to the written and verbal submissions made on behalf of the Respondent. It is evident and acknowledged by the Respondent itself that the requisite record was not provided despite several reminders and extensions. Furthermore, since no arguments were made by the Respondent in its written comments and no clarification was made during the hearing, therefore, it stands established that the NCB as calculated by Respondent is not in accordance with the Third Schedule of the 1971 Rules. It is evident that if NCB was calculated in strict compliance with the requirements of 1971 Rules; the NCB prepared and submitted by the Respondent would have given a different picture, thereby implying that Respondent by submission of false NCB had attained much higher trading exposure thereby increasing the systemic risk in the market. It is further evident that the Respondent by submission of overstated NCB has submitted a statement and given information which it had reasonable cause to believe to be false or incorrect in material particular in violation of Section 18 of the Ordinance.

7. The violation of the Rules and Regulations is a serious matter which empowers the Commission to even suspend the Respondent's registration as Broker but I have elected not to exercise this power at present. However, in exercise of the powers under Section 22 of the Ordinance, I hereby impose on the Respondent a penalty of Rs. 300,000 (Rupees Three Hundred Thousands only). I strongly advise the Respondent to take immediate measures and put in place proper checks and procedures to eliminate the occurrence of such instances in future. I also direct the Respondent to ensure full compliance with the rules, regulations and directives of the Commission in future for avoiding any punitive action under the law.

Furthermore, the Respondent is also directed to fully cooperate with any Enquiry or investigation carried out by the Commission in future.

8. The matter is disposed of accordingly and the Respondent is directed to deposit the penalty in the account of the Commission being maintained in the designated branches of MCB Bank Limited not later than thirty (30) days from the date of this Order and furnish copy of the deposit challan to the undersigned.

9. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with the law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.


Hasnat Ahmad
Director (SM)

Announced on November 23, 2012
Islamabad.

