



Through Courier

Before the Director / HOD (MSRD)

In the matter of Show Cause Notice issued to WE Financial Services Limited
under Section 22 of the Securities and Exchange Ordinance, 1969

Date of Hearing:

October 29, 2014

Present at the Hearing:

Representing WE Financial Services Limited

(i) Mr. Humayun Javed

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(17) SMD/MSRD/C&IW/2013 dated October 10, 2014 ("SCN") served to WE Financial Services 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 Respondent in compliance with the Commission's Order dated April 17, 2014 was required to submit its Net Capital Balance ("**NCB**") Certificate after every three months starting from March 31, 2014 till December 31, 2014 along with copy of its trial balance of the same date within 15 days of the end of each three months' period. First NCB statement as of June 30, 2014 was to be submitted to the Commission by July 15, 2014 along with the requisite information as per the referred Order.

3. The Respondent vide Commission's letter dated July 18, 2014 was reminded to ensure compliance with the Commission's above referred Order by July 25, 2014. The Respondent



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vide letter dated July 23, 2014, requested for extension in time till August 15, 2014 for submission of NCB certificate. NCB as of June 30, 2014 along with copy of trial balance of the same date of the Respondent was received in this office on August 18, 2014.

4. Evaluation of the NCB and trial balance as of June 30, 2014 of the Respondent revealed that an amount of Rs. 1,000 only was available in the bank account tagged as clients' account against trade payables of Rs. 12.911 million; and investment by the Respondent in Term Deposit Receipts ("TDR") of Rs. 15 million was included in the other bank balances. The Respondent, vide email dated August 20, 2014, was asked to provide breakup of Rs. 15.529 million appearing as bank balance in the NCB certificate. The Respondent vide letter dated August 22, 2014, confirmed that Rs. 15 million was invested in TDR with MCB Bank Limited and that the running finance balance with MCB Bank Limited in account no. 1693-1 was shown as other liabilities. The Respondent also provided copies of the TDR certificates issued by MCB Bank Limited in the name of the Respondent bearing the same account number from which it obtained running finance facility.

5. In order to further clarify, the Commission vide letter dated September 2, 2014 enquired from the Respondent regarding segregation of clients' assets. The Respondent vide letter dated September 10, 2014, informed that the creditors were fully secured against TDR of Rs. 15 million held with its bank. The Respondent further requested that time till December 31, 2014 be allowed to ensure segregation of clients' assets.

6. The Commission vide letter dated September 17, 2014 again drawn the attention of the Respondent towards regulatory requirements pertaining to segregation of clients' assets specified in Regulation 4.19.1 of the KSE Rule Book and advised it to ensure segregation of clients' assets. Furthermore, as an evidence of compliance, the Respondent was required to submit the copy of bank statement of clients' account as of September 30, 2014 along with copy of trial balance of the same date depicting gross trade receivables and trade payables by October 6, 2014. However, the Respondent again requested for grant of time till December 31, 2014 for compliance with the regulatory requirements regarding segregation of clients' assets.



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7. From the denoted details it appeared that the Respondent failed to maintain segregation of clients' assets, accordingly, the Commission 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 October 24, 2014 at the Commission's Karachi Office, which was rescheduled and held on October 29, 2014.

8. Mr. Humayun Javed, Chief Executive Officer of the Respondent ("**Representative**") attended the hearing on behalf of the Respondent. Neither the Respondent nor the Representative of the Respondent submitted any written response to the SCN. However, the Representative of the Respondent during the hearing submitted copy of the bank statement of clients' bank account as of October 28, 2014 along with copy of the trial balance of the same date depicting trade payables position.

9. The Representative of the Respondent during the course of hearing assured future compliance with the regulatory requirements regarding segregation of clients' assets and stated that the reason for non-compliance till date was the maturity date of TDR which is April 10, 2015. The Representative further added that if the TDR was converted to cash before the maturity date the Respondent has to bear extra cost in the form of penalty.

10. The Representative of the Respondent apprised that it has injected capital, as is evident from the bank statement depicting an amount of Rs. 12.5 million approximately as of October 28, 2014 against trade payables of the same date of Rs. 12.9 million. In response to the query regarding withdrawal of the amount from clients' bank account subsequent to the hearing, the Representative averred that it shall comply with the regulatory requirements and stated that as the Respondent has to submit the NCB certificate for December 31, 2014 to ensure compliance with Commission's Order dated April 17, 2014, the Commission can verify the compliance from that information as well.

11. 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 correspondence with the Respondent in the context. Accordingly, my findings on the



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arguments and assertions made by the Respondent to the issue raised in the SCN are as follows:

- a) The Representative during the course of hearing provided a bank statement where in deposits of Rs. 7.49 million were made on October 28, 2014, a day before the date of hearing and an amount of Rs. 5 million was deposited on October 23, 2014 resulting in a total balance of Rs. 12.49 million. The Representative also provided a statement depicting trade payables as of October 28, 2014 of Rs. 12.9 million.
- b) The Respondent, in response to the Commission's query vide email dated November 7, 2014, communicated the following details on which account the amounts were credited in the clients' bank account maintained by the Respondent:

Sr. No	Particulars	Amount	Details
1	Javed Ali Khan - client	2,000,000	Reduction in receivable balance
2	Atif Azmat - client	2,990,057	Increase in payable amount
3	We Financial Services	2,500,000	Transfer from another account of the Respondent
4	Paid Up Capital - Ghazal Tahir	5,000,000	On account of increase in paid up capital

- c) The details submitted by the Respondent depict its intention of being compliant with the regulatory requirements regarding segregation of clients' assets, which the Respondent also proclaimed during the course of hearing. However, it is pertinent to mention here that compliance in true spirit requires that all payments made to the Respondent's clients and received from it in the context are processed through the bank account tagged as clients' account.
- d) The Respondent also communicated its limitation in terms of liquidation of the TDR certificates before the time of maturity.

12. I am of the considered view that the Respondent being custodian of clients' assets should act prudently and ensure proper segregation of clients' assets. The applicable regulatory framework provides very clear instructions to be followed by the brokers. In this regard, Regulation 4.19.1 of Chapter 4 of KSE Rule Book states that the broker shall ensure



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that assets belonging to the clients are kept separated from the assets of the broker and should maintain a separate bank account along with record/breakdown of clients' balance.

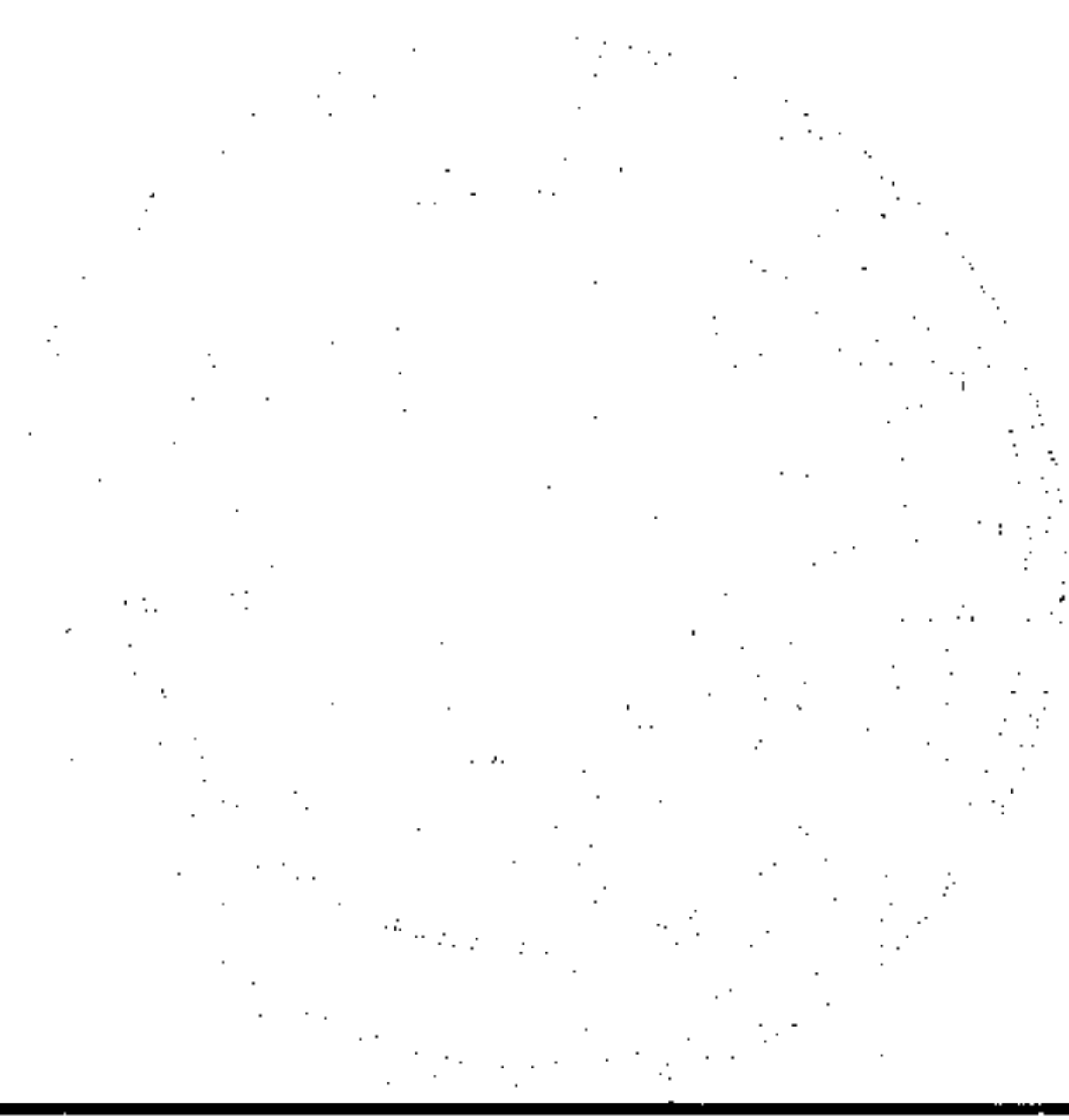
13. After a detailed and thorough perusal of the facts, evidence/information available on record, contentions and averments made by the Representative of the Respondent during the course of the hearing, it is evident that the Respondent failed to maintain segregation of clients' assets as of September 30, 2014. However, subsequent to the SCN and before the date of hearing, the Respondent deposited an amount equivalent to trade payables of that date in the clients' bank account and also assured future compliance of the regulatory requirement in letter and spirit.

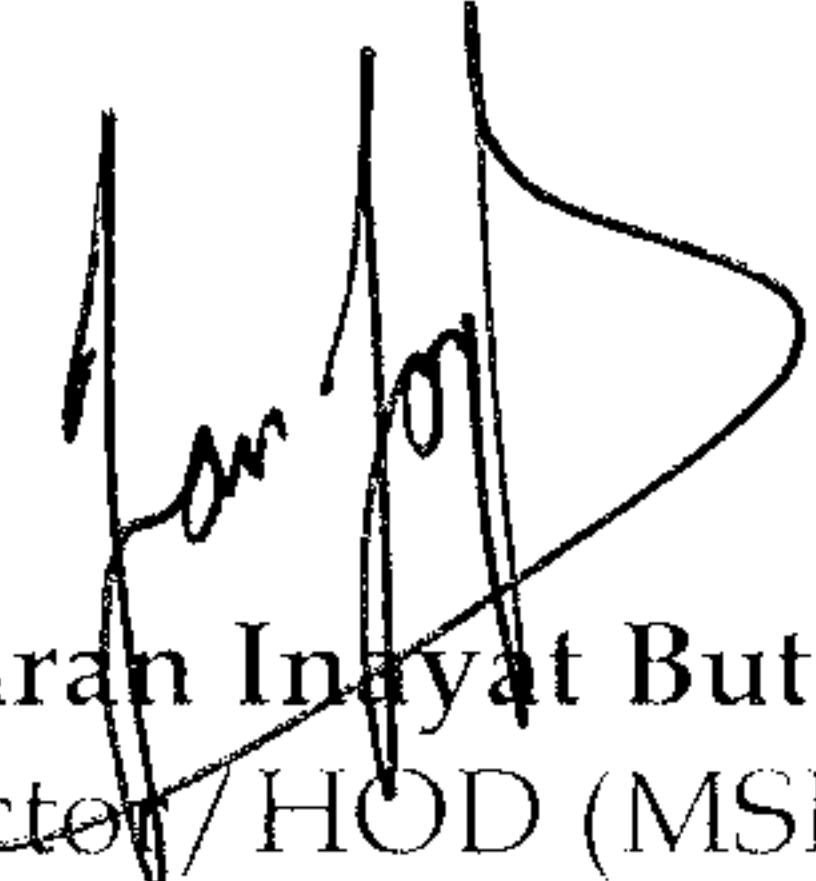
14. The violation of the Rules and Regulations is a serious matter, however, taking a lenient view this time based on availability of funds in the clients' bank account, the Respondent is strictly warned to maintain segregation of clients' assets in letter and spirit. Moreover, the Respondent is advised to submit NCB Certificate as of December 31, 2014 along with copy of its trial balance of the same date by January 15, 2015, as directed vide Commission's Order dated April 17, 2014.

15. 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.

16. 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 11, 2014
Islamabad.




(Imran Inayat Butt)
Director/HOD (MSRD)