



Securities and Exchange Commission of Pakistan
Securities Market Division

Through Courier

Before The Director / HOD (LCID)

In the matter of Show Cause Notice issued to SMAC Investments (Pvt) Limited under Rule 8 of
the Brokers and Agents Registration Rules, 2001

Date of Hearing:

June 09, 2015

Present at the Hearing:

Representing SMAC Investments (Pvt) Limited

(i) Mr. Awab Chohan

Chief Executive Officer

Representing Islamabad Stock Exchange Limited

(i) Mr. Saqib Jalil Malik

Manager

Assisting the Director/HOD (LCID)

(i) Mr. Nauman Khan

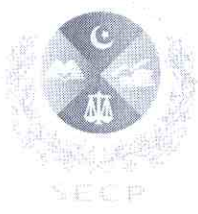
Deputy Director

ORDER

1. This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. SMD(SCN)/LCID/BRI-114/2015 dated May 26, 2015 ("SCN") served to SMAC Investments (Pvt) Limited ("**Respondent**"), Trading Right Entitlement Certificate Holder/Broker of the Islamabad Stock Exchange Limited ("**ISE**") by the Securities and Exchange Commission of Pakistan ("**Commission**") under Rule 8 of the Brokers and Agents Registration Rules, 2001 ("**Rules**").
2. Brief facts of the case are that as a part of an application dated August 25, 2014 for registration as broker under the Rules, the Respondent submitted its Net Capital Balance ("**NCB**") Certificate as required in clause 11 of the Form A under the Rules to the Commission. M/s. Sheikh & Chaudhri Co, Chartered Accountants ("**Auditor**") issued duly signed NCB certificate of the Respondent as of August 22, 2014.
3. In terms of Rule 2(d) of the Securities and Exchange Rules, 1971 ("**SEC Rules**") read with Clause 19.3.2 of the Regulations Governing Risk Management of the Exchange ("**Risk Management Regulations**"), the NCB is to be calculated in accordance with the Third Schedule to the SEC Rules. Moreover, the NCB Certificate is required to be duly audited/verified in terms of Clause 19.3.2 (c) of the Risk Management Regulations which provides that:-

"the certificate shall specify that the Net Capital Balance calculated have been duly audited/verified by the auditor".





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4. As a part of an exercise conducted by the Commission regarding the verification of NCB Certificates of all the registered TREC holders directly from the auditors, the Auditor was asked by the Commission to confirm the issuance and verify the contents of the NCB Certificate of the Respondent through letter dated May 12, 2015. The Auditor vide letter dated May 13, 2015 expressed its inability to verify NCB Certificate as submitted by the Respondent along with the application dated August 25, 2014. The Commission through letter dated May 21, 2015 provided an opportunity to the Respondent to clarify its position with regard to above referred NCB certificate. The Respondent vide letter dated May 26, 2015 submitted its written response to the said letter.

5. In light of the above, the Commission served a SCN to the Respondent under Rule 8 of the Rules. Hearing in the matter of aforesaid SCN was scheduled for June 08, 2015. The Respondent failed to attend the said hearing. The Respondent was provided second hearing opportunity on June 09, 2015.

6. The arguments put forth by the Respondent vide its written response to the SCN are reproduced below:

"The said NCB certificate was sent to Islamabad Stock Exchange for onward delivery to SECP for broker registration. However, M/s Sheikh & Chaudri, chartered accountants were not on the approved list of auditors of ISE. Therefore, upon ISE's demand a new NCB certificate was sent to ISE issued by M/s Mansha Mohsin Dossani Khan & Co., an approved auditor on ISE's list."

7. Mr. Awab Chohan, the Chief Executive Officer ("**Representative**") attended the hearing on June 09, 2015 at the Commission's office in Lahore through video conferencing. The arguments submitted by the Representative of the Respondent during the course of hearing are summarized below:

- (i) The Representative informed that he has withdrawn the NCB certificate from M/s Sheikh & Chaudhry & submitted a new certificate from M/s Rafaqat Mansha Mohsin Doosani & Co. as per the requirement of ISE.
- (ii) He apprised that the Respondent does not have a huge clientele due to his better & expensive services.
- (iii) He explained that the said situation was actually happened due to misunderstanding between the Respondent & ISE.
- (iv) At the end, the Respondent requested the Commission to take lenient view in the matter as the situation occurred due to miscommunication.





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8. Mr. Saqib Jalil Malik, the Manager (“**Representative**”) of ISE also attended the hearing on June 09, 2015. The ISE submitted its written response vide email dated June 11, 2015. The arguments put forth by Representative of ISE during course of hearing as well as vide its written response are summarized below:

- (i) The Representative informed that since M/s Sheikh & Chaudhary, Chartered Accountants was not on panel of the ISE, therefore the broker was advised to submit the NCB duly certified from a chartered accountant firms listed on panel of ISE.
- (ii) He communicated that considering the deadline of August 26, 2014 as per provisions of the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012, the case was forwarded to the Commission along with NCB certified by M/s Sheikh & Chaudhary, Chartered Accountants.
- (iii) He apprised that the broker provided the NCB of the same date certified from M/s Rafaqat Mansha Mohsin Dossani Masoom & Co. Chartered Accountants on September 02, 2014 and the same was accordingly forwarded to Commission along with documents of other brokers.
- (iv) He informed that the documents were submitted to the Commission without cover letter based on verbal understanding which resulted in miscommunication/confusion and therefore NCB could not reach to concerned officials of Commission.
- (v) The Representative also sought apology from the Commission on this miscommunication/confusion and submit that this situation will not occur in future.

9. I have heard the arguments presented by the Representatives of the Respondent and ISE at length during the course of hearing. Additionally, I have perused the available record and the written response filed by the Respondent. Accordingly, my findings on the arguments and assertions made by the Respondent to the issues raised in the SCN are as follows:

- a. It is the primary responsibility of the Respondent to maintain and submit the validated record to the Commission.
- b. The said NCB certificate was enclosed as part of application for registration of broker which was duly signed by the Chief Executive Officer of the Respondent and forwarded by the ISE.
- c. The Respondent has provided email correspondence with the ISE which reveals that the ISE has demanded the Respondent to produce a valid NCB certificate from panel of auditors of ISE instead of NCB certificate from M/s Sheikh & Chaudhri.
- d. The Representative of ISE was unable to provide any documentary evidence regarding the submission of supplement certificate duly audited by M/s Rafaqat Mansha Mohsin Dossani to the Commission.





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10. After a detailed and thorough perusal of the facts, evidence/information available on record, contentions and averments made by the Representative of the Respondent during the course of the hearing, it is evident that considering the deadline as per provisions of the Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012, the case was forwarded to the Commission by the ISE along with NCB, duly certified by M/S Sheikh & Chaudhary, Chartered Accountants. However the revised NCB certificate by M/s Rafaqat Mansha Mohsin Doosani & Co. submitted by the Respondent to ISE was not available in the Commission's record as claimed by ISE it was submitted without cover letter based on verbal understanding which resulted in miscommunication/confusion.

11. The Commission has reservations on such conduct of the ISE that can be termed as irresponsible and careless approach. Since ISE has sought apology from the Commission on this miscommunication/confusion and submit that this situation will not occur in future, therefore ISE is warned to be careful while submitting the verified and validated documents to the Commission.

12. 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.




(Imran Inayat Butt)
Director/HOD (LCID)

Announced on
Islamabad.

July 02, 2015