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

**In the matter of Show Cause Notice dated October 9, 2013 issued to
M/s. First National Equities Limited under Rule 8 & 12 of the Brokers and Agents
Registration Rules, 2001 and Section 24 of the
Central Depositories Act, 1997**

Date of Hearing: December 5, 2013

Representing the Respondent: Mr. Ali Aslam Malik – Chief Executive Officer

Representing (MSRD): Mr. Murtaza Abbas (Deputy Director – MSRD)

ORDER

This Order shall dispose of the proceedings initiated through a Show Cause Notice No. 4/BRK-14/SE/SMD/01 dated October 9, 2013 (“**the SCN**”) issued to M/s. First National Equities Limited (“**the Respondent**”) under Rule 8 & 12 of Brokers and Agents Registration Rules, 2001 (“**the Rules**”) and Section 24 of the Central Depository Act, 1997 (“**the Act**”).

2. This office received a complaint from Abandoned Properties Organization (“**the Complainant**”) against the Respondent regarding non transfer of shares into its CDC Investor account No. 03277-64371. The Respondent vide facsimile dated April 5, 2013 addressed to the Complainant agreed to pay the sale proceeds against disinvestment of its shares which led to the fact that the Complainant’s shares were mishandled and used without due authority. Pursuant to this observation a SCN dated October 23, 2013 was issued to the Respondent the contents of which are reproduced below:—

“SUBJECT: SHOW CAUSE NOTICE UNDER RULE 8 AND 12 OF THE BROKERS AND AGENTS REGISTRATION RULES, 2001 AND SECTION 24 OF THE CDC ACT, 1997”

*THAT M/s. First National Equities Limited, (“**the Respondent**”) is a Trading Right Entitlement Certificate (“**TREC**”) holder of the Karachi Stock Exchange Limited (“**the Exchange**”) and registered as a broker with the Securities and Exchange Commission of Pakistan (“**the Commission**”) under the Brokers and Agents Registration Rules, 2001 (“**the Rules**”).*



2. **WHEREAS**, the Commission received a complaint from Abandoned Properties Organization ("**the Complainant**") dated June 20, 2013 regarding non-transfer of shares into its CDC Investor Account and even after various reminders by the Complainant, the Respondent failed to transfer the said shares. As per the complaint the details of shares are as follows.

S. No	Name of Scrip	No. of Shares	Bonus shares added upto 05-04-2013	Total shares as on 05-04-2013	Bonus shares added up to 30-04-2013	Total No. of shares on 17-06-2013
1.	EFU General Insurance Limited	298,477	25,953	324,430	-	324,430
2.	Pakistan State Oil	515,678	103,136	618,814	123,762	742,576
	Total	814,155	129,089	943,244	123,762	1,067,006

3. **WHEREAS**, The Respondent vide facsimile dated April 5, 2013 addressed to the Complainant agreed to pay the sale proceeds against disinvestment of shares at the closing value of April 5, 2013 as per the following details.

S. No	Name of Scrip	No. of Shares	Rate (Rs.)
1	EFU General Insurance Limited	324,430	76.11
2	Pakistan State Oil	618,814	202.04

4. The above submission made by the Respondent implies that the shares of the Complainant have been handled without due authority and therefore attracts the provisions of Rule 8 & 12 of the Rules and Section 24 of the CDC Act, 1997.

Rule 8 (iv) of the Rules

"Suspension of registration.- Where the Commission is of the opinion that a broker; (iv) has failed to follow any requirement of the code of conduct laid down in the Third Schedule"

Rule 12 of the Rules

"Brokers to abide by code of conduct.- A broker holding a certificate of registration under these rules shall abide by the code of conduct specified in the Third Schedule."

Section 24 of the CDC Act, 1997, Handling book-entry securities without authority.

(1) A participant shall not handle or authorize or permit any handling of book-entry securities entered in the sub-accounts maintained under his account without authority of the sub-account holder.

(2) A participant shall not, except with the authority of his clients, handle or authorize or ¹²⁷ permit any handling of book-entry securities beneficially owned by such clients and entered in his account."

5. **WHEREAS**, Section 28 of the CDC Act, 1997 provides that:

"(1) Notwithstanding anything contained in sub-section (1), whoever knowingly and willfully contravenes or attempts to contravene or abets the contravention of the provisions of section 24 shall be punishable with a fine which may extend to one million rupees and to a further fine not exceeding twenty thousand rupees for every day after the first contravention during which the contravention continues or with imprisonment for a term which may extend to five years, or with both."

(2) Notwithstanding anything contained in sub-section (1), whoever knowingly and willfully contravenes or attempts to contravene or abets the contravention of the provisions of section 24 shall be punishable with a fine which may extend to one million rupees and to a further fine not exceeding twenty thousand rupees for every day after the first contravention during which the contravention continues or with imprisonment for a term which may extend to five years, or with both.

(3) Where an offence under this Act has been committed by a company, every person who at the time the offence was committed was in charge of, and was responsible to, the company for the conduct of the business of the company shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly.

(4) Notwithstanding anything contained in sub-section (3), where an offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or is attributable to any neglect on the part of any director, manager, secretary or other employee of the company, such director, manager, secretary or other employee shall also be deemed to be guilty of the offence."

6. In light of the facts mentioned above, it appears that Respondent is prima facie in contravention of Rule 8 (iv) and 12 of the Rules read with Section 24 of the Central Depositories Act, 1997."

7. **THEREFORE**, you are hereby called upon to show cause in writing by October 21, 2013, as to why action as provided in Rule 8 of the Rules and Section 28 of the CDC Act, 1997 may not be initiated against the Respondent for the violations indicated above. You are further directed to appear in person or through an authorized representative (with documentary proof of such authorization), on **October 23, 2013 at 11.00 a.m.** at the SECP Headquarters – Islamabad. You are advised to bring all relevant original records, which you may consider necessary for clarification/in defense of your stance. This notice sufficiently discharges the Commission's obligation to afford the Respondent an opportunity of hearing in terms of the requirements of

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Rule 8 of the Rules read with Section 31 of the CDC Act, 1997. Please note that in case of failure to appear on the above stated date of hearing, it will be deemed that Respondent has nothing to say in its defense and the matter will be decided on the basis of available record.

s/d

Hasnat Ahmad

Director”

3. Pursuant to the said SCN, the Respondent requested the Commission to adjourn the hearing thrice and finally the hearing was held on December 5, 2013. During the course of hearing Mr. Ali Aslam Malik, Chief Executive Officer of the Respondent, appeared before the undersigned and admitted the facts of SCN and provided verbal assurance that Complainant's claim would be fully settled. He further assured that the copy of undertaking would be provided to the Commission within one week of the date of hearing.

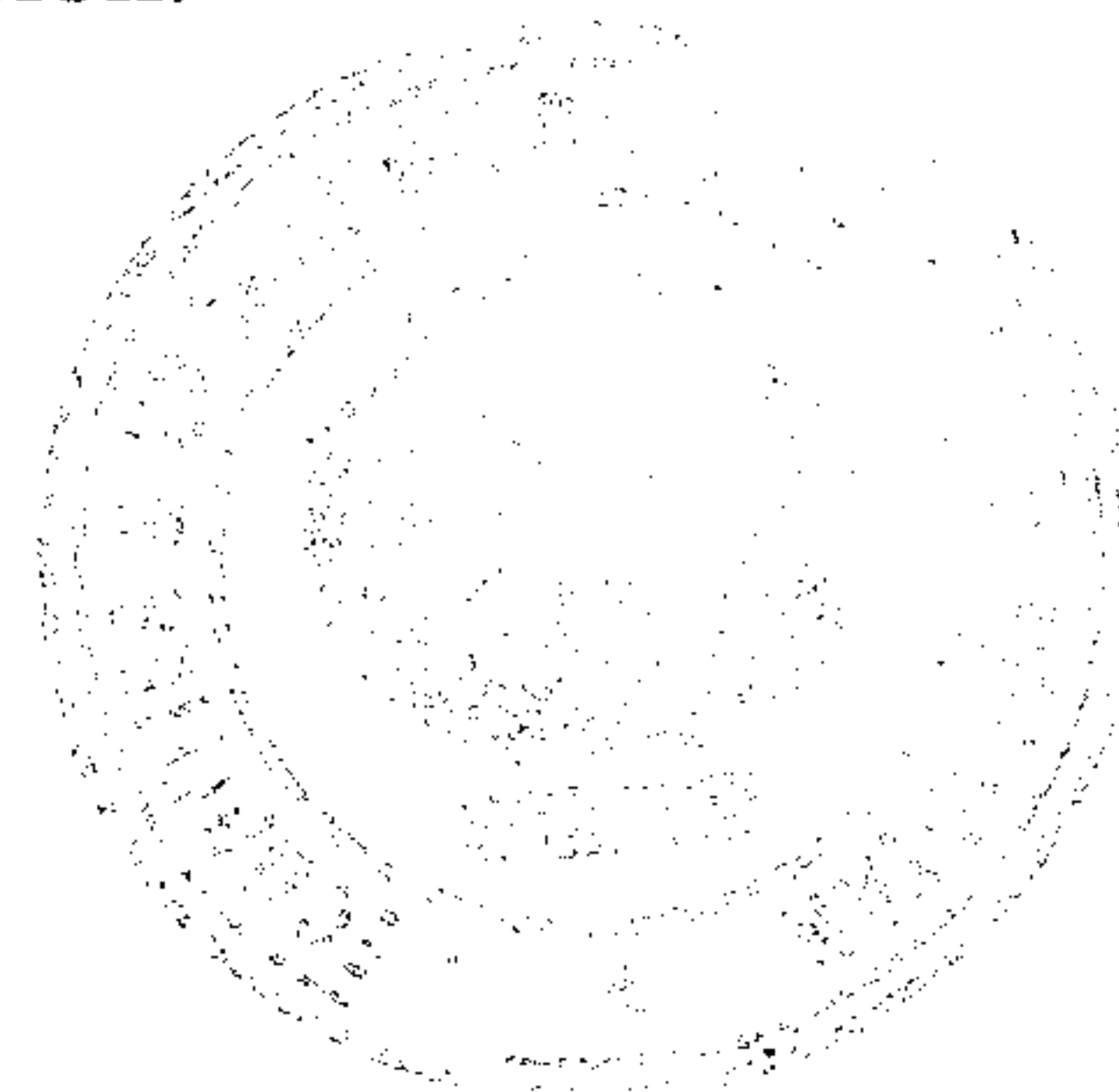
4. The KSE vide letter dated January 3, 2014 shared a copy of the undertaking dated December 30, 2013 whereby the Respondent undertook to clear all liabilities pending towards APO by March 31, 2014.


5. I have examined the facts, evidences and documents on record, in addition to the submissions made on behalf of the Respondent. Looking into the facts of the case it is quite clear that the Respondent used Complainant's shares without due authority and this fact was also admitted by the Respondent during the hearing. Respondent's admission to the alleged violations mentioned in the SCN and its undertaking to the Complainant regarding settlement of claim provides sufficient evidence for proving it to be guilty.

6. Therefore, in exercise of the powers under Section 28 (2) of the CDC Act, 1997, through this Order, I hereby impose a penalty of Rs. 500,000/- (Rupees Five hundred thousand only) on the Respondent to be deposited 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 copy of the deposit challan to the undersigned. The Respondent is further directed to settle the claim of APO as per the undertaking mentioned at Para 4 and avoid any such activity in future.

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

**Announced on February 4, 2014
Islamabad.**




Hasnat Ahmad
Director (MSRD)