

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

In the matter of Show Cause Notice Dated October 25, 2012 issued to
Hum Securities Limited, Member Pakistan Mercantile Exchange Limited

Date of Hearing: November 28, 2012
Representing the Respondent: Mr. Shahid Nadeem
Representing MS&CID: Ms. Saima Shafi Rana (Deputy Director-MSCID)

ORDER

1. This Order shall dispose of the proceedings initiated through Show Cause Notice No. 4/BRC-160/PMEX/SMD/11 dated October 25, 2012 (**"the SCN"**) issued under Rule 15 of the Commodity Exchange and Futures Contract Rules, 2005 (**"the Commodity Rules"**) to M/s. Hum Securities Limited (**"the Respondent"**), member Pakistan Mercantile Exchange Limited (**"the PMEX"**) and a broker registered with the Securities and Exchange Commission of Pakistan (the **"Commission"**) under the Commodity Rules.

2. Brief facts of the case are that the Respondent was previously a member of the Karachi Stock Exchange Limited (the **"KSE"**). Later on, the Respondent transferred its membership of KSE and ceased to be a member of KSE with effect from May 7, 2012. Soon after transferring of the said membership, a large number of complaints amounting to Rs. 16 million (the **"complaints"**) were received by KSE. Despite constant follow-up by the Commission, the Respondent failed to resolve a large number of the complaints. Therefore, the Commission served a SCN to the Respondent, the contents of which are reproduced below:-

SUBJECT: SHOW CAUSE NOTICE UNDER RULE 15 OF THE COMMODITY EXCHANGE AND FUTURES CONTRACT RULES, 2005

WHEREAS, M/s. Hum Securities limited ("HSL") is a member of the Pakistan Mercantile Exchange and registered as a broker with the Securities and Exchange Commission of Pakistan (the "Commission") under the Commodity Exchange and Futures Contract Rules, 2005 (the "Commodity Rules").


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2. **AND WHEREAS**, previously, HSL was also a member of the Karachi Stock Exchange Limited (the "KSE") and was registered with the Commission under the Brokers and Agents Registration Rules, 2001 (the "**Brokers Rules**"). However, HSL transferred its membership of KSE and ceased to be a member of KSE with effect from May 7, 2012.

3. **AND WHEREAS**, after transfer of the said membership, large number of claims against HSL amounting to approximately Rupees sixteen million was received to the KSE which till today have not been resolved.

4. **AND WHEREAS**, HSL though its letter dated August 2, 2012, addressed to the Managing Director KSE, has requested to help HSL pay off and settle the pending claims from their previous contributions on account of Clearing House Protection Fund and Investor Protection Fund, thereby implying weak financial condition of HSL.

5. **AND WHEREAS**, in light of the preceding paragraphs, it appears that HSL has not only failed to settle investor complaints but apparently, its financial position has deteriorated to an extent that its continuance in the business may not be in the interest of market.

6. **AND WHEREAS**, Rule 15 of the Commodity Rules provides that in case of the specified violations:

"the Commission may, if it considers necessary in the public interest so to do, by order in writing (a) Suspend the registration of a broker for such period as may be specified in the order; or (b) impose on a broker a fine not exceeding one hundred thousand rupees."

7. **NOW THEREFORE**, you are hereby called upon to show cause in writing by November 6, 2012, as to why action as provided in Rule 15 of the Commodity Rules may not be initiated for violation as indicated above. You are further directed to appear in person or through an authorized representative (with documentary proof of such authorization), on **Thursday, November 8, 2012 at 11.00 a.m.** at the Commission's office. You are advised to bring all relevant record in original, which you may consider necessary for clarification/defense of your stance. This notice sufficiently discharges the Commission obligation to afford HSL an opportunity of hearing in terms of Rule 15 of the Commodity Rules and in case of failure to appear on the stated date of hearing it will be deemed that HSL has nothing to say in its defense and the matter will be decided on the basis of available record.

Sd/-
Hasnat Ahmad
Director

3. The Respondent twice requested for the adjournment of the hearing on the contention that it is resolving the investors' complaints. In this regard, a letter dated November 20, 2012 addressed to KSE was submitted which stated that:-




- a) The Respondent has settled and paid for 33 claims worth Rs. 7,230,443
- b) 14 claims amounting to Rs. 1,524,330 have been scrutinized by the Respondent; and
- c) 15 claims amounting to Rs. 7,627,251 are still unsettled

4. In the interest of justice, the request of the Respondent to adjourn the hearing was acceded to. Subsequently, the applicant was provided another opportunity to appear before the undersigned on November 28, 2012. Mr. Shahid Nadeem (the "authorized representative") appeared before me on the given date and time along with a copy of the report submitted to KSE. However, the authorized representative was unaware about the contents of the SCN. He neither defended the Respondent nor submitted comments on the contents of the SCN. He was specifically asked about his defense regarding Para 5 and 7 of the SCN, in response to which he said that he was not aware about the SCN and was merely asked to give copy of the report along with its annexure to the Commission.

5. The authorized representative revealed that he was neither an employee nor agent of the Respondent and was not associated with the Respondent in any capacity. The authorized representative further revealed that he was working with Pasha Securities (Private) Limited (Member of the Islamabad Stock Exchange Limited) and was asked by the Respondent to appear on its behalf. The non-serious attitude of the Respondent which has been depicted by the representation made before the Commission is undermining the authority of the apex regulator and is taken with grave disappointment, concern and seriousness. Nevertheless, such unprofessional behavior, in any case, is intolerable.

6. I have examined the facts and documents on record, in addition to the written and verbal submissions made on behalf of the Respondent. It is disappointing that despite lapse of five months, no serious effort has been made by the Respondent to settle the investors' complaints. The report to KSE along with the annexures is merely the list prepared by the Respondent and does not contain any supporting evidence including the withdrawal letters from the claimants.

7. Non-settlement of investors' complaints and deteriorating financial condition of the Respondent are serious matters because of which I am of the opinion that continuance of the Respondent in the business is not in the interest of the market. Therefore, I hereby under powers delegated to me vide Statutory Notification No. S.R.O 1076(1)/2010 dated November


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29, 2010 hereby suspend the registration of the Respondent till resolution of all legitimate investors' complaints to the satisfaction of the Commission.

8. I strongly advise the Respondent to take immediate measures to resolve all investors' complaints. I also strongly direct the Respondent to fully cooperate and comply with the directions of the Commission in letter and spirit. The matter is disposed of accordingly.

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



Hasnat Ahmad
Director (SM)

Announced on November 29, 2012
Islamabad.

