



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
Market Supervision and Registration Department

Through Courier

Before The Director / HOD (MSRD)

In the matter of Show Cause Notice issued to Intermarket Securities Limited

*Date of Hearing:*

*September 24, 2013*

*Present at the Hearing:*

*Representing Intermarket Securities Limited*

*(i) Mr. Muhammad Yasin Chaudhary*

*Chief Financial Officer &*

*Company Secretary*

*(ii) Mr. Muhammad Hassan Amin*

*Finance Executive*

*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(1) SMD/MSRD/C&IW dated August 22, 2013 ("SCN") served to Intermarket Securities 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



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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:

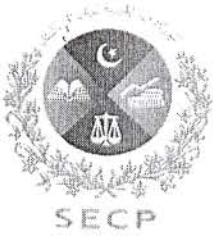
- a) Muhammad Tanveer Deputy Director
- b) Moizuddin Siddiqui Assistant Director

3. The Inspection Team submitted the report ("**Inspection Report**") on May 31, 2013, which was shared with the Respondent vide Commission's letter dated June 4, 2013 in accordance with Rule 7 of the Inspection Rules. The response of the Respondent in the context was received vide letter dated June 24, 2013. The Inspection Report revealed that the Respondent was involved in imposing late payment charges to its clients. Moreover, irregularities in calculation of Net Capital Balance ("**NCB**") as on June 30, 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**").

4. The Commission in light of the Inspection Report and the comments of the Respondent 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 September 6, 2013, which was adjourned to September 11, 2013. However, the Respondent vide letter dated September 5, 2013 requested that the hearing be fixed at Karachi. Acceding to the request of the Respondent, hearing was rescheduled for September 24, 2013 at the Commission's Karachi Office.

5. The Respondent submitted its written response vide letter dated September 3, 2013. Mr. Muhammad Yasin, Chief Financial Officer and Company Secretary of ISL ("**Representative**") and Mr. Muhammad Hassan Amin (Finance Executive of ISL) attended the hearing on behalf of the Respondent. The following arguments were put forward by the





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Respondent in its written response to the SCN and by the Representative of the Respondent during the hearing held on September 24, 2013:

- a) **Late Payment Charges:** The Respondent in its written response, with regard to the late payment charges stated that:

*"ISL had only charged an amount as late payment equivalent to finance charges, which ISL has to pay to the bank and no extra charges were recovered from the clients. ....ISL has never granted any credit facility to any of its clients, but if a client does not pay up, ISL has to make the payment for his purchases to the Stock Exchange.....ISL has borrowing lines from banks and the financial charges payable to the bank are recovered from the client with no extra payment whatsoever."*

The Representative of the Respondent during the hearing asserted that the bank charges being paid by the broker to the banks are levied upon its clients and is a normal market practice. The Representative of the Respondent further stated that it has now stopped imposing the late payment charges even though that this step has adversely affected its business.

- b) **Trade Receivable/ Debts Net Capital Balance:** The Respondent in its written response stated:

*"The difference is largely attributable to a receivable on short term basis from First National Equities Limited ("FNEL") to the extent of Rs 64 million... Total receivable balance including FNEL Receivables aggregates to Rs. 202.849 million. Out of the total receivables Rs. 190.160 million was more than 14 days overdue balance. Against these Receivables there is an amount of Rs. 66.851 million as security balance in CDC, which also includes collateral value of FNEL amounting to Rs. 42 million.."*

The Representative of the Respondent during the hearing communicated that although FNEL was not its client but it provided certain financial support to FNEL during the crisis period and accordingly the receivable was outstanding and was appearing on its financial statement. The Representative of the Respondent added that all the documents evidencing the receivable have been provided to the Inspection Team.

- c) **Investment in Listed Securities:** With regard to overstatement of investment in listed securities, the Representative of the Respondent during the hearing communicated that back office record was not updated and the reconciliation of



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the differences in back office record and CDC account was not provided to the Inspection Team. The Respondent agreed to provide the reconciliation of the differences in back office and CDC account record. Moreover, the Representative of the Respondent added, that earlier when it was not possible to obtain funding by pledging the shares directly from clients' accounts, shares were moved to house account, but now all the securities pertaining to clients have been moved to their respective accounts and the house account of the Respondent purely depicts Respondent's position.

6. The Respondent vide letter dated September 25, 2013 provided the requisite documents evidencing the receivable balance in the name of FNEL, accounted for by the Respondent in the calculation of NCB. The Respondent also provided copy of the bank statement of Account No.1-2-5-20620-714-102078 maintained with Summit Bank Limited depicting that segregation of client's assets has now been observed by the Respondent.

7. 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 Representative of the Respondent during the course of hearing and the Respondent in its written comments stated that FNEL was not its client and the receivable balance from FNEL should not have been accounted for in the calculation of NCB.
- b) The Respondent further narrated the fact that late payment charges are levied on the clients having debit balance and it was a normal business practice.
- c) Moreover, the Representative of the Respondent during the course of hearing apprised that differences in back office and CDC account record have now been settled.





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8. 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 perform its responsibilities as specified in the applicable rules and regulations. In order to maintain the confidence of investors in the securities market, a number of rules, regulations and procedures have been formulated by the Commission which prescribes the minimum set of standards that a broker has to follow. A broker should be perceived as professional that is beyond reproach and it should perform its functions in a fair, proficient and impartial manner.

9. The violation of the Rules and Regulations is a serious matter which may lead to suspension of the Respondent's registration and/or imposition of fine but I have elected not to exercise this power at present. However, on this occasion taking a lenient view, the Respondent is strictly reprimanded and is directed to ensure full compliance with the Ordinance, rules, regulations and directives of the Commission in future.

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 November 07, 2013  
Islamabad.

  
(Imran Inayat Butt)  
Director/HOD (MSRD)