



Securities and Exchange Commission of Pakistan

Securities Market Division
Market Supervision and Registration Department
* * *

I-396

No. 1(74) SMD/PRPD/PSX/KSE/2016

December 22, 2016

M/s Security Investment Bank Limited,
Through it's Chief Executive Officer,
502, 5th Floor, Madina City Mall,
Abdullah Haroon Road, Saddar,
Karachi.

Subject: ORDER IN THE MATTER OF SHOW CAUSE NOTICE DATED OCTOBER 21, 2016 ISSUED TO M/S. SECURITY INVESTMENT BANK LIMITED

Dear Sir,

Please find enclosed an order dated December 19, 2016, issued by the Executive Director (PRPD) on the captioned matter, for your information and necessary compliance.

Yours truly,

(Tahir Mahmood Kiani)
Deputy Director (BR & ICW)

Encl: Order dated December 19, 2016

Copy to: -

- ✓ 1. Regional Head, Regulatory Affairs, Pakistan Stock Exchange Limited



Securities and Exchange Commission of Pakistan

Securities Market Division
Public offering and Regulated Persons Department

Before the Executive Director/HOD (PRPD)

In the matter of Show Cause Notice issued to Security Investment Bank Limited under Rule 5 read with sub-rule (2) of Rule 7 of the Brokers and Agents Registration Rules, 2001

Date of Hearing:	November 04, 2016
Present at the Hearing:	
Representing Respondents	Mr. Muhammad Amin Khatri, Chief Financial Officer, Security Investment Bank Limited
Assisting the Executive Director (PRPD)	(i) Mr. Nasir Askar, Director, PRPD (ii) Tahir Mahmood Kiani, PRPD

ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice No.1(74) SMD/PRPD/PSX/2016 dated October 21, 2016 (“**Notice**”) issued to Security Investment Bank Limited (**Respondent**) under Rule 5 read with sub-rule (2) of Rule 7 of the Brokers and Agents Registration Rules, 2001. (“**the Rules**”)

2. The facts of the case are that the Respondent is a Trading Right Entitlement Certificate (“**TREC**”) Holder of the Pakistan Stock Exchange (“**PSX**”)(formerly Karachi Stock Exchange Limited (“**KSE**”) and registered as a broker with the Securities and Exchange Commission of Pakistan (“**Commission**”) under the Brokers and Agents Registration Rules, 2001 (“**Brokers Rules**”).

3. PSX vide its letter dated February 19, 2016 forwarded an application of the Respondent to the Commission for renewal of certificate of registration to act as broker under the Brokers Rules (“**the application**”).

4. The scrutiny of the Respondent’s application transpired that the Respondent is also licensed to carry out business of investment finance services as a Non-Banking Finance Company (“**NBFC**”) under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (“**NBFC Rules**”). However, in term of clause (n) of sub-rule (2) of rule 7 of the NBFC Rules, the Respondent cannot undertake the brokerage business in the capital market from its own platform. Moreover, sub-section (2) of section 64 of the Securities Act, 2015 also explicitly bars the Respondent from undertaking the securities brokerage business.

5. The aforesaid observation of non-compliance of clause (n) of sub-rule (2) of rule 7 of the NBFC Rules and sub-section (2) of section 64 of the Securities Act, 2015 was also observed by the inspection team of the Commission. An onsite inspection of the Respondent was conducted for the period for the period of January 1, 2015 to December 31, 2015, in exercise of



its powers under Sub-section (1) of Section 6 of the Securities and Exchange Ordinance, 1969 (“**Ordinance**”) read with Rule 3 and Rule 4 of the Stock Exchange Members (Inspection of Books and Record) Rules, 2001 (“**Inspection Rules**”).

6. In light of the above observations, the Commission served the Show Cause Notice (“**SCN**”) to the Respondent under Rule 5 read with sub-rule (2) of Rule 7 of the Rules and fixed hearing on November 04, 2016. Accordingly, on the stipulated date and time, Mr. Muhammad Amin Khatri, Chief Financial Officer of the Respondent (**Authorized Representative**) appeared before me. During the course of the hearing, the facts of the case were deliberated at length. The Respondent was advised to provide its comments in written as well. The same were received on November 08, 2016. The arguments submitted by the Respondent in writing and verbal by the Authorized Representative are given below.

a. *With regard to undertake the brokerage business as a NBFC in violation sub-rule (2) of rule 7 of NBFC Rules, the Representative of the Respondent stated that the Respondent was never been engaged in stock brokerage business and it always undertook proprietary trading only. However, in compliance with the said requirement of NBFC Rules it has formed a separate subsidiary M/s. Security Capital & Investments (Pvt.) Ltd (“**SCIPL**”). In this regard, a NOC has also been taken from the Commission and the process of transferring TREC to SCIPL has started. In support thereof, the Respondent provided copies of the extract of special resolution passed in our EOGM held on September 30, 2016, NOC obtained from SECP and PSX’s letter for transfer of TREC to SCIPL.*

b. *With regard to bar of undertaking the securities brokerage business under 64(2) of the Securities Act 2015, the Representative of the Respondent submitted that application for renewal of certificate of registration to act as broker was forwarded to the Commission on February 19, 2016 and certificate of registration to act as broker was due for renewal on April 2016. Whereas the section 64(2) which comes under Part V of the Securities Act 2015 was came into force on June 30, 2016. Therefore, conditions preceding to June 30, 2016 doesn’t bar our renewal of license expect Rule 7(2)(n) of the NBFC Rules whose compliance status in elaborated above in detail. He shared that only benefit from renewal of certificate of registration to act as broker was to save significant cost of brokerage commission. However, he assured to complete the process of transfer of TREC and registration of subsidiary SCIPL under Securities Brokers (Licensing and Operations) Regulations 2016 within two to three months. At the end, he requested the Commission to accept their application for renewal our certificate of registration to act as broker so that the KATs may be remained in operations and the same may become operative under license to be granted to our new subsidiary SCIPL.*

7. I have heard the arguments presented by the Authorized Representative during the hearing, Additionally, I have perused the available record and written reply filed by the Respondent.

8. As a result of amendment in clause (n) of sub-rule (2) of rule 7 of the NBFC Rules 2003 and promulgation of Securities Act, 2015, the Respondent is barred from undertaking brokerage business from its own platform. The said limitation was also acknowledged by the Respondent. However, the Respondent informed that it had obtained brokerage business license in order to execute proprietary trades only and save brokerage commission.



The Respondent did not offer any brokerage facilities to other investors. In order to comply with the requirements of law, the Respondent has initiated the process of transfer of its brokerage business to its wholly owned subsidiary with the name M/s. Security Capital & Investments (Pvt.) Limited (SCIPL). The process is expected to be completed within three months. In view of the above, the Respondent requested that its brokerage registration may be renewed.

9. In order to ascertain the veracity of the submissions made by the Respondent, information was sought from the Specialized Companies Division of the Commission ("SCD") regarding the steps initiated by the Respondent for compliance with the requirement of law. Further, information was also sought from PSX regarding the steps taken by the Respondent for transfer of its brokerage business to its subsidiary. SCD has confirmed that it has granted permission to the Respondent to invest in its wholly owned subsidiary company i.e. SCIPL. PSX has also confirmed that the Respondent has initiated the process of transfer of its TREC to its subsidiary SCIPL and in this regard Application Form of TREC has also been issued to the Respondent on November 16, 2016.

10. Considering the facts that the Respondent is only executing proprietary trades from its platform, concrete steps have been taken by the Respondent for compliance with the requirements of NBFC Rules i.e. incorporation of a separate subsidiary by the name M/s. Security Capital & Investments (Pvt.) Ltd. & obtaining of NOC from the Commission and the assurance given by the Respondent to complete the process of transfer of TREC and licensing of subsidiary as a securities broker under the Securities Brokers (Licensing and Operations) Regulations 2016 within a period of three months, the registration of the Respondent as broker is renewed with effect from April 11, 2016 on the following conditions:-

- a. The Respondent shall complete the process of transfer of brokerage business including TREC to its subsidiary and the subsidiary shall obtain license as a securities broker under the Securities Brokers (Licensing and Operations) Regulations 2016 before March 31, 2017.
- b. During this period, the Respondent shall execute proprietary trades only.
- c. The securities broker registration certificate of the Respondent shall stand cancelled on the date of grant of license to the subsidiary under Securities Brokers (Licensing and Operations) Regulations 2016.

11. 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.



Asif Jalal Bhatti 19/12/16
Asif Jalal Bhatti
Executive Director (SMD)

Islamabad.

Announced on December 19, 2016