

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

In the matter of Hearing Notice dated June 9, 2014 issued to M/s. S.Z. Securities (Private) Limited under Rule 8 of the Brokers and Agents Registration Rules, 2001 and Section 28 of the Central Depositories Act, 1997

Date of Hearing:	June 18, 2014
Representatives of the Respondent	1) Mr. Asif Zaheer, Director 2) Mr. Saleem Raza, Company Secretary 3) Mr. Nadeem Shahzad, Trader
Representing (BR&ICW)	Mr. Tahir Mahmood Kiani, Deputy Director

ORDER

This Order shall dispose of the proceedings initiated through Hearing Notice No. 4(BRL-30)/1/2014 dated June 9, 2014 issued to M/s. S.Z. Securities (Private) Limited, Trading Right Entitlement Certificate Holder of the Lahore Stock Exchange Limited (**“the Respondent”**) under Rule 8 of the Brokers and Agents Registration Rules, 2001(**“the Rules”**) and Section 28 of the Central Depositories Act, 1997 (**“CD Act, 1997”**).

2. Brief facts of the case are that a complaint from Ch. Muhammad Faraz Shakoor (**“the Complainant”**) was received to the Commission against the Respondent. The Complainant alleged that the Respondent received the dividend on 500 shares of KPCO, owned by him and subsequently, the Respondent imposed unjustified charges of Rs. 8,000 against his account on demand of the said dividend. The Complainant further alleged that his sub-account balance was nil as per the statement received from the Central Depository Company of Pakistan Limited (**“CDC”**).

3. Thereafter, the Commission sought comments from the CDC and National Clearing Company of Pakistan Limited (**“the NCCPL”**) on the aforesaid complaint. In response, the CDC intimated that its fee chargeable to the Complainant’s sub-account since the date of opening of account till April 2014 was only Rs. 1317.37. The NCCPL also confirmed that Complainant’s UIN annual maintenance fee was Rs. 150 per account. Further, CDC’s record also revealed that the Respondent was not holding the Complainant’s shares in his sub-account as on the date of announcement of the dividend.

4. The Commission, considering the above, took cognizance of the matter and served a Hearing Notice to the Respondent, the contents of which are reproduced below:-

Subject: HEARING NOTICE IN THE MATTER OF COMPLAINT
LODGED BY CH. MUHAMMAD FARAZ SHAKOOR AGAINST
M/s. S.Z. SECURITIES (PRIVATE) LIMITED

THAT M/s. S.Z. Securities (Private) Limited, ("the Respondent") is a Trading Right Entitlement Certificate ("TREC") holder of the Lahore Stock Exchange Limited ("the 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 Rules").

2. *WHEREAS, the Commission has received a complaint from Ch. Muhammad Faraz Shakoor ("the Complainant") against the Respondent. The Complainant has alleged in his complaint that the Respondent has received the dividend on 500 shares of KPCO, owned by him and subsequently the Respondent imposed unjustified charges against his account on demand of the said dividend. The Complainant has further alleged that his sub-account balance was nil as per the statement received from Central Depository Company of Pakistan Limited ("CDC").*

3. *WHEREAS, the Commission has received comments on the aforesaid complaint from the Respondent, CDC and National Clearing Company of Pakistan Limited. As per the available record, prima facie, it appears that the Respondent was not holding the Complainant's shares in his sub-account as on the date of announcement of the dividend in violation of Section 24 of the Central Depository Act, 1997. Moreover, the Respondent was required to maintain high standards of integrity, promptitude and fairness in the conduct of his business as per Rule 12 of the Rules and code of conduct laid down in Third Schedule of the Rules.*

4. *THEREFORE, the Commission in exercise of its powers directs you to explain in writing by **June 16, 2014**, as to why action in terms of Section 28 of the CD Act, 1997 and Rule 8(iv) of the Rules may not be initiated against the Respondent for apparent violations as indicated above. You are further directed to appear in person or through an authorized representative (with documentary proof of such authorization) before the undersigned, on **June 18, 2014 at 11:00 a.m.** at the Commission's Head Office at 9th Floor, NIC Building, Jinnah Avenue, Blue Area, Islamabad. You are advised to bring all relevant record in original, which you may consider necessary for your defense/clarification. In case of failure to appear on the above stated date of hearing, the matter will be decided on the basis of available record.*

Sd/- Hasnat Ahmad, Director (MSRD)



Page 2 of 5

5. Pursuant to the said Hearing Notice, the Respondent appeared before the undersigned on stipulated date and time and submitted its written comments. The Respondent stated *interallia* that the Complainant opened an account with the Respondent in 2006 and sub-account with the CDC bearing account nos. 1827 and 2989 respectively. Further, he purchased 500 shares of Kot Adu Power Company Limited which were duly transferred to his sub-account. After this transaction, the Complainant never communicated with the Respondent in any manner. Thereafter, it transferred shares from the Complainant's sub-account to the House Account due to non-payment of the service charges by the Complainant since 2006. The said shares were transferred as per the following clause/authorization of the Complainant given in the Standardized Account Opening Form.

"2C) I/We hereby irrevocably and unconditionally authorize S.Z Securities (Pvt.) Limited to move my/our shares/securities from my/our sub account/group account from time to time for settlement purpose with the right to dispose them off at any time without any notice to me/us and to apply the net proceeds thereof towards the adjustment of my/our outstanding that may be due from me/ us directly or indirectly to S.Z Securities (Pvt.) Limited including against all my/our losses and I/We shall continue to be liable for any shortfalls."

6. The Respondent further stated that in 2014 when the Complainant re-emerged, the Respondent never denied his claim to the shares but asserted its right to recover services charges for eight years at the rate of Rs. 1000 per year. The Respondent denied allegations mentioned in the Hearing Notice and mentioned that no action under Section 28 of the CD Act, 1997 can be taken. Besides, according to Section 29 of the CD Act, 1997 the Commission cannot take cognizance of any offence under Section 28 of the CD Act 1997 in the absence of a complaint by the Corporate Law Authority. Rule 8(iv) of the Brokers and Agents Registration Rules, 2001 is also not applicable on such complaint as the Respondent has not violated any clause of the code of conduct.

7. The Respondent during the course of hearing failed to produce any valid written authority and lawful justification for transferring the Complainant's shares from his sub-account to the House Account of the Respondent. In this regard, the Respondent produced copy of the Standardized Account Opening Form ("SAOF") as an evidence/authority. However, the Respondent itself admitted that the said SAOF was signed by the Complainant on March 25, 2014 and the Complainant's shares had already been transferred from his sub-account to its House Account on August 19, 2011. Further, the Respondent admitted that it was not clear about the scope of the aforesaid clause/authority given in the SAOF. The said clause only allows the Respondent to dispose of the Complainant's shares and adjust its charges and prohibits transferring and retaining the shares in its House Account. The Respondent further confirmed that no transaction was ever executed during the period from December 17, 2006 to March 27, 2014 by the Complainant; therefore, no payment was outstanding against any trade settlement on part of the Complainant. The Respondent failed

to provide copy of any notice sent to the Complainant for payment of service charges or authorization to transfer the shares from his sub-account during the said period, as required under clause 10 of the terms and conditions of SAOF.

8. With regard to imposition of charges on the Complainant, the Respondent failed to provide any schedule of charges applicable to the investors on account of annual charges, CDC and NCCPL charges etc. As per CDC and NCCPL, total charges applicable to the Complainant's sub-account were only Rs. 1467/-. The Respondent also failed to provide copy of any notice sent to the Complainant for payment of the charges during the period from 2006 to 2014.

9. With regard to the Respondent's objection to the Commission's cognizance under Section 28 of the CD Act 1997, it is stated that as per Section 43(c) of the Securities and Exchange Commission of Pakistan Act, 1997, the Commission can exercise all such powers which were previously delegated to the Corporate Law Authority under different statutes administered by it. Therefore, objection of the Respondent in this regard is not tenable.

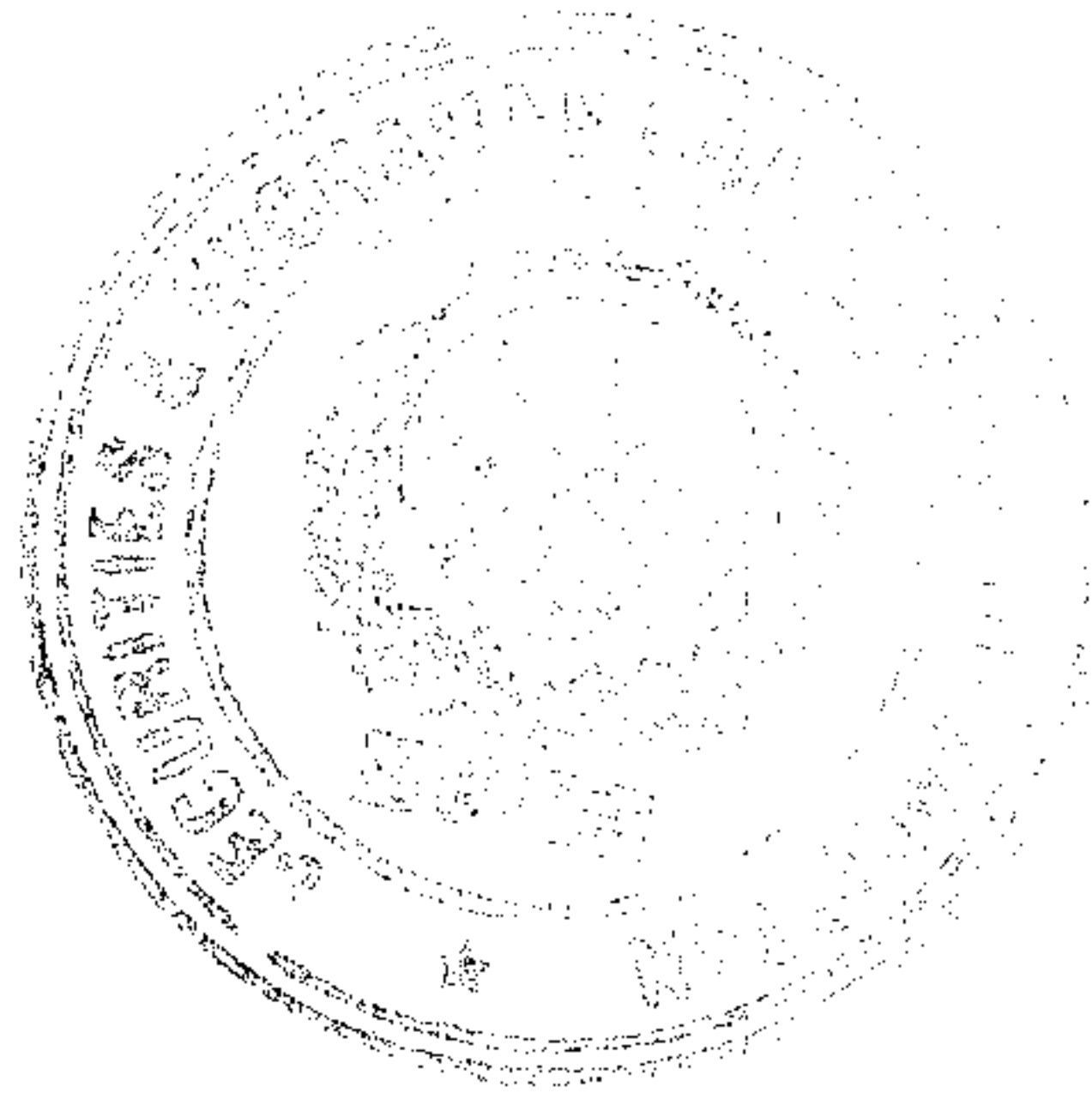
10. I have examined the facts, evidences and documents on record, in addition to the written and verbal submissions made on behalf of the Respondent. It is evident that imposition of charges by the Respondent on the Complainant's sub-account without providing any schedule of charges was discriminative and not justified in light of the code of conduct laid down in Third Schedule of the Rules. By doing so, the Respondent failed to maintain high standards of integrity, promptitude and fairness in the conduct of his business. However, considering the Respondent's efforts and commitment to settle this matter amicably has inclined me to take a lenient view in the matter and no punitive action is taken under Rule 8(iv) of the Rules. As such, I believe a caution in this matter to the Respondent would suffice and would further direct the Respondent to fully comply with all the Rules, Regulations and directives of the Commission in future to avoid any punitive action under the law.

11. However, the Respondent itself admitted that Complainant's shares were moved from his sub-account and retained in the House Account during the period from August 20, 2011 to March 26, 2014. It also failed to provide any valid authority/permission for movement of the Complainant's shares from his sub-account to the House Account. Therefore, it has been proved that the Respondent moved shares of the Complainant in violation of Section 24 of the CD Act, 1997, which explicitly prohibits the Respondent to handle book entry securities entered in the sub-accounts without the authority of the sub-account holders. This is a serious violation. Therefore, in exercise of the powers under Section 28(2) of the CD Act, 1997, through this Order, I hereby impose a penalty of Rs.25,000/- (Rupees Twenty Five Thousand only) on the Respondent to be deposited 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 Commission.

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

Announced on June 26, 2014
Islamabad




(Hasnat Ahmad)
Director (MSRD)