

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NIC Building, Jinnah Avenue, Blue Area, Islamabad.

BEFORE THE DIRECTOR (SECURITIES MARKET DIVISION)

**IN THE MATTER OF SHOW CAUSE NOTICE DATED 15/07/2005 ISSUED TO
WORLDWIDE SECURITIES (PVT.) LIMITED**

Date of Hearing

5th August 2005

Present at the Hearing:

Representing Worldwide Securities:

Mr. Mohammad Anwar Memon

Mr. Mohammad Asif

Assisting the Director (SM):

Mr. Shaukat Hameed

ORDER

1. The matter arises out of a Show Cause Notice bearing No. SMD/SCN/1/2005 dated 15/07/2005 (hereinafter referred to as "the Notice") issued by the Securities and Exchange Commission of Pakistan (hereinafter referred to as "the Commission") to Worldwide Securities (Pvt.) Limited (hereinafter referred to as "the Respondent") Member-broker Karachi Stock Exchange (Guarantee) Limited (hereinafter referred to as "the KSE").
2. Brief facts of this case are that between 1st March 2005 and 31st March, 2005, the Respondent carried out 104 trades of the shares involving total 3,446,700 shares of National Bank of Pakistan ("NBP"), Oil & Gas Development Company ("OGDC"), Pakistan Oil Field Limited ("POL"), Pakistan Petroleum Limited ("PPL"), Pakistan State Oil Limited ("PSO") and Pakistan Telecommunication Limited ("PTCL") through the Karachi Automated Trading System ("KATS") at KSE on behalf of two of its clients.
3. In the course of these trades, the Respondent purchased and sold, on behalf of two clients, 91,600 shares of NBP, 1,551,900 shares of OGDC, 3,300 shares of POL, 40,800 shares of PPL, 364,100 shares of PSO and 1,395,000 shares of PTCL. Each of these trades cancelled each other out with the effect that there was no change in the beneficial ownership of the shares.
4. This practice on the part of the Respondent interfered with the fair and smooth functioning of the market. It creates a false and misleading appearance of trading activity in the scrips mentioned hereinabove and was, therefore, detrimental to the investors' interests.

5. The Commission obtained the KATS data from the KSE for the relevant period, which showed that during the month of March 2005 the Respondent had executed the following trades which cancelled each other out and did not result in change of beneficial ownership:

DATE	CLIENT CODE	NAME OF SHARE	NUMBER OF SHARES	PURCHASE AND SALE RATE	TIME OF EXECUTION
14/03/2005	5	NBP-REG	89,900	160.00	1227210045
30/03/2005	A	NBP-REG	1,700	120.10	1035080053
1/03/2005	5	OGDC-REG	7,900	123.00	1400320039
2/03/2005	5	OGDC-REG	30,000	125.80	1044290037
3/03/2005	5	OGDC-REG	97,700	122.50	1115480084
7/03/2005	5	OGDC-REG	50,000	142.00	1012200056
7/03/2005	5	OGDC-REG	20,500	142.10	1248250039
7/03/2005	5	OGDC-REG	78,000	142.80	1255540034
7/03/2005	5	OGDC-REG	14,500	141.50	1327270023
7/03/2005	5	OGDC-REG	15,600	141.00	1334170014
7/03/2005	5	OGDC-REG	25,900	141.00	1336470059
7/03/2005	5	OGDC-REG	11,600	141.00	1336520005
7/03/2005	5	OGDC-REG	25,000	140.50	1346370032
8/03/2005	5	OGDC-REG	3,000	141.00	1047360079
8/03/2005	5	OGDC-REG	77,400	140.00	1052330020
8/03/2005	5	OGDC-REG	150,000	143.50	1152510074
8/03/2005	5	OGDC-REG	4,000	147.20	1308350006
8/03/2005	5	OGDC-REG	28,200	148.25	1341210015
9/03/2005	5	OGDC-REG	52,300	153.00	1012330072
9/03/2005	5	OGDC-REG	42,700	158.50	1235130002
9/03/2005	5	OGDC-REG	54,800	158.50	1235150034
14/03/2005	5	OGDC-REG	15,700	173.50	1210010023
14/03/2005	5	OGDC-REG	100,000	173.00	1325400002
15/03/2005	5	OGDC-REG	7,900	179.70	950350068
15/03/2005	5	OGDC-REG	50,000	184.45	1029490068
15/03/2005	5	OGDC-REG	84,700	185.95	1032370048
15/03/2005	5	OGDC-REG	22,000	185.70	1137250056
16/03/2005	5	OGDC-REG	19,400	193.50	1123510058
16/03/2005	5	OGDC-REG	4,500	191.00	1131400032
16/03/2005	5	OGDC-REG	15,300	192.30	1138560062
16/03/2005	5	OGDC-REG	21,400	192.30	1138580022
16/03/2005	5	OGDC-REG	56,500	192.00	1142590065
16/03/2005	5	OGDC-REG	23,800	193.20	1229340040
17/03/2005	5	OGDC-REG	45,200	183.00	1001200028
17/03/2005	5	OGDC-REG	5,200	178.70	1009390031
17/03/2005	5	OGDC-REG	50,000	179.80	1022300043
17/03/2005	5	OGDC-REG	24,300	177.25	1028520002
30/03/2005	A	OGDC-REG	105,000	126.15	1259030022
30/03/2005	A	OGDC-REG	30,200	126.00	1300500010
30/03/2005	A	OGDC-REG	8,500	126.00	1300580037
30/03/2005	A	OGDC-REG	63,800	126.25	1301200020
30/03/2005	A	OGDC-REG	7,500	128.00	1306130002
30/03/2005	A	OGDC-REG	1,900	128.00	1335130010
29/03/2005	A	POL-REG	3,200	240.90	1233020028
29/03/2005	A	POL-REG	100	242.80	1249380022
11/03/2005	5	PPL-REG	300	297.00	1018170023
29/03/2005	A	PPL-REG	17,000	216.50	1308090055
29/03/2005	A	PPL-REG	4,500	221.00	1320200027

30/03/2005	A	PPL-REG	19,000	231.00	1146290039
1/03/2005	5	PSO-REG	25,000	429.50	1113470057
1/03/2005	5	PSO-REG	15,000	433.00	1117310032
1/03/2005	5	PSO-REG	50,000	436.00	1119310047
7/03/2005	5	PSO-REG	4,700	445.00	1212060045
7/03/2005	5	PSO-REG	49,500	446.25	1213590042
8/03/2005	5	PSO-REG	17,000	452.05	1055180006
8/03/2005	5	PSO-REG	3,100	452.00	1055180009
8/03/2005	5	PSO-REG	19,500	453.00	1056050021
8/03/2005	5	PSO-REG	33,500	455.00	1059520115
8/03/2005	5	PSO-REG	12,700	455.25	1111480005
8/03/2005	5	PSO-REG	23,700	466.50	1123090021
9/03/2005	5	PSO-REG	6,800	496.00	946180123
9/03/2005	5	PSO-REG	600	501.00	1107110041
9/03/2005	5	PSO-REG	20,000	500.00	1111510035
9/03/2005	5	PSO-REG	8,100	501.80	1346560018
21/03/2005	5	PSO-REG	100	451.00	1031300011
21/03/2005	5	PSO-REG	3,500	455.90	1053130020
21/03/2005	5	PSO-REG	3,300	455.00	1054520044
21/03/2005	5	PSO-REG	9,500	455.50	1055240038
21/03/2005	5	PSO-REG	3,100	455.00	1055240040
21/03/2005	5	PSO-REG	10,000	438.00	1350230020
21/03/2005	5	PSO-REG	3,800	439.90	1351360022
21/03/2005	5	PSO-REG	5,000	439.70	1354180020
21/03/2005	5	PSO-REG	5,000	440.00	1354280017
21/03/2005	5	PSO-REG	5,000	440.00	1354300008
22/03/2005	5	PSO-REG	900	424.00	1055520010
22/03/2005	5	PSO-REG	7,900	429.00	1341380008
24/03/2005	A	PSO-REG	500	407.55	1048000002
24/03/2005	A	PSO-REG	2,900	409.25	1205050007
24/03/2005	A	PSO-REG	1,700	408.60	1212100010
24/03/2005	A	PSO-REG	2,500	408.10	1233370009
24/03/2005	A	PSO-REG	200	408.25	1238460015
31/03/2005	A	PSO-REG	10,000	441.10	958480082
2/03/2005	5	PTC-REG	98,500	70.95	1010430053
3/03/2005	5	PTC-REG	47,500	70.30	1345450049
3/03/2005	5	PTC-REG	51,500	70.30	1345550044
3/03/2005	5	PTC-REG	16,000	70.80	1350400043
3/03/2005	5	PTC-REG	70,500	71.15	1359480049
3/03/2005	5	PTC-REG	100,000	71.45	1408280014
7/03/2005	5	PTC-REG	5,000	80.55	1039080002
8/03/2005	5	PTC-REG	114,500	82.60	1211140018
8/03/2005	5	PTC-REG	281,000	83.20	1214580040
8/03/2005	5	PTC-REG	27,500	84.40	1258530047
11/03/2005	5	PTC-REG	51,500	89.30	1443110065
11/03/2005	5	PTC-REG	90,500	89.10	1451530045
11/03/2005	5	PTC-REG	6,000	89.10	1452010012
28/03/2005	A	PTC-REG	196,000	67.00	1011330031
29/03/2005	A	PTC-REG	3,000	66.30	1306130036
30/03/2005	A	PTC-REG	22,500	72.40	1112210032
30/03/2005	A	PTC-REG	28,000	72.65	1117160020
30/03/2005	A	PTC-REG	50,000	72.70	1117160024
31/03/2005	A	PTC-REG	7,500	75.50	1115400021
31/03/2005	A	PTC-REG	8,500	75.50	1116290017
31/03/2005	A	PTC-REG	24,500	75.00	1141100047
31/03/2005	A	PTC-REG	95,000	74.20	1148360022

6. In view of the aforesaid data, the Commission issued a Notice dated 15/07/2005 to the Respondent. In this Notice, the details of the aforesaid facts were provided and the Respondent was asked to show cause as to why action should not be initiated against it under Section 17 of the Securities and Exchange Ordinance 1969 ("the Ordinance") and the Brokers and Agents Registration Rules, 2001 ("the Rules"). A copy of the summary of the KATS data was also sent so that it would have the opportunity of answering the same. The Respondent was asked to submit a written reply to the Show Cause Notice within five days from the date of the Notice and the first hearing was fixed in Islamabad for 25/07/2005.
7. At the written request of the Respondent, the date of hearing was extended to 02/08/2005 and subsequently to 05/08/2005. The Respondent submitted a written reply to the Show Cause Notice on 28/07/2005. On the date of hearing, Mr. Mohammad Anwar Memon, Chief Executive and Mr. Mohammad Asif, Director appeared on behalf the Respondent in person before me. The main points raised by the Respondent in its written reply and in the course of hearing were as follows:
- (a) The Respondent admitted to having executed all 104 transactions detailed in the Notice dated 15/07/2005 and stated that out of the total transactions, 77 transactions had been executed on behalf of a client bearing Code No. 5 ("Client 5") while the remaining 27 transactions were executed on behalf of a client bearing Code No. A ("Client A").
 - (b) In respect of total 77 trades executed on behalf of Client 5, it stated that 4 transactions had been erroneously recorded due to inadvertent and unintentional mistake of the KATS operator. The shares were purchased by Client A and sold by Client 5. However the KATS operator erroneously entered the code for client 5 while recording the bid for client code A. The error was detected by the back office of the Respondent at the end of the day and was duly rectified.
 - (c) In respect of the trades executed on behalf of Client 5 and A, the Respondent stated that Client 5 and A were active "day traders" in both the ready and future market. The activity of day trading requires very fast reflexes on the part of investors and KATS operators are bound to be some human errors. The trades in question may have been a result of error on the part of the KATS operator while punching the bids and offers or the trades may have occurred due to overlapping of limit orders given by the Clients 5 and A.

8. On the basis of the aforesaid the Respondent requested that the Notice dated 15/07/2005 be withdrawn. It stated that it had not violated any of the provisions of the Ordinance, including Section 17 or of the Ordinance. The trades were not executed to mislead or manipulate the market price of the shares because these constituted a very small part of the total trades executed on those dates. However, the Respondent admitted that the cumulative impact of all such trades carried out on the exchange may influence the investors.
9. I have heard the views and contentions of the Respondent at length after carefully examining the record, I find that the following issues arise out of this matter:
- (a) Whether the acts of commission and omission as alleged against the Respondent constitute a breach of the Rules? If so, up to what extent?
 - (b) What should the order be?

Each of these issues has been examined seriatim:

- (a) *Whether the acts of commission and omission as alleged against the Respondent constitute a breach of the Rules? If so, up to what extent?*
10. In the course of their written as well as oral contentions, the Respondent has admitted that the Respondent carried out all 104 trades detailed in the Notice dated 15/07/2005. In respect of four of these trades, the Respondent has taken the plea of error on the part of the KATS operator which was subsequently corrected by the back office staff and in respect of the remaining 100 trades they have pleaded human error on the parts of the KATS operator due to the exigencies of day trading.
11. It is evident from the relevant KATS data obtained from the KSE, (which has not been disputed by the Respondent) that all except four of the aforesaid trades had the effect of canceling each other out and did not result in the change in beneficial ownership of these shares. Such trading activity interferes with the fair and smooth functioning of the market due to the fact that it gives the impression of shares being traded in the market when in fact throughout the trades remain in the possession of the same person. The interests of the investor suffer in turn due the fact that they receive a false impression of trading in the market which influences their decision to invest or trade in the market.
12. The Respondent has taken the plea of "human error" on the part of the KATS operator to explain the canceling out effect of the aforesaid 104 transactions.

During the course of the hearing the Respondent informed us that the relevant KATS operator is the employee of the Respondent. They further informed us that all KATS operators are highly skilled and experienced personnel.

13. The plea of "human error" does not hold weight in view of the fact that the KATS operators are highly skilled personnel whose job it is to record such transactions within a very short time period. Even otherwise the same error cannot be repeated 104 times and that too with the same persons.
14. The fact that the same error has been repeated by the KATS operator in respect of 100 transactions goes to show that the Respondent, who as the employer of the KATS operator, is responsible for its errors and omissions, has failed to exercise due skill care and diligence in the conduct of their business. Further, there is no evidence that the Respondent has taken any action against the KATS operator for his obvious omissions which in itself is a failure on the part of the Respondent to exercise due care and skill.
15. I do not however find the Respondent liable under the Rules, for the four transactions executed by them on behalf of Client A, in view of the documentary evidence provided by the Respondent which confirms that the transactions did in fact resulted in a change in beneficial ownership.
16. In engaging in and allowing trading activity in the market merely for the purpose of creating a false impression of trading activity in particular scrips, is not only contrary to high standards of integrity but is also improper, dishonorable and disgraceful and contrary to law.
17. It is evident from the facts detailed above that the Respondent has failed to follow the requirements of the code of conduct prescribed for brokers. By executing and permitting to be executed trades which cancelled each other out and did not result in the transfer of beneficial ownership, the Respondent has indulged in acts which have interfered with the fair and smooth functioning of the market to the detriment of the interests of investors.
18. In failing to ensure that a proper system was in place to avoid repeated "error" on the part of KATS operators, and in failing to take action against the KATS operator in respect of his omissions, the Respondent has failed to act with due skill, care and diligence in the conduct of its business. Consequently, the Respondent has failed in its duty to maintain high standards of integrity, promptitude and fairness in the conduct of all its business and has in fact indulged in dishonorable,

disgraceful and improper conduct on the stock exchange, and has therefore acted in gross and blatant violation of Rule 8(iv) read with Rules 12 of the Rules.

(b) What should the order be?

19. The Respondent has acted contrary to at least four provisions of the code of conduct prescribed for brokers in the Rules, in violation of Rules 8(iv) read with Rules 12 of the Rules. The violation of the Rules is a serious matter which entitles the Commission to suspend the Respondent's license, however the Commission has elected not to exercise this power at present. Therefore in exercise of the powers under Rule 8(b) of the Rules, I hereby impose on the Respondent, the penalty of Rs.100,000 (Rupees one hundred thousand only). This sum of Rs.100,000 (Rupees one hundred thousand only) should be deposited in the designated bank account maintained in the name of the Securities and Exchange Commission of Pakistan with Habib Bank Limited within 30 days from the date of this order and furnish the receipted challan to the Commission.
20. In addition to the aforesaid, I hereby direct the Respondent to abstain from buying and selling of shares in a manner that these do not result in a change in the beneficial ownership of the shares failing which action will be taken against them in accordance with law.
21. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.

(Imtiaz Haider)
Director (SM)

Date of the Order: 19th August, 2005