



PAKISTAN STOCK EXCHANGE LIMITED

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Ref. No. PSX/ RAD/O-3174

June 06, 2024

The Board of Directors

M/s. Ismail Iqbal Securities (Private) Limited
House No. C-94 (Main House), KDA Scheme # 1,
Karsaz Road,
Karachi.

Subject: **DECISION IN THE MATTER OF OBSERVATIONS IDENTIFIED DURING THEMATIC REVIEW**

Dear Sir,

This is with reference to subject matter.

Please find enclosed herewith the Order dated June 06, 2024 in the matter of non-compliances identified during thematic review.

The above is for your information and necessary compliance.

Yours truly,

ATIF ISLAM SIDDIQUI

Unit Head | Audit, Inspection, Default & Arbitration
Regulatory Affairs Division

Cc:

1. The HOD/ Director-SD, Licensed and Unlisted Companies Department, SECP
2. Additional Director –SD, Licensed and Unlisted Companies Department, SECP
3. The Chief Regulatory Officer, PSX
4. The Chief Executive Officer-Ismail Iqbal Securities (Private) Limited,
5. The Company Secretary-Ismail Iqbal Securities (Private) Limited (Ensure to circulate enclosed Order to the Board of Directors)

Encl: As Above



**DECISION IN THE MATTER OF NON-COMPLIANCES HIGHLIGHTED
DURING THE THEMATIC REVIEW OF ISMAIL IQBAL SECURITIES
(PRIVATE) LIMITED
[TRADING AND SELF-CLEARING BROKER]**

Hearing Before: Mr. Atif Islam Siddiqui | Unit Head – AIDA – RAD
(Authorized by Chief Regulatory Officer)

Assisting Unit Head: Ms. Sarwat Irshad Syedda | Senior Manager– RAD
Ms. Beenish Mubeen | Manager – RAD

Representing IISPL: Mr. Fazal Ur Rehman | Compliance Officer
Mr. Junaid Haroon | Operations Manager

Date of Hearing: May 07, 2024

1. BACKGROUND:

1.1 Pakistan Stock Exchange Limited [PSX] initiated a thematic review [Review] of Ismail Iqbal Securities (Private) Limited [IISPL] on November 24, 2023 under PSX Regulation 23.9 to ascertain its compliance status with the following regulatory requirements of Securities Brokers (Licensing and Operations) Regulations, 2016 [SBLOR] and PSX Regulations for the period from August 01, 2023 to October 31, 2023:

1. Maintenance of Net Worth
2. Distribution of Profits to the Customers on their Unutilized Funds
3. Mandatory Requirement of ICM Certification
4. Execution of Customer Orders
5. Clients' Assets Segregation

1.2 During the review, the inspection team highlighted non-compliances pertaining to the mandatory requirement for ICM certification, execution of customer orders and profit distribution to customers.

1.3 PSX vide letter dated April 30, 2024 under PSX Regulation 20.4.1 provided an opportunity of being heard to IISPL on May 07, 2024 to discuss the identified non-compliances.

2. OBSERVATIONS, BROKER RESPONSE DURING THE HEARING AND PSX COMMENTS:

The identified observations were discussed with IISPL at length during the hearing. The observations are mentioned below, along with the responses of IISPL and comments of PSX.

2.1 MANDATORY REQUIREMENT OF ICM CERTIFICATION

In order to check compliance status of IISPL with the Regulation 4(k) of SBLOR in relation to the mandatory certification requirement, the inspection team requested IISPL to provide copies of relevant certificates of the following staff:

- Chief Executive Officer
- Compliance Officer



However, IISPL only provided the copies of relevant certificates of Chief Executive Officer whereas the certificates of Compliance Officer were not shared.

In response to the initial finding report, IISPL informed that the previous Compliance Officer has resigned and the new Compliance Officer recently joined IISPL who has all the relevant certifications.

Response of IISPL during the Hearing:

IISPL informed that the Compliance Officer had obtained relevant certification which were shared with the Trading Department of PSX. IISPL further responded that the copies of certificates would also be submitted to RAD-PSX.

Comments of PSX:

During the hearing, IISPL submitted the copy relevant certification of Compliance Officer with PSX. PSX advised IISPL to remain vigilant in ensuring timely compliance with all applicable regulatory requirements including obtaining of relevant certifications as and when applicable.

2.2 EXECUTION OF CUSTOMER ORDERS:

The securities brokers are required to execute the customers' orders only upon their instructions which must be recorded in the manner specified in PSX Regulations and Clause 19 of the Securities Brokers (Licensing and Operations) Regulations, 2016.

The inspection team selected a sample of 106 trade orders for verification of execution of customers' orders and requested IISPL to provide evidence relating to the recording of the customers' instructions for respective trades. In this regard, IISPL has provided call recordings pertaining to the 32 transactions and purchase/sale invoices pertaining to 21 transactions. Further, IISPL did not provide any evidence relating to the remaining 53 transactions.

Furthermore, while listening to the call recordings of 32 transactions, it was noted that the KATS Operator/ Trader contacted the relevant customers subsequent to the execution of trade orders to obtain their acknowledgment on such trade. Similarly, it was noted that provided purchase/ sale invoices were signed by the customers subsequent to the trading day.

Response of IISPL during the Hearing:

During the hearing, IISPL informed that the customers' orders are placed and executed in accordance with the given instructions. Further, it was also informed that due to large clientele, some customers directly approach the relevant traders/ agents through WhatsApp applications on their mobile numbers to place orders which are not recorded. IISPL duly send trade confirmations to all its customers regularly, however, the pre-trade instructions provided by customers through WhatsApp application cannot be recorded. Furthermore, it was assured that IISPL will obtain the acknowledgement of verbal orders in a prescribed manner and also ensure to record all order instructions received through WhatsApp application.

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Comments of PSX:

PSX emphasized the significance of taking and recording customer's instructions. It was clarified that in the event of a dispute relating to the placement or execution of trade orders, the burden of proof falls on the securities broker to establish the order's authenticity.

PSX advised IISPL to maintain proper records/ evidences relating to the customers instructions for trade orders. Further, with respect to visiting customers, PSX advised IISPL to obtain acknowledgement on the trade orders from the respective customers preferably on the same day to minimize the instances of false complaints or disputes. Moreover, it was also advised that IISPL should have formal mechanism in place to maintain records of such information for retrieval during the inspection by competent authority.

2.3 PROFIT DISTRIBUTION:

As per the provided records, IISPL maintains 05 client titled bank accounts, out of which one bank account is a profit-bearing client titled bank account maintained with Bank Alfalah Limited. The details of banks along with the bank balances as of September 15, 2023 are tabulated below:

Sr. No.	Bank Names	Bank A/c. No.	Bank A/c. Type	Amount in PKR
1	Habib Metropolitan Bank Limited	714-000136003	Current Account	19,219,476
2	Soneri Bank Limited	20006204318	Current Account	1,428,133
3	Bank Alfalah Limited	121004651774	Current Account	5,017,692
4	Dubai Islamic Bank Limited	214842002	Current Account	1,289,055
5	Bank Alfalah Limited	121008729550	Profit Account	26,438,929

During the review, it was informed that IISPL has a practice to distribute profit to all such customers who wish to take profit. The inspection team selected a sample of 15 customers for verification of profit distribution to customers on their unutilized funds maintained in the profit-bearing bank account. Further, IISPL was also advised to provide the details of customers with whom they are not sharing the profit. In response, the profit distribution document was provided and it was informed that there are around 405 customers who had refused to take the profit, however, IISPL has provided copy of undertakings submitted by their 21 customers explicitly mentioned that they do not require profit on their unutilized funds. Furthermore, with respect to remaining customers, it was informed that they refused to take profit verbally.

Response of IISPL during the Hearing:

IISPL informed that it has total 1490 customers, out of which approx. 405 customers have opted to forgo profit. IISPL has recently sent an email to all customers wherein it was specified that 25% management fee shall be charged from the customers on the profit amount earned on their unutilized funds. Further, it was also specified in the email that customers who do not wish to take profit must provide the same in writing. However, except few customers most of the them had verbally refused to take profit. As advised during the review, IISPL has again contacted the customers to give their consent in writing, however, still no response is received



from most of the customers. IISPL assured that the profit shall be distributed to all the customers except to those who provide in writing that they do not wish to take profit.

Comments of PSX:

PSX reiterated the Regulation 4.17.1(a) which states following:

"The Securities Broker may keep clients' unutilized funds in a profit-bearing bank account and in such case, shall pass on profit earned on these funds to the clients in proportion to the client's unutilized balance unless specified otherwise in writing by the client;"

In light of the above-mentioned Regulation, PSX advised that IISPL must ensure distribution of profits to its customers on their unutilized funds maintained in profit bearing client titled bank account unless the customers themselves specified in writing instead of verbal response.

3. SUBSEQUENT TO THE HEARING:

IISPL submitted the following documents vide e-mails dated May 15 & 29, 2024:

- i. ICM Certificates of Head of Compliance;
- ii. Evidences relating to remaining 51 transactions, out of which 39 were the call recordings and 12 were purchase/ sale invoices.
- iii. Copy of e-mails sent to the clients disclosing the percentage of deduction as management fee on profit earned;
- iv. Evidences pertaining to profit distribution.

4. PSX ASSESSMENT SUBSEQUENT TO HEARING:

- i. Upon summing up the evidences relating to customers' orders instructions against 106 transactions provided before and subsequent to hearing, following was noted:
 - (a) In 32 call recordings, the KATS Operator/ Trader was affirming to the respective client that he has bought/sold the required number of shares.
 - (b) The copy of purchase/ sale invoices pertaining to the 10 trade transactions which were not signed by the respective customers.
 - (c) No records were provided pertaining to 02 trade transactions.
- ii. The profit bearing client titled bank account maintained with Bank Alfalah Limited was opened on August 15, 2023 and, as per the working and bank statement provided by the IISPL, the Bank had credited total profit of around PKR 2.5 Million during the month of September and October, 2023. The provided working also highlighted that after deducting tax on profit and 25% management fee, PKR 1.6 Million was accrued to be distributed to customers. However, as per markup voucher, IISPL distributed profit of PKR 1.3 Million to only 218 clients which also include 71 clients who had refused to take profit verbally and 9 clients who had refused to take profit in writing.



Further, while evaluating the profit distribution and other documents, it was noted that 831 clients' accounts had credit balances as of April 30, 2024 and profit was distributed to 660 customers. With respect to the remaining 171 accounts, IISPL had provided following breakup:

(a) Accounts Closed (92 Client Accounts):

These accounts have average credit balance of PKR 5,600. However, IISPL has provided UIN post report pertaining to 81 accounts wherein the UIN status of the respective clients is appearing as closed.

(b) Insufficient Balance (28 Client Accounts):

These accounts have average credit balance of PKR 1,154.

(c) Institutional Clients (13 Client Accounts):

These accounts have average credit balance of PKR 77,000 and IISPL is of the view that institutional clients are not entitled for profit.

(d) Undertaking Obtained (24 Client Accounts):

IISPL has provided total 16 emails received from its clients out of which only 13 emails are corresponding with clients' information appearing in the trial balance.

(e) Profit Distributed (14 Client Accounts):

IISPL provided list of 14 clients along with a copy of JV whereby the accumulated profit amounting to PKR 21,983 was passed on to such clients on May 29, 2024 separately as they refused verbally to accept profit.

5. DECISION:

Having considered the relevant facts and aspects in light of the above proceedings, it has been established that IISPL was found deficient in maintaining proper records of customers' pre trade clients' instructions and in ensuring proper distribution of profits to all customers who have not refused to take profit in writing.

In light of the foregoing, IISPL is hereby directed to comply with the following:

- (a) Pay an aggregate fine of PKR 100,000 within 30 days from the date of this Order.
- (b) Ensure to maintain proper and sufficient records pertaining to the clients' orders instructions in the manner prescribed under the relevant regulations of PSX and SECP.
- (c) Ensure payment of profit to the customers accrued on the unutilized funds maintained in profit bearing client titled bank account unless any customer (individual or corporate) has refused in writing to receive profit.
- (d) Ensure regular and timely compliance with all applicable regulations at all times in letter and spirit.



This Order shall dispose-off the matters relating to PSX Regulations highlighted during the review and is issued without prejudice to the right of PSX to further initiate any enquiry, special audit with expanded, restricted, or different scope or to take any punitive action against IISPL in accordance with the relevant regulations on matters subsequently investigated or otherwise brought to the knowledge of PSX.

A handwritten signature in black ink, appearing to read 'AJEET KUMAR', is written over a horizontal line.

AJEET KUMAR
CHIEF REGULATORY OFFICER

Date: June 06, 2024