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

In the matter of Show Cause Notice Dated January 23, 2013 issued to
M/s. Muniff Ziauddin Junaidy & Co, Broker Karachi Stock Exchange Limited

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Date of Hearing: March 13, 2013

Present at the Hearing: Mr. Naveed Alam (Partner)

Representing SECP (SMD): Ms. Saima Shafi Rana (Deputy Director-MSRD)

ORDER

1. This Order shall dispose of the proceedings initiated through Show Cause Notice No. 4(BRK-204)SMD/BR/06 dated January 23, 2013 **(the "SCN")** issued to engagement partner of M/s. Muniff Ziauddin Junaidy & Co, Chartered Accountants, ("the Respondent") under section 22 of the Securities and Exchange Ordinance, 1969 (the "**SE Ordinance**").

2. Brief facts of the case are that the Securities & Exchange Commission of Pakistan ("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 (the "Inspection Rules") ordered an inspection of the books and records required to be maintained by M/s. Axis Global Limited (the "**AGL**"), TREC Holder of Karachi Stock Exchange Ltd. and registered with the Commission as a broker under the Brokers and Agents Registration Rules, 2001 (the "**BR Rules**").

3. The report dated April 24, 2012 submitted by the Inspection Team highlighted irregularities in calculation of Net Capital Balance ('NCB') of AGL as on June 30, 2011, the calculation of which were duly verified and certified by the Respondent. Thereafter, the Commission served a SCN to the Respondent, the contents of which are reproduced below:-

SUBJECT: SHOW CAUSE NOTICE IN THE MATTER OF INSPECTION OF BOOKS AND RECORD OF M/S. AXIS GLOBAL LIMITED – TREC HOLDER OF KARACHI STOCK EXCHANGE.

***WHEREAS**, the Securities and Exchange Commission of Pakistan ("**Commission**") 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"**) ordered an inspection vide order No. SMD/MS&CID-C&IW/10-1(10)/2012 dated February 6, 2012 of the books and record required to be maintained by M/s. Axis Global Limited ("**AGL**") a TREC Holder of the Karachi Stock Exchange Limited ("**Exchange**").*

2. ***AND WHEREAS,*** *on review of the report submitted by the inspection team, it has come to the notice of the Commission that calculation of Net Capital Balance ("**NCB**") of AGL as on June 30, 2011 as verified and certified by M/s. Munif Ziauddin Junaidy & Co., Chartered Accountants (the "**Auditors**") is not in accordance with the Third Schedule of the Securities and Exchange Rules, 1971 ("**1971 Rules**") and has following irregularities:-*

a. *Understatement of trade receivables by Rs. 71,955,822*
b. *Overstatement of securities purchased for clients by Rs. 101,180,636*
c. *Overstatement of current assets Rs.29,224,814*
d. *Understatement of other liabilities by Rs. 1,114,750*
e. *Overstatement of NCB by Rs. 30,339,564*

3. ***AND WHEREAS,*** *in terms of Rule 2(d) of the 1971 Rules read with Clause 2.1 of the Regulations Governing Risk Management of the Exchange ('the **Regulations**") the NCB are required to be calculated in accordance with the Third Schedule to the 1971 Rules. Further, the TREC holders of the Exchange are required to submit bi-annually a certificate from an auditor as specified in Clause 2.1 (b) of the said Regulations confirming their NCB on the format prescribed by the Exchange. The NCB is also required to be duly audited/verified in terms of Clause 2.1 (c) of the said Regulations which provides that:-*

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

4. ***AND WHEREAS,*** *prima facie it appears that the certificate of NCB of AGL as on June 30, 2011 certified by the auditors is not in accordance with the Third Schedule of the 1971 Rules and that the auditors have prima facie certified a statement and given information which it had reasonable cause to believe to be false or incorrect in material particular in violation of Section 18 of the Ordinance.*

5. ***AND WHEREAS,*** *in the light of the facts mentioned above, prima facie, it appears that the auditors are in contravention of Section 18 of the Ordinance, the contravention of which invokes penalty under Section 22 of the Ordinance.*

6. ***AND WHEREAS,*** *section 18 of the Ordinance provides:-*

> *"No person shall, in any document, paper, accounts, information or explanation which he is, by or under this Ordinance, required to furnish , or in any application made under this Ordinance, make any statement or give any information which he knows or has reasonable cause to believe to be false or incorrect in any material particular."*

7. ***AND WHEREAS, Section 22 of the Ordinance provides that:***

> *" If any person refuses or fails to furnish any document, paper or information which he is required to furnish by or under this Ordinance; or refuses or fails to comply with any order or direction of the*

Commission made or issued under this Ordinance; or contravenes or otherwise fails to comply with the provisions of this Ordinance or any rules or regulations made thereunder, the Commission may if it is satisfied after giving the person an opportunity of being heard that the refusal, failure or contravention was willful, by order direct that such person shall pay to the Commission by way of penalty such sum not exceeding fifty million rupees as may be specified in the order and in the case of continuing default, a further sum calculated at the rate of two hundred thousand rupees for every day after the issue of such order during which the refusal, failure or contravention continues."

8. ***NOW THEREFORE,*** *you are hereby called upon to show cause in writing by February 11, 2013, as to why action as provided under Section 22 of the may not be initiated against you for violation as indicated above. You are further directed to appear in person or through an authorized representative (with documentary proof of such authorization), on* ***February 15, 2013 at 11:00 a.m****. at the SECP Headquarters – Islamabad. You are advised to bring all relevant record in original, which you may consider necessary for clarification or in your defense. This notice sufficiently discharges the Commission's obligation to afford an opportunity of hearing in terms of Section 22 of the Ordinance. In case of your failure to appear on the stated date of hearing it will be deemed that you have nothing to say in your defense and the matter will be decided ex-party on the basis of available record.*

9. *Please note that this show cause is being issued without prejudice to any action, which may be taken or warranted for the above said or any other default under the above referred or any other provisions of law. Kindly acknowledge receipt of this show cause notice through return fax or courier at your earliest.*

Sd/-
Hasnat Ahmad
Director

4. Thereafter, the hearing fixed for February 15, 2013 was adjourned on the request of the Respondent. The Respondent submitted a written response to the SCN on March 12, 2013. The following arguments were put forward by the Respondent in its written response and during the hearing held on March 13, 2013:

(a) *Understatement of Trade Receivables:* In respect of this, the Respondent in its written statement stated as under:

> *"We calculated trade debtors within 14 days on the basis of overall position of debtors. When a particular customer is outstanding for more than 14 days then full amount is excluded from trade debtors within 14 days"*

(b) *Overstatement of Securities Purchased for Clients:* The Respondent in its written statement stated as under:

> *"We have calculated amount of trade debtors above 14 days on the basis of overall*

debtors' position and not on the basis of each transaction. Therefore, the remaining balance worked out to be Rs. 109.815 million"

(c) *Understatement of Other Liabilities:* The Respondent in its written statement stated as under:

"*Net Capital Balance statement was prepared and submitted in Stock Exchange on September 9th, 2011 while the audit was completed on October 31, 2011. The difference was the adjustments as required in audited accounts and was not available at the time of issue of NCB certificate*"

5. 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 apparent that the Respondent verified the amount of trade receivables above 14 days on the basis of overall debtors' position and not on the basis of each transaction. The same interpretation issue resulted in overstatement in 'securities purchased for clients'.

6. It is clarified that the Third Schedule of SE Rules states that *Book Value less those overdue for more than 14 days* which clearly indicates that transactions outstanding for more than 14 days must be considered as overdue. It is also a well-established principle that general payments against receivables should first be adjusted against older balances. All of these arguments contend the Respondent's stance over treatment of receivables on collective basis rather than on individual transactions basis. Based on the perusal of record and proceedings of the hearing, I am of the view that the violation on the part of the Respondent was more of an interpretation issue rather than a willful act.

7. Although, the violation of the Ordinance, rules and regulations is a serious matter; however, considering that the violations were not willful; therefore, taking a lenient view, the Respondent is warned and strictly advised to be vigilant and in future fully comply with the Rules, Regulations and directions of the Commission.

8. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with the law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.

Hasnat Ahmad
Director (MSRD)

Announced on April 11, 2013
Islamabad.

SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
SECP