



Securities and Exchange Commission of Pakistan
Securities Market Division

Through Courier

Before The Director / HOD (MSRD)

In the matter of Show Cause Notice issued to Moonaco Securities (Pvt) Limited
under Section 22 of the Securities and Exchange Ordinance, 1969

Date of Hearing:

January 30, 2014

Present at the Hearing:

Representing Moonaco Securities (Private) Limited

(i) Mr. Muhammad Saleem Moon

Chief Executive Officer

(ii) Mr. M. Anwer Akber

Manager

Assisting the Director/HOD (MSRD)

(i) Mr. Muhammad Tanveer Alam

Joint Director

ORDER

1. This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(13) SMD/MSRD/C&IW/2013 dated December 11, 2013 ("SCN") served to Moonaco Securities (Private) Limited ("**Respondent**"), Trading Right Entitlement Certificate Holder/Broker of the Karachi Stock Exchange Limited ("**KSE**") by the Securities and Exchange Commission of Pakistan ("**Commission**") under Section 22 of the Securities and Exchange Ordinance, 1969 ("**Ordinance**") read with Rule 8 of the Brokers and Agents Registration Rules, 2001 ("**Brokers Rules**").

2. Brief facts of the case are that 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 ("**Inspection Rules**") ordered an inspection of the books and records required to be maintained by the Respondent. The following officers of the Commission were appointed as inspectors ("**Inspection Team**") for the purpose vide order dated August 27, 2013:

a) Mr. Mohammad Tanweer

Deputy Director

b) Mr. Mian Muhammad Imran

Deputy Director



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3. The Inspection Team submitted the report ("**Inspection Report**") on October 11, 2013 which was shared with the Respondent in accordance with Rule 7 of the Inspection Rules. The response of the Respondent in the context was received vide letter dated November 7, 2013. On review of the Inspection Report, irregularities in calculation of Net Capital Balance ("**NCB**") as on December 31, 2012 were observed and it appeared that NCB certificate was not in accordance with the Third Schedule of the Securities and Exchange Rules, 1971 ("**Rules 1971**"). The Inspection Report further highlighted that the Respondent failed to provide evidence authenticating transmission of trade confirmation; maintain segregation of client's assets and collateral account; apply haircuts on margin eligible securities and was involved in imposition of late payment charges to its clients.

4. In light of the Inspection Report and the comments received from the Respondent, the Commission served a SCN to the Respondent under Section 22 of the Ordinance and Rule 8 of the Brokers Rules. Hearing in the matter of aforesaid SCN was scheduled for December 26, 2013 at the Commission's Head Office in Islamabad. The Respondent vide letter dated December 13, 2013 requested for change in venue to the Commission's Karachi Office. Acceding to the request of the Respondent, the hearing was rescheduled to December 23, 2013. However, hearing could not be held on the said date and was again rescheduled for January 30, 2014 at the Commission's Karachi Office.

5. The Respondent submitted its written response to the SCN vide letter dated December 23, 2013. Mr. Muhammad Saleem Moon, Chief Executive Officer of the Respondent and Mr. M. Anwer Akber, Manager of the Respondent attended the hearing on behalf of the Respondent ("**Representatives**"). The following arguments were put forward by the Respondent in its written response and by the Representatives of the Respondent during the hearing held on January 30, 2014:

a) **Cash in hand:** The Respondent in its written response communicated that:

"This amount was receivable from KSE on account of Cash Exposure Deposit in REG market. The Documents provided to the auditor for NCB did not contain the certificate from KSE which would verify the exposure deposit. Hence, the auditor did not take this amount for calculation of December NCB. Furthermore we did not insist the auditor since our capital





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adequacy was enough for our brokerage house. In future, guidelines provided by SECP will be strictly followed."

The Representatives of the Respondent asserted its above stance and assured that in future they will prepare NCB in accordance with the Rules 1971 and the Guidelines issued by the Commission in this regard.

- b) **Trade Receivables:** The Respondent while explaining the difference in calculation of trade receivable in its written response stated that:

"This was a back-office error. Our back-office software generated aging report from 17-Dec-2012 instead of 18-Dec-2012. After consulting with software vendor the issue has been resolved."

The Representatives of the Respondent communicated that the overstatement was mainly because of the error as mentioned in the response by the Respondent.

- c) **Securities purchased for clients:** With regard to securities purchased for clients, the Respondent in its written response stated that:

"The purpose of this head was not clear to us and in future we will strictly follow guidelines provided by the SECP."

The Representatives of the Respondent accepted that the value for securities purchased for clients should have been included in the calculation of NCB. The Representatives of the Respondent further ensured that they will comply with the rules and regulations in future.

- d) **Overstatement of investment in listed securities:** The Respondent submitted that:

"This amount of Rs. 22.114 million (after 15% haircut) in units of PICIC Income Fund is not taken in your calculation. In our view, this amount should be taken because it is a listed mutual fund at Islamabad Stock Exchange and is as good as cash."

The Representatives of the Respondent asserted its above stance and assured that in future they will prepare NCB in accordance with the Rules 1971 and the guidelines issued by the Commission in this regard.

- e) **Late Payment Charges:** With reference to the imposition of late payment charges, the Respondent communicated that:

"We have stopped charging our clients on debit balance (Late Payment Charges ledger enclosed). Furthermore, we have informed our debtors to clear their dues. Total client debit is





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now significantly reduced from Rs. 28 million in June 2013 to Rs. 10 million currently (client receivables worksheet enclosed). In future, we will use the leverage products provided by the KSE and encourage our clients to do so."

In this context, the Representatives of the Respondent informed that they have discontinued the practice of charging liquidation damages from October 10, 2013.

- f) **Transmission of trade confirmation:** In this context, the Respondent in its written response stated that:

"We have rectified this non-compliance. Trade confirmations are being provided on recorded phone line during and after market hours. Confirmations are also being sent by email, courier and hand-delivery. We also provide clients with a summarized account report along with their ledger (evidence enclosed)."

The Representatives of the Respondent asserted that they have rectified the non-compliance and will ensure transmission of trade confirmation to all its clients in accordance with the Rules 1971 and will retain the evidence in this regard as per regulatory requirement

- g) **Segregation of Client's assets and Collateral Account:** With regard to maintenance of separate bank account for handling of clients' assets and collateral account, the Respondent in its written response communicated that:

"We started segregation of client funds from June 6, 2013 (bank statement enclosed). All clients' payments and receipts are also routed through the client fund account. Although we were not segregating client funds prior to this date, our proprietary funds have always been in excess of client funds (worksheet enclosed) and we have no bank borrowing. We have opened a Collateral Account as required (evidence enclosed)."

The Representatives of the Respondent communicated that they are now maintaining separate bank accounts properly and will ensure proper segregation of clients' assets. Client wise break up of clients' funds as required under regulatory framework is now being maintained. They further added that the Respondent has now opened the collateral account.

- h) **Risk Management Regulations and Account Opening Forms:** The Respondent in this context stated that:





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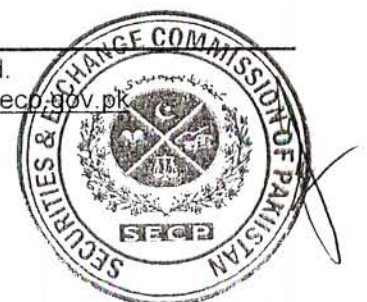
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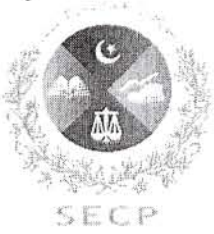
"Previously, we were manually placing hair-cuts as per circuit breaker rules. Now we have updated our back-office software and hair-cuts are now applied on all clients (evidence enclosed). Our account opening forms are now updated as per KSE format."

The Representatives of the Respondent asserted the stance taken by the Respondent in its written response.

6. I have heard the arguments presented by the Representatives of the Respondent at length during the hearing. Additionally, I have perused the available record and the written reply 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) The Respondent in its written response and the Representatives of the Respondent during the course of hearing communicated that the difference in the calculation of trade receivables was because of some system error and communicated that the same has now been rectified.
- b) With regard to the non-inclusion of securities purchased for clients, the Respondent and the Representatives of the Respondent communicated that they were not clear about the head and accordingly not included the amount under this head. They further assured that in future they will include the amount pertaining to the securities purchased for clients in the NCB calculation in light of the Third Schedule of Rules 1971 and the guidelines issued by the Commission.
- c) The Respondent in its written response and the Representatives of the Respondent during the course of hearing communicated that they were imposing late payment charges to its clients but, after the inspection, have discontinued their practice of charging liquidation damages on its clients' balances.
- d) The Representatives of the Respondent during the course of hearing stated that they are properly maintaining separate bank account for clients' now and have opened collateral account to ensure compliance of the General Regulations of the KSE.
- e) The Representatives of the Respondent during the course of hearing time and again asserted that they will ensure that the observations highlighted in the inspection





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report are properly addressed and ensured compliance with the applicable regulatory framework in future.

7. After a detailed and thorough perusal of the facts, evidence/information available on record, contentions and averments made by the Representatives of the Respondent during the course of the hearing, it is evident that the Respondent failed to prepare the NCB in accordance with the Rules 1971 and the guidelines issued by the Commission, however, has rectified the observations highlighted by the inspection team in their inspection report and provided evidence to the same context.

8. The violation of the Rules and Regulations is a serious matter. Taking a lenient view in the matter, in exercise of the powers under Section 22 of the Ordinance, I hereby impose on the Respondent a penalty of Rs. 25,000/- (Rupees Twenty Five Thousand Only). The Respondent is further directed to:

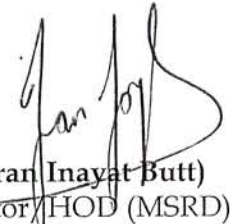
- a) Comply with the Rules 1971 and the guidelines issued by the Commission;
- b) Ensure proper segregation of clients' assets; and
- c) Ensure compliance with all the applicable rules and regulations.

9. The matter is disposed of in the above manner and the Respondent is directed to deposit the fine 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 a copy of the deposit challan to the undersigned.

10. 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.

Announced on February 24, 2014
Islamabad.




(Imran Inayat Butt)
Director/HOD (MSRD)