

Securities and Exchange Commission of Pakistan

Securities Market Division
Market Supervision and Registration Department

No. 4(BRK-192) SE/SMD/05

May 15, 2013

Chief Executive Officer,
Foundation Securities Limited,
Ground Floor, Bahria Complex II,
M.T. Khan Road,
Karachi

SUBJECT: INSPECTION OF BOOKS AND RECORDS OF M/S. FOUNDATION SECURITIES (PRIVATE) LIMITED- BROKER KARACHI STOCK EXCHANGE LIMITED

Dear Sir,

This is with reference to the onsite inspection of M/s. Foundation Securities (Private) Limited (FSL) conducted by the Securities and Exchange Commission of Pakistan ("Commission").


2. The inspection team in its final report has highlighted various deficiencies /non-compliances committed by FSL in the conduct of its business as a broker under the governing laws, rules, regulations and guidelines. In light of findings of the inspection report and your comments thereon, the Commission is of the view that following violations of applicable regulatory framework need to be rectified/removed at your end:-

Violations	Relevant Provisions
Net Capital Balance was not in accordance with the Rules.	Rules 2(d) of the Securities & Exchange Rules, 1971
Weekly Net Capital Balance was not maintained by FSL	Rule 3 (e) of Securities & Exchange Rules, 1971
Trade Confirmation were not disseminated within stipulated time	Rule 4 of Securities & Exchange Rules, 1971
Account Opening Forms do not meet Regulatory requirements	Regulation 40 of the General Regulations of Karachi Stock Exchange Limited
Know Your Customer And Customer Due Diligence	Regulation 40(A)
Separate bank account was not maintained to comply with the requirements of segregation of clients' assets.	Regulations 41(1)(a) of the General Regulations of Karachi Stock Exchange Limited
Collateral Account was not maintained	Regulations 41(1)(c) of the General Regulations of Karachi Stock Exchange Limited
Employees of the brokerage house were trading through other brokerage houses	Regulations 43(a) of the General Regulations of Karachi Stock Exchange Limited
Employees UINs were not updated with NCCPL	Regulation 43 (b) of the General Regulations of Karachi Stock Exchange Limited

List of employees was not submitted to KSE	Regulation 4 (vii) of Regulations Governing KSE Members' office(s)/Branch Office(s) for conducting business and trading of shares and securities within and outside the exchange
Standard text was not displayed disclosing the remedy and process how to approach the Investor Complaints Department of the Exchange	Regulation 4(xvi) of Regulations Governing KSE Members' office(s)/Branch Office(s) for conducting business and trading of shares and securities within and outside the exchange
A board was not displayed at a conspicuous place at the reception/front office	Regulation 7(d) of Regulations Governing KSE Members' office(s)/Branch Office(s) for conducting business and trading of shares and securities within and outside the exchange
Addresses of all branches were not mentioned on stationery	Regulation 7(f) of Regulations Governing KSE Members' office(s)/Branch Office(s) for conducting business and trading of shares and securities within and outside the exchange
The audit was not conducted at the time of commencement of internet trading services	Clause 3 of Internet Trading Guidelines, 2005
There is no written security policy as required under the guidelines	Guideline 8(d)
The annual periodic audit of systems, controls and procedures were not carried out.	Clause 11 of Internet Trading Guidelines, 2005
Monthly reports on the reliability of services were not submitted to the Commission.	Clause 17 of Internet Trading Guidelines, 2005
List of Directors and Shareholders was not provided to KSE	Article 15(d) of Article of Association of KSE
Telephone Recording was not maintained	Notice No. KSE/N-330 dated January 21, 2008

3. Please make sure that the compliance report against each of the violation highlighted above should reach this office within **30 days** from the date of this letter. FSL is further advised to be careful in future and ensure strict compliance with the governing rules and regulations.

4. The letter is issued without prejudice to any other action that Commission may initiate against FSL in accordance with law on matters subsequently taken up or investigated and/or brought to the knowledge of the Commission.

Yours truly

Hasnat Ahmad
 Director (MSRD)