



PAKISTAN STOCK EXCHANGE LIMITED

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Ref. No. PSX/ RAD/O-2925

September 01, 2023

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 NON-COMPLIANCES IDENTIFIED DURING THE VERIFICATION OF CLIENT ASSETS' SEGREGATION

Dear Sirs,

This is with reference to subject matter.

Please find enclosed herewith the Order dated September 01, 2023 in the matter of non-compliance identified during the verification of Client Assets Segregation.

The above is for your information and necessary compliance.

Yours truly,

ATIF ISLAM SIDDIQUI

Senior Manager
Regulatory Affairs Division

Cc:

1. Chief Executive Officer – Ismail Iqbal Securities (Private) Limited
2. HOD/Director – Supervision Division – (Onsite Department), SECP
3. Additional Director – Supervision Division – (Offsite I Department), SECP
4. Company Secretary – Ismail Iqbal Securities (Private) Limited (Ensuring to circulate enclosed Order to the Board of Directors)

Encl: As Above



ORDER IN THE MATTER OF NON-COMPLIANCE HIGHLIGHTED
DURING THE VERIFICATION OF CLIENTS' ASSETS SEGREGATION
OF ISMAIL IQBAL SECURITIES (PRIVATE) LIMITED

Hearing before: Mr. Atif Islam Siddiqui | Senior Manager, RAD-PSX
(Authorized by Chief Regulatory Officer)

Representing Broker: Mr. Saddam Hussain | Compliance Officer

Assisting Senior Manager: Mr. Hafeez Ur Rehman | Officer, RAD-PSX

Date of hearing: June 22, 2023

1. BACKGROUND:

- 1.1 Pakistan Stock Exchange Limited [PSX] conducted an off-site review under PSX Regulation 23.9 to check the compliance status of Ismail Iqbal Securities (Private) Limited [Broker] with PSX Regulation 4.17.1 in relation to "Client Assets' Segregation" [CAS]. The review of broker was initiated on April 18, 2023 to verify position of CAS as of January 19, 2023.
- 1.2 During the verification, the Inspection Team observed a shortfall in clients' funds against the clients' trade payables on review date. The details of the same are tabulated below:

Description	Ref.	Amount in PKR
Trade Payable (Clients)	A	98,481,015
Bank Balance of Client titled Bank Accounts (as per ledger)	B	51,437,190
Cash Margins deposited with NCCPL (Debit Balance as per Ledger)	C	6,203,691
Cash Margins deposited with NCCPL (Credit Balance as per Ledger)	D	7,886,304
Total Funds as per Ledger	E=(B+C-D)	49,754,577
Observed Excess / (Shortfall) in Client's Funds	(E-A)	(48,726,437)

- 1.3 The Broker had reported its clients' trade payables and funds in client titled bank account amounting to PKR 99.70Mn and PKR 100.96Mn respectively in fortnightly CAS Statement as of January 15, 2023 submitted with PSX. While reviewing the bank ledgers of the Broker, the Inspection Team also noted that an amount of **PKR 77 Million** was transferred from the Bank Alfalah Limited (Running Finance Account) to Bank Alfalah Limited (Client Account) on January 13, 2023. Subsequently, an amount of **PKR 47.50 Million** was found transferred from Bank Alfalah Limited (Client Account) to Bank Alfalah Limited (Running Finance Account) on January 16, 2023. These round trip transactions indicate that the Broker may have transferred funds from RF Bank account to clients titled Bank account in order to report compliant status to PSX as on January 15, 2023.
- 1.4 PSX vide email dated May 23, 2023 sought explanation regarding the above mentioned observations. In response, the Broker vide email dated May 25, 2023 submitted its response to PSX. The relevant extracts of response are mentioned below:



"Firstly, we acknowledge the shortfall identified in our clients' fund account by your esteemed inspection team. It is crucial to understand that this occurrence can be attributed to the prevailing economic and business challenges faced by the brokerage industry, as well as the stock market as a whole. The continuous decline in trading volume, coupled with escalating operational costs, has placed considerable strain on our ability to sustain operations effectively. Consequently, we have made the difficult decision to discontinue our activities and voluntarily surrender our TREC license, effectively exiting the market. On April 19, 2023, we submitted a formal letter to PSX outlining our intentions.

Despite the aforementioned difficulties, it is worth noting that we diligently submitted our fortnightly CASS reports, consistently maintaining the integrity of our clients' funds without any shortfall. This serves as a testament to our commitment to ensuring that adequate funds are readily available to address any discrepancies in clients' accounts, should the need arise. Throughout this period, we dedicated our efforts to resolving our position and making recoveries in preparation for the permanent closure of our brokerage house.

Following a thorough evaluation, our board of directors unanimously agreed to continue operations on a limited scale, implementing stringent measures such as right-sizing and reducing avoidable costs over the next six months. This strategic decision was made in order to uphold the trust of our valued investors within the stock market. Our unwavering focus remains on restoring profitability while maintaining full compliance in all aspects of our operations. Admittedly, stabilizing our position amidst the current challenging market and business conditions has required additional time and concerted effort. I am pleased to inform you that we are fully compliant with the requirements for client asset segregation, and we are prepared to provide any necessary statements at your convenience."

- 1.5 Since the response submitted by the Broker was not satisfactory and lacked relevance and justification against the observed shortfall in clients' funds, PSX vide letter dated June 20, 2023 issued a show cause and hearing notice to the Broker and provided an opportunity of being heard on June 22, 2023.

2. DURING THE HEARING:

- 2.1 During the hearing on June 22, 2023, the broker acknowledged the shortfall in clients' funds as of January 19, 2023 and took the same stance as communicated vide email dated May 25, 2023.
- 2.2 On enquiry relating to the reason for the shortfall in clients' funds, the broker responded that due to the current market conditions, the turn-around time for recovery of funds from clients against their trades had significantly increased which created temporary liquidity issues. However, the broker addressed and managed its liquidity issues and rectified the non-compliance relating to the improper segregation of clients' funds.
- 2.3 The inspection team informed that a shortfall in clients' funds was also observed as of May 05, 2023 to the tune of PKR 32 million. The broker responded that during the month of May 2023 they were resolving the liquidity issues, and PSX will find the broker compliant with the requirements relating to CAS subsequent to May 2023.
- 2.4 PSX emphasized that clients' funds must be used exclusively to meet clients' trade obligations and the brokers are not allowed to utilize clients' funds for their own purposes and/or to extend financing to other clients for trading and settlement purposes. PSX advised the Broker to ensure proper segregation of clients' assets at all times in letter and spirit.



3. PSX'S ASSESSMENT ON SUBSEQUENT DATES:

In order to confirm the status of compliance on subsequent dates, PSX performed verification of clients' funds segregation as of July 20, 2023 and August 10, 2023 and did not observe a shortfall in clients' funds based on the information provided by the Broker.

4. DECISION:

Having considered all relevant facts and aspects in light of the above proceeding, it has been established that the broker was non-compliant with the requirement of maintaining proper segregation of clients' funds as stipulated under PSX Regulations 4.17.1(a). In view of the foregoing, the broker is hereby directed to comply with the following:

- a) Pay a fine of PKR **2,000,000/-**, imposed in accordance with PSX Regulation 20.8.2, within 14 days from the date of this Order.
- b) Maintain sufficient funds in client-titled bank accounts at all times in order to comply with the fiduciary obligation to maintain segregation of clients' assets at all times.
- c) Submit CASS as of the upcoming fortnight, together with all relevant documentary evidences.
- d) Remain vigilant in the future and ensure compliance with all applicable regulations at all times in letter and spirit.

This Order shall dispose of the above-discussed matter(s), it may be noted that the said Order is issued without prejudice to the right of PSX to initiate any inquiry, or special audit with expanded, restricted, or different scope to take any punitive action against the broker in accordance with the relevant Regulations on matters subsequently investigated or otherwise brought to the knowledge of PSX.

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

AJEET KUMAR
CHIEF REGULATORY OFFICER

Date: September 1, 2023