



Securities and Exchange Commission of Pakistan  
Securities Market Division

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Through Courier

Before The Director / HOD (MSRD)

In the matter of Show Cause Notice issued to D.J.M. Securities (Pvt) Limited

*Date of Hearing:* March 4, 2014  
*Present at the Hearing:*  
*Representing D.J.M. Securities (Private) Limited*  
(i) Mr. Dawood Jan Muhammad Chief Executive Officer  
  
*Assisting the Director/HOD (MSRD)*  
(i) Mr. Muhammad Tanveer Alam Joint Director  
(ii) Ms. Najia Ubaid Deputy Director

**ORDER**

1. This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(5) SMD/MSRD/C&IW/2013 dated February 21, 2014 ("SCN") served to D.J.M. 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**") and Section 28 of the Central Depositories Act, 1997 ("**CDC Act**").

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 June 04, 2013:

- |                |                    |
|----------------|--------------------|
| a) Kashif Ali  | Deputy Director    |
| b) Adnan Ahmed | Deputy Director    |
| c) Kapeel Dev  | Assistant Director |

SECURITIES & EXCHANGE  
COMMISSION OF PAKISTAN  
NIC Building, 63 Jinnah Avenue,  
Islamabad, Pakistan





SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 1 -

3. The Inspection Team submitted an interim inspection report on September 2, 2013 communicating that the Respondent has not cooperated with them in providing requisite information, documents and clarifications as required under afore said provisions of law, which placed a significant limitation over the scope of inspection. Accordingly, the Commission served an SCN dated September 3, 2013 to the Respondent which was disposed of vide Commission's Order dated November 20, 2013. Subsequently the Inspection Team submitted its final report on January 3, 2014. The Report was shared with the Respondent in accordance with Rule 7 of the Inspection Rules and response thereof was received vide letter dated January 13, 2014.

4. In light of the findings of the inspection report and the comments of the Respondent, the aforesaid SCN was served. Hearing in the matter was scheduled for March 7, 2014 at the Commission's Head Office in Islamabad. However, on the request of the Respondent, hearing was held at the Commission's Karachi Office on March 4, 2014 and written response to the SCN was received vide Respondent's letter dated March 11, 2014. Mr. Dawood Jan Muhammad, Chief Executive Officer of the Respondent ("Representative") attended hearing on behalf of the Respondent.

5. The Respondent in its written response and the Representative of the Respondent during the course of hearing put forward the following argument:

a) **Overstatement of Trade Receivables and NCB:** The Respondent in its written response communicated that:

*"In respect of NCB calculation, it was checked and audited by Daudally Lalani & Co and they are mentioned in your panel of auditors. However, there was no intention to get any benefits from it and we are following the calculation format as defined by you."*

The Representative during the course of hearing communicated that the Respondent has provided complete information to the Inspection Team with respect to the calculation of trade receivables in the NCB. The Representative asserted that the Respondent has changed the auditors for the year 2014 and he himself was involved in the complete process and preparation of NCB. The Representative further added that the Respondent has submitted fresh NCB to KSE and has strictly followed the guidelines issued by the Commission in this regard.





SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 2 -

- b) **Adjustments of amount among clients' accounts without affecting bank accounts:** The Respondent in its written response stated that:

*"the aforesaid JV transaction has been done as per the instruction of clients and done in their family accounts. However, after the audit, we have strictly closed it and doing it through the banking channels."*

The Representative communicated that the Respondent has number of clients whose other family members have also maintained accounts with it. The adjustments identified by the Inspection Team were actually among the accounts of clients' family members. However, the Representative asserted that the Respondent has stopped this practice and shall ensure compliance in future.

- c) **Activity in the account of Intermarket Securities (Private) Limited ("ISL"):** The Respondent in the written reply communicated that:

*"All the transactions are mutually understood friendly transactions done between DJM Securities Pvt Ltd and Intermarket Securities Pvt Ltd '1091' and used for banking channels."*

The Representative of the Respondent during the course of hearing apprised that the activity highlighted by the Inspection team in the account of ISL was based on mutual agreement. However, the Representative was reminded during hearing that the ledger account of ISL is appearing as a subsidiary ledger of a client.

- d) **Segregation of clients' assets and Collateral account:** The Respondent in the written response informed that:

*"In respect of segregation of clients' assets, the account has been already opened and now we are strictly maintaining it. In respect of collateral account, it has been opened and now we will follow your regulations but from the practically point of view, there is too many hurdles and we are requesting you to please revisit the regulations with the Exchange. In future, when the market volume increases, it will create huge difficulty for all the members."*

The Representative asserted the stance taken by the Respondent during the course of hearing and apprised that the Respondent has opened a Collateral account, however, he would request the KSE to revisit the Regulations in respect of the time limit after which the securities be moved to the collateral account. With regard to segregation of clients' assets, the Representative communicated that in future they





SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 3 -

shall route all payments and receipts from clients' bank account to ensure compliance with applicable regulatory framework.

- e) **Late payment charges:** The Respondent in the written reply stated that:

*"An income of Rs. 54.655 million in respect of late payment charges, we are failed to understand that how you had generated such a huge amount. We are requesting you to please provide us the calculation of it."*

The Representative of the Respondent during the course of hearing asserted that the calculation of Inspection Team in respect of income from late payment charges is incorrect. The Representative further stated that subsequent to the inspection it has stopped imposing late payment charges.

- f) **Risk Management :** The Respondent in its written response with regard to para 9 of the SCN informed that:

*"In respect of acceptance of margins in all securities, we have been accepting the prescribed margins i.e. cash and marketable securities as declared by KSE. In 2008 crisis, we had accepted the other securities for the purpose of recovery and safety of receivable rather than margin."*

The Representative of the Respondent during the hearing communicated that the Respondent did accept the securities but that were for the purpose of recovery relating to 2008 crisis and nothing for the sake of margin was accepted by the Respondent.

- g) **CDC intra account transfers between house account and clients' sub accounts:**

The Respondent in the written reply stated that:

*"In respect of shares belonging to Mr. Tauseef Zia Qadri '107', the matter is belonging to year 2008 crises and our CEO had already explained it verbally to the Commissioner in the hearing. As this matter of receivable is belonged to year 2008 crises and overall market was facing such problems, that is why our CEO had handled it and resolved the matters by his own."*

The Representative of the Respondent with regard to para 11 of the SCN apprised that it accepted property from the client having client code '107' in settlement of the amount due from him during 2008 crises and therefore no receivable was appearing in the trial balance of the Respondent. The securities appearing in his sub-account were actually the Respondent's shares and accordingly it moved





SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 4 -

those shares from the clients account to house account and then subsequently sold the same.

6. I have heard the arguments presented by the Representative 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 Representative of the Respondent during the course of hearing, with regard to calculation of NCB, accepted the observations rose by the Inspection team and assured that in future the Respondent will ensure compliance with the applicable regulatory framework.
- b) With regard to improper books of accounts and adjustments regarding receipts and payments among clients' accounts, the Respondent and the Representative of the Respondent communicated that the adjustments made were among the family accounts of the clients' and was mutually agreed. In this context, it is pertinent to mention here that regulatory requirement of the segregation of clients' assets demand that all the payments made and amounts received on account of the clients of the Respondent be routed through the clients' bank account. The Representative agreeing to this stated that in future it shall ensure that all payments and receipts pertaining to its clients be routed through the banking channel in light of the regulatory requirements.
- c) The Respondent in its written response and the Representative 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 the practice and shall make all possible efforts to route the transactions through collateral account in case of delay in payment by the clients. The Representative further added that it shall be forwarding its suggestions regarding use of collateral account to the KSE.
- d) The Representative of the Respondent during the course of hearing stated that they shall be properly maintaining separate bank account for clients' now and have opened collateral account to ensure compliance of the General Regulations of the KSE.





SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 5 -

- e) With regard to certain CDC intra account transfers and violation of CDC Act, the Representative clarified that those transfers related to the 2008 crisis period. The Representative assured that no other such transfers were done by the Respondent and ensured compliance with the applicable regulatory framework in future.
- f) The Representative of the Respondent during the course of hearing time and again asserted that they will ensure that the observations highlighted in the inspection report are properly addressed and rectified to comply with the applicable statutes, laws, rules, regulations and guidelines issued by the Commission.

7. 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 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. 100,000/- (Rupees One Hundred 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;
- c) Use collateral account in case of non-payment by the clients;
- d) Stop imposing late payment charges;
- e) Maintain proper books of accounts and immediately stop the practice of adjustments among clients' account; and
- f) 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.



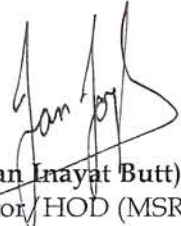


SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 6 -

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.



  
(Imran Inayat Butt)  
Director HOD (MSRD)

Announced on March 31, 2014  
Islamabad.