

**Securities and Exchange Commission of Pakistan**  
**NIC Building, Jinnah Avenue, Islamabad**

**Report on false sensitive information regarding**  
**HUBCO submitted to KSE on 20-11-2001**

Securities & Exchange Commission of Pakistan vide its order No.28/C(SM)/SECP/2001 dated November 27, 2001 appointed the following persons as investigating officers of the Commission to carry out detailed investigations in the matter of false price sensitive information submitted regarding the Hub Power Company Ltd. and to submit a Report pursuant to the Terms of Reference set out (Annexure-I): -

1. Mr. Kamal Afsar Chairman & Convenor  
Chairman,  
Pakistan Reinsurance Co. Ltd.  
Karachi
2. Mr. Abdul Wahab Kodvavi, Member  
Chairman,  
Central Depository Co. of Pakistan Ltd.  
Karachi
3. Mr. Shaharyar Ahmad, Member  
Chairman,  
SEVP and Head of (Investment Banking &  
Establishment)  
United Bank Limited, Karachi.

2. The Investigating Committee held a number of meetings with the officials of Karachi Stock Exchange including its Managing Director, Mr. Noman Ahmed and officials of Hub Power Company Ltd. including its Chief Executive, Mr. Vince Harris. The Committee also went through the relevant documents at KSE and Hub Co. the Committee also visited the telephone and announcement rooms of KSE. A letter from a member of the public, Mr. Shabbir H. Kazmi was also received by the Chairman and placed before the Committee. KSE also conducted its own investigations and the Inquiry Report was also called for by the Committee and duly deliberated upon.

3. A fax message was received by the KSE on Nov. 20, 2001 at 12.39 pm (the time of receipt given in the KSE stamp is 12.42) at telephone No.2410825 (Annexure-II) informing inter alia that the Lenders have approved the Company's request for payment of Final Dividend @PKR2.20 i.e. 22% for the year ended June 30, 2001. (It is to be noted that Hubco had already informed KSE vide their Letter No.Ref.433.ah/ra dated November 5, 2001 (Annexure-III) that Board of Directors had recommended a Final Dividend of PKR 2.20 per share i.e. 22% for the year ended June 30, 2001 subject to Lenders' approval. This information

Facts of  
the Case

was duly announced by KSE on 5th Nov.) The information given in the above mentioned Fax from Hubco was announced by KSE at 12.44.

4. A Press Release titled 'HUBCO Denies Obtaining Lenders' Approval' issued by Hub Co was received at KSE at 2.41pm on Nov. 21, 2001(Annexure-IV).

5. An emergent meeting of the BOD of KSE was held at 4.00pm on November 21, 2001 to consider the Press Release of Hubco wherein the company had denied the news which appeared in the newspapers regarding receipt of consent of Lenders & the payment of 22% Final Dividend. The Hubco Company Secretary alongwith three other officials of Hubco appeared before the BOD and stated that the announcement received by the Exchange purported to be on behalf of the company on November 20,2001 regarding approval of the lenders for payment of final dividend was not genuine. With regard to the query about delay in issuance of the press release, the representatives informed that their Chief Executive was in London, discussing the above matter with the lenders and due to time difference, they could not receive prompt confirmation from him. However, within 15 minutes of confirmation from the Chief Executive, the press release was issued. Copy of Minutes at (Annexure-V). The Board decided as follows: -

Extract from BOD meeting minutes:

"1.4. The Board reviewed the matter and it was decided that both the company and the Stock Exchange will look into this matter to determine the originator of this false information and take remedial measures. It was also decided that the Exchange shall issue a press release in this behalf.

1.5. The representatives of the company were further advised to send all announcements in future under sealed cover through hand delivery by an authorised employee of the company either to the Managing Director, General Manager, Joint Secretary, Company Affairs or Deputy Secretary, Member & Trading Affairs of the Exchange.

1.6. The Board further decided that the trading in the shares of the company will continue on November 22, 2001, sanctity of all transactions will be maintained and the details of transactions in the scrip of the company since November 20, 2001 will also be looked into."

In compliance with the BOD decision, a Press Release was issued by KSE the same day. (Annexure-VI)

6. The KSE Board held 3 more emergent meetings on the issue, two on November 22 and one on November 23 (Minutes at Annexures VII, VIII & IX) Among other decisions, KSE formed a Committee comprising Managing Director, Mr.Noman Ahmed, Mr. M.S.Dalal, Vice Chairman and Mr. Zaigham Rizvi, Director to prepare a Report for submission to the Board (1.9 of minutes of meeting No.35 of 2001

(Annexure-IX).

7. The KSE Committee's Report (Annexure-X) identified various weaknesses in existing procedures for receipt of communications from the companies and the announcements thereof; and suggested measures to strengthen the processes.

8. The Investigating Committee has looked into Listing Regulations of KSE, Correspondence Manual for companies and the past practices of HUBCO with regard to procedures for submission by companies to KSE of information regarding financial results and material changes and the dissemination thereof by KSE.

(i) Listing Regulation V 16(1) stipulates:

Procedures under Listing Regulations and Correspondence Manual  
"Every listed company shall advise and keep advised by appropriate writings to the Exchange of all dividends and entitlement in respect of its listed securities immediately upon recommendations by its directors through a letter to be delivered under a sealed cover during trading hours of the Exchange."

It was noted that the mode of sending the information by fax has not been mentioned.

9. Relevant Forms for the purpose of this investigation in the Correspondence Manual for Companies Listed (Dated May 29,2000) are Forms 3, 7 and 26. Form 3 relates to 'Financial results for the year ended ....., Form 7 relates to 'Financial results for the Half Year ended ....., and Form 26 relates to 'Material Changes'.

Note 2 of Form 3 stipulates: -

(i) "The above information should be sent during trading hours through fax at fax number 2415763 followed by a letter of confirmation under Sealed Cover immediately after the Board meeting ....."

(ii) Note 3 of Form 7 stipulates:-  
"The above information should be sent during trading hours through fax at fax number 2415763 followed by a letter of confirmation under Sealed Cover immediately after the Board meeting....."

(iii) Note 1 of Form 26 stipulates: -  
"A listed company shall immediately inform the Exchange of all the material information via fax at fax number 2415763 and registered post ....."

10. It was noted that as per Correspondence Manual, the information is to be communicated to KSE via fax at telephone number 2415763. It was also noted that procedures of sending information to KSE as stated in Correspondence Manual are not in line with the procedures mentioned in Listing Regulations. The Listing Regulations do not mention the mode

of sending information on fax, whereas Correspondence Manual lays down that the information will be sent by fax on a specific number i.e., 2415763. The fax from Hubco was received on telephone No. 2410825 and not on the telephone No. 2415763 as required under the procedures in Correspondence Manual.

11. It needs to be pointed out that KSE sent a letter dated 8th Nov., 2001 to Mr. Vince Harris Chief Executive Hubco stating that 'The information may please be sent under sealed cover addressed to our Managing Director' (Annexure-XI).

12. The Committee also looked into the past practices of KSE regarding receiving and announcing information from Hubco. According to Hubco's Chief Executive vide his letter dated November 30, 2001 addressed to Managing Director KSE (Annexure -XII) - Para 7: -.

Practice with regard to Hubco

"The company follows the rules of the KSE but in the recent period the KSE has been accepting announcements transmitted by fax to it. However, it has been the practice of the Company to telephone the KSE before sending the fax to advise that a letter is being faxed by the Company. Following this telephonic advice the letter is then faxed through to the KSE followed immediately by a further telephone call to the KSE to obtain confirmation of the receipt of the faxed letter and the announcement set out therein. The KSE is requested to re-fax to the Company a copy of the letter received by the KSE from the Company. For your ready reference copies of earlier letters/announcements faxed by the company to the KSE are attached. Annexure 2 (5 pages). All press releases of the Company are signed and stamped by a designated official of the Company and circulated to the press only through the Company's Public Relations Consultants."

The Managing Director, KSE confirmed that the above practice regarding Hubco was correctly stated and in the case under inquiry, this practice was not followed. However, according to him as this was not a part of procedures but only a matter of practice, therefore, no one could be held responsible for not acting as per practice but not in violation of procedures.

Logs of Hubco fax machines

13. The Committee also examined the possibility of the fax having actually been sent by Hubco. The logs of all 5 fax machines of Hubco were obtained and according to the logs, the fax was not transmitted from any of those machines (Annexure-XIII). KSE also contacted PTCL but origins of the fax could not be ascertained.

14. The price fluctuations in Hubco shares upon the receipt of 'fax' on 20.11.2001 were not significant enough from which large benefits could have been derived by anyone (Annexure-XIV).

15. The Committee is of the view that the benefits, if any, of the fake fax could only be obtained through sale of shares by: -

Possible

- Someone who sent the fax, and then sold the shares to benefit from the false information (sale either from his holding or

Beneficiaries through short sale)

- Someone who had the insider information that the fax was not genuine and that lender's approval had not been received till that time, and therefore could possibly benefit from sale of shares.

The Committee, therefore, focused on major sellers on November 20 & 21, 2001.

KSE  
Information re: transactions

16. The Committee held detailed discussion with Managing Director, KSE & Internal Auditor of KSE and obtained various types of information relating to transactions in Hubco shares from KSE which included:

i) Memberwise Gross Buy/Gross Sale on November 20, 2001 between 9.45am to 12.40pm, 12.40pm to 12.45pm and 12.45pm to 13pm.

Memberwise Gross Buy/Gross Sale on November 21, 2001. (Annexure-XV)

ii) Memberwise transactions with client details of Nov.20 & Nov. 21 alongwith Summary of members with client sales above 100,000 shares on November 20 and November 21, 2001 (Annexure-XVI).

Comments on KSE information

17. The Committee reviewed all the information provided by KSE. The sales of the following members on Nov. 20 & Nov. 21 need to be commented upon: -

(i) Ismail Abdul Shakoor.  
This House was a net seller on November 21, 2001

The sale of 1.77 million shares on Nov.21,2001 of client Shezad and a sale of 300,000 shares of client Faisal on Nov.21,2001 appear to be short sales. The trend of 'sale of shares' was higher on Nov. 21, 2001, the sales on Nov. 21 increased by 171.98% as compared to November 20.

(ii) Salman Services (Pvt) Ltd.  
Following sales appear to be short sales: -

- Siddique Azad                      400,000 shares on Nov. 20 and 600,000 shares on Nov. 21
- Suleman                                268,000 shares on Nov. 20 and 150,500 shares on Nov. 21

The client Siddique Azad had made a sale of 500,000 shares between 12.40pm to 12.45pm on November 20, 2001.

(iii) Abdul Jabbar Khanani.

One of the clients - M. Rafiq had made a considerable sale - i.e. 1.8 million shares on November 21, 2001 and most of these were sold between 9.45am to 10.30am. Some sales also appear to be short sales. Another unusual thing observed was that while client M. Rafiq sold 1.8 million shares through this House on Nov. 21, a client named M. Rafiq sold 0.8 million shares on Nov. 20, 2001 at 12.57pm through Mr. Yacoob Habib. It could, however, not be established whether this was the same person or there were 2 different persons with the same name.

(iv) Yacoob Habib

Sale of Hubco shares considerably increased on No. 20 as compared to earlier days. This House was a net buyer on November 19 of approx. 477,000 shares. Two clients had made sales of 800,000 & 400,000 shares.

The client M. Rafiq sold 800,000 shares on Nov. 20, 2001 at around 12.57pm. The client Arif sold 300,000 shares between 12.40pm to 12.45pm, remaining 100,000 shares sold at around 12.46pm on Nov. 20, 2001. It was noted that 90.69% of the total sale of this House for the trading day was entered between the timings of 12.40pm to 1.00pm on Nov.20, 2001.

(v) Lakhani Securities (Private) Ltd.

One of the clients had made a sale of 1.5 million shares on November 21, 2001 during the first five to ten minutes of the trading day. On November 21, 2001, sales increased by approx. 97% as compared to November 20, 2001. The House was a net buyer on November 19, 2001.

(vi) Jahangir Siddiqui & Co. Ltd.

This House ranked first in Net Sale on Nov. 20 & 21, 2001 while it ranked fourth in Net Sale between 12.40pm to 1.00pm on Nov. 20, 2001. The House had been net seller in the days prior to November 20, 2001 also, except for November 19, 2001 when they were net buyer.

It was seen that the account title for 1.833 million shares sold on Nov. 20, 2001 and 1.8 million shares sold on November 21, 2001 was different in back office record. However as both the accounts were company owned accounts, the delivery was made against their own holding.

18. The Committee is given to understand that the matters relating to short selling as identified by KSE are being looked into by a separate SECP Committee.

19. The Committee also looked into the matter with a view to establish if any 'insider' dealing was done. The matter was discussed with Managing Director, KSE and Chief Executive Hubco. Hubco supplied

the information (Annexure -XVII) regarding Purchase/Sale of shares of their employees from July 2001 to December 8, 2001. Nothing significant came to light. Hubco also informed that all their Directors had confirmed that they had not traded in any Hubco shares in the period July 1, 2001 to December 8, 2001. M/s Jehangir Siddiqui & Co. Ltd. is an associate company as one of the Directors of Hubco is also a Director on the Board of M/s. Jahangir Siddiqi & Co. Ltd.

20. As price fluctuations in Hubco shares were marginal, no significant benefits could accrue to any seller. In the absence of any evidence, it could not be established that insider trading was done.

## FINDINGS

- (i) After KSE announced on 20-11-2001 that Lenders approval was obtained, the fluctuations in the Hubco shares were not extraordinary. So fortunately, no major damage was done or no major benefits could be obtained by anyone.
- (ii) Due to non-availability of CLI at KSE and contradictions in provisions of Listing Regulations and Correspondence Manual as well as practice in case of Hubco, the information received through fax purportedly from Hubco, was announced by KSE without verification. This could be avoided if proper procedures were laid down, communicated to all companies and acted upon by KSE.
- (iii) The origins of the fax or the originator could not be established in the absence of CLI and due to PTCL's inability to be technically able to locate the origins of the fax.
- (iv) It could not be established that there was Insider Trading in Hubco shares due to the fake fax and its announcement by KSE. The price fluctuations in Hubco shares after the receipt of fax and until Nov. 21, 2001 were marginal which could not have enabled anyone to have significant benefits.

## RECOMMENDATIONS

- (i) The Listing Regulations be updated to include the communication of information by faxes on designated fax numbers only.
- (ii) The Correspondence Manual be updated and brought in line with the updated Listing Regulations. There should be no procedures contradictory to those mentioned in Listing Regulations.
- (iii) The companies be supplied with updated Listing Regulations and Correspondence Manual immediately and strict observance of procedures ensured.
- (iv) The designated telephones at KSE for receiving the information of fax must have CLI System.

- (v) The telephone numbers of each Listed company as provided to KSE should be fed into Computer and through appropriate software, matched with the number from which the fax was being received before the announcement is made.
- (vi) The access to Announcement Room where the designated telephones/fax machines are placed must be restricted to authorised personnel only.
- (vii) The person Incharge of Announcement Room must be of appropriately senior level. List of all staff authorised access should be prominently displayed.
- (viii) Closed circuit T.V. be installed to monitor the activities of Quotation/Announcement Department.
- (ix) Audio recording with time stamping for all announcements through KSE's announcement system be installed.
- (x) The recording of announcement room telephones be made.
- (xi) All information should be disseminated through KSE Web-site immediately after announcement.
- (xii) Violations of SECP/KSE rules especially in respect of short selling be promptly inquired into and deterrent penalties be imposed.

**(Kamal Afsar)**  
Chairman & Convenor

**(Abdul Wahab Kodvavi)**  
Member

**(Shaharyar Ahmad)**  
Member