

SECURITIES & 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 21.07.2005 issued to
Aqeel Karim Dhedhi Securities (Pvt.) Limited

Date of Hearing:

August 04, 2005

Present at the hearing:

Representing Aqeel Karim Dhedhi Securities:

(i) Mr. Tariq Adam	Director-Head of Operation
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Assisting the Director (SM):

(i) Mr. Shaukat Hameed	Joint Director (SM)
(ii) Mr. Junaid Mirza	Deputy Director (SM)

ORDER

1. This matter arises out of a Show Cause Notice No. 1(3)S.E./MSW/SMD/2005/18 dated July 21, 2005 (the "Notice") issued by the Securities and Exchange Commission of Pakistan (the "Commission") to the Aqeel Karim Dhedhi Securities (Pvt.) Limited (the "Respondent").
2. Facts of the case are that the stock market experienced abnormal volatility on 8th June 2005. In order to investigate the reasons thereof, the Commission obtained the trading data from the Karachi Stock Exchange (the "KSE") for that day.
3. On the scrutiny of the data obtained from the KSE and subsequent information received from the Respondent, it was noted that on 8th June 2005 the Respondent's

Client Mr. Mohammad Asif Khan (the "Client") had sold 75,000 shares of Pakistan Petroleum Limited ("PPL") between 11:05 a.m. and 11:29 a.m. and subsequently squared his outstanding sale position by purchasing 75,000 shares between 11:53 a.m. and 12:33 p.m. The Client again sold and then bought 25,000 shares of PPL at 01:08 p.m. and 01:10 p.m. respectively. It was also noted from the available record that at the time of sale of these shares of PPL, the Client did not have any pre-existing interest in the shares.

4. Hence, the Commission issued the Notice dated July 21, 2005 detailing the aforesaid facts and asking the Respondent as to why action should not be initiated against it for violation of the Securities & Exchange Ordinance, 1969 (the "Ordinance"), Brokers and Agents Registration Rules, 2001 (the "Rules") and Regulations for Short Selling under Ready Market, 2002 (the "Regulations"). The Respondent was asked to submit a written reply to the Notice within 7 days of the date of the Notice and the hearing was fixed in Islamabad for August 04, 2005.
5. The Respondent submitted written reply to the Notice vide letter dated July 27, 2005. On the date of hearing, Mr. Tariq Adam, Director, Head of Operation being representative of the Respondent appeared before me. The main points raised by the Respondent in its written statement as well as during the course of arguments were as follows:
 - a. The Respondent confirmed that the Client had purchased 50,000 shares on June 06, 2005 and 50,000 shares on June 07, 2005 of PPL. The Respondent provided KATS data of June 06, 2005 and June 07, 2005 in support of its statement.
 - b. The Respondent stated during the hearing that the 100,000 shares of PPL purchased by the Client on June 06, 2005 and June 07, 2005 were sold and bought simultaneously between the Respondent and the Client through REPO arranged by the Respondent. The Respondent in support of its contention provided separate copies of Sale Agreement and Purchase Agreement executed between the Respondent and the Client dated June

07, 2005 and Letter of Pledge of Book-Entry Securities by the Client in the name of the Respondent.

- c. The Respondent confirmed that the Client had pre-existing interest to the extent of 100,000 shares in PPL before the opening of trading session of KSE on June 08, 2005.
 - d. The Respondent informed during the hearing that the Client is a well reputed and this REPO transaction had been made on the request of the Client against pledge of shares held in his sub-account which is justified. He further confirmed that the same REPO facility had never been allowed in the past to the Client. He further stated that REPO is a common market practice.
6. The Respondent on the basis of aforesaid submissions stated that it had not violated Securities & Exchange Ordinance, 1969 as the Client had purchased 100,000 shares of PPL before June 08, 2005.
7. The Respondent vide letter dated August 9, 2005 was asked by the Commission to provide the copy of Account Opening Form of the Client, Statement of CDC House Account of the Respondent showing movement of PPL shares bought and sold by the Client, Ledger statement of the Client for the months of May, June and July, 2005 and copies of all REPO Agreements executed between the Respondent and its clients from July 01, 2004 to July 31, 2005 for such facility. However, the Respondent failed to provide all the aforementioned documents except the copy of Account Opening Form of the Client.
8. I have heard the views and contentions of the Respondent at length and after carefully examining the record, I have addressed the issues arising out of this matter hereunder: -
- a) The Respondent during the course of hearing reiterated that the Client had pre-existing interest in the shares of PPL to the extent of 100,000 which he had purchased on June 06, 2005 and June 07, 2005 and the Respondent

arranged REPO for the same transactions. After examining the data/information received from the Respondent, it transpires that the Client has been dealing with the Respondent for about two and half years. The Respondent during the hearing confirmed that except this REPO facility, the Client had never been provided REPO facility by the Respondent in the past. Further, the Respondent also failed to provide any document as proof of having allowed REPO facility to any other client in the past despite Respondent claim that REPO is common market practice. This creates a doubt in one's mind that why REPO facility was provided at this point in time when it had never been provided in the past.

- b) I have considered all the documentary evidences submitted by the Respondent. However, in order to verify the Respondent's claim that the Client had pre-existing interest of 100,000 shares of PPL on June 8, 2005, it is necessary to carry out a scrutiny of the REPO Agreements and other supporting documents such as CDC Account Balance & Account Activities Reports, Ledger & Transaction Statements of the Client and the other information that the Respondent was asked to provide vide this office letter dated August 9, 2005. However, the Respondent by not furnishing the aforesaid supporting documents, in fact has failed to substantiate and establish its claim that the Client had pre-existing in the shares of PPL on June 8, 2005.
- c) The Respondent purchased 100,000 shares of PPL that the Client had sold to the Respondent through a Purchase Agreement dated June 07, 2005. Simultaneously, the Client entered into a Sale Agreement with the Respondent on June 07, 2005 which state that *"the Brokerage House agrees to sell 100,000 PPL shares to the Customer, and the Customer agrees to buy from the Brokerage House, @ Rs.202.77 on settlement dated 07.07.2005,(completion)"*. The Sale Agreement further stipulates that *"if upon the payment of the total Purchase Price by the Customer to the Brokerage House, the Brokerage House shall transfer his shares under this agreement to Customer Sub A/c. No.1516."* The REPO agreement affirms that after making payment to the Respondent by the Client, the shares shall

be transferred to the CDC Sub A/c of the Client. However, the Respondent has failed to provide any proof that this transaction had been taken place to confirm that the Client had pre-existing interest in the shares of PPL on June 8, 2005.

- d) It is pertinent to mention here that the Client on June 8, 2005 first sold 75,000 shares of PPL and then squared his position by purchasing these shares. Thereafter, the Client again sold 25,000 shares and then squared his position by purchasing these shares. I am of considered view that without having pre-existing interest in shares, a person cannot be allowed to indulge in unlawful trading activities by first selling the shares and then squaring his position by purchasing these shares on the pre-text that merely he has an agreement to buy the shares.
- e) It is very evident from the above that the Respondent's claim that the Client had pre-existing interest in shares of PPL is not substantiated by the records provided. By engaging in and allowing the Client to trade in the shares in which the Client did not have pre-existing interest, is not only contrary to high standards of integrity but is also contrary to law. In failing to ensure that a proper system and policy is in place to eliminate any chance of such trading activity, the Respondent has failed to act with due care and skill in the conduct of its business which is expected of the Respondent as a broker.
- f) From the preceding facts it is clear that the Respondent has failed to follow the requirements of the Code of Conduct prescribed in the Rules. Therefore, the Respondent failed to maintain high standards of integrity, promptitude and fairness in the conduct of all its business and has in fact indulged in improper conduct on the stock exchange and failed to comply with the regulations of the stock exchange, and has therefore acted in violation of Rule 8(iv) read with Rule 12 of the Rules.

8. The violation of the Rules is a serious matter which entitles the Commission to suspend the Respondent's registration; 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, a penalty of Rs.50,000 (Rupees Fifty thousand only) which should be deposited with the Commission within 30 days from the date of this Order and furnish the copy of the deposit challan to the undersigned.

9. 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.

(Imran Inayat Butt)
Director (SM)

Date of the Order: 16th December 2005