



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
**Securities Market Division**

---

**Before the Director (Securities Market Division)**

**In the matter of Show Cause Notice dated July 15, 2005  
issued to Taurus Securities Limited**

---

**Date of Hearing**

**July 26, 2005**

**Present at the Hearing:**

Representing Taurus Securities Ltd.

*Mr. Feroz Ahmed – Head of Compliance*

Assisting the Director (SM):

*Mr. M. Ali Sheikh*

**ORDER**

1. The present matter arises out of a Show Cause Notice (“Notice”) bearing No. SMD/SCN/2/2005 dated July 15, 2005 issued by the Securities and Exchange Commission of Pakistan (“the Commission”) to Taurus Securities Limited (“the Respondent”).
2. Brief facts of this case are that between March 02, 2005 and March 31, 2005, the Respondent carried out 41 trades in the shares of Oil & Gas Development Company (“OGDC”), Pakistan Oilfields Limited (“POL”), Pakistan Petroleum Limited (“PPL”), Pakistan State Oil Limited (“PSO”) and Pakistan Telecommunication Limited (“PTCL”) through the Karachi Automated Trading System (“KATS”) of the Karachi Stock Exchange (Guarantee) Limited on behalf of four clients of the Respondent.

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
**Securities Market Division**

---

3. Each of these trades prima facie cancelled each other out and there was no change in the beneficial ownership of the shares. It appeared that in the course of these trades the Respondent purchased and sold, on behalf of the same clients, 269,500 shares of OGDC, 600 shares of POL, 13,200 shares of PPL, 300 shares of PSO and 7,500 shares of PTCL.
4. Such practice is likely to interfere with the fair and smooth functioning of the market by creating a false and misleading appearance of trading activity in the scrips mentioned hereinabove and is further likely to be detrimental to the interests of the investors.
5. The Commission had obtained the following KATS data from the Karachi Stock Exchange for the relevant period, which revealed that during the month of March, 2005 the Respondent had executed the following trades which had prima facie cancelled each other and had not resulted in change in beneficial ownership:

Trade Date	Client Code	Name of Share	Number of Shares	Rate of Sale & Purchase	Time of Trade Execution
3-Mar-2005	P	OGDC-REG	500	118.50	945030217
3-Mar-2005	P	OGDC-REG	1,000	127.65	1319330046
3-Mar-2005	P	OGDC-REG	1,000	127.65	1324050046
3-Mar-2005	P	OGDC-REG	2,000	127.65	1325380029
3-Mar-2005	P	OGDC-REG	500	127.65	1326360048
3-Mar-2005	P	OGDC-REG	2,000	127.65	1345090017
3-Mar-2005	P	OGDC-REG	500	127.65	1402570096
7-Mar-2005	P	OGDC-REG	1,000	140.00	1126570042
9-Mar-2005	B	OGDC-REG	3,000	159.50	1259150068
10-Mar-2005	P	OGDC-REG	2,000	165.50	1259210025
10-Mar-2005	SA	OGDC-REG	100,000	163.65	1310450054
10-Mar-2005	SA	OGDC-REG	100,000	164.40	1319430051
14-Mar-2005	P	OGDC-REG	1,000	176.55	1413330038
15-Mar-2005	P	OGDC-REG	1,000	179.00	945090266
16-Mar-2005	P	OGDC-REG	1,000	196.00	945090085
16-Mar-2005	P	OGDC-REG	1,000	196.00	945090105
16-Mar-2005	P	OGDC-REG	2,000	190.00	1109000129
16-Mar-2005	SA	OGDC-REG	50,000	190.00	1251580086
3-Mar-2005	P	POL-REG	500	315.00	945030322
3-Mar-2005	P	POL-REG	100	315.00	945030323
2-Mar-2005	P	PPL-REG	5,000	265.00	1051570050
2-Mar-2005	P	PPL-REG	1,000	263.00	1101290037
2-Mar-2005	P	PPL-REG	1,000	245.60	1414010031
4-Mar-2005	P	PPL-REG	100	271.00	1150080019
8-Mar-2005	P	PPL-REG	500	262.00	945060101

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
**Securities Market Division**

---

Trade Date	Client Code	Name of Share	Number of Shares	Rate of Sale & Purchase	Time of Trade Execution
8-Mar-2005	P	PPL-REG	1,000	262.00	945060103
9-Mar-2005	P	PPL-REG	500	284.85	1347350068
11-Mar-2005	P	PPL-REG	1,000	295.00	1543230042
15-Mar-2005	P	PPL-REG	500	308.00	945090205
16-Mar-2005	A	PPL-REG	500	306.95	1136140029
29-Mar-2005	P	PPL-REG	100	205.15	1116260016
31-Mar-2005	P	PPL-REG	500	240.00	945040000
31-Mar-2005	P	PPL-REG	1,500	240.00	945040004
3-Mar-2005	P	PSO-REG	300	414.00	945030098
2-Mar-2005	P	PTC-REG	3,000	70.65	1044530051
8-Mar-2005	P	PTC-REG	500	80.20	945070052
16-Mar-2005	P	PTC-REG	500	88.00	945100117
16-Mar-2005	P	PTC-REG	1,000	88.00	945100119
16-Mar-2005	P	PTC-REG	500	88.50	1240270002
18-Mar-2005	P	PTC-REG	500	84.00	930100235
22-Mar-2005	P	PTC-REG	1,500	75.75	1226400029

6. In view of the above findings the Commission issued a Notice to the Respondent dated July 15, 2005, detailing the aforesaid facts and asking it 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 aforesaid KATS data was annexed to the Notice in order to provide to the Respondent an opportunity for answering to the same. The Respondent was asked to submit a written reply along with the documentary proof within five days of the Notice and the first hearing was fixed in Islamabad for July 26, 2005.
7. The Respondent submitted a written reply dated July 18, 2005 along with its system generated Daily Company Activity Report for the relevant trades to support its claim and counter the allegations made against it in the Notice. The Respondent in its letter (signed by its CEO) denied the allegations of violation of Section 17 of the Ordinance in relation to the transactions between March 02, 2005 and March 31, 2005 covering 41 trades and claimed that the beneficial ownership in these trades had changed. The Respondent stated as follows:
- a. “It is submitted for the record that the trades referred to therein trades not conducted for four clients as mentioned in the Notice, but were actually conducted for over fifty different, distinct and mutually exclusive clients. The codes appearing in the

client code column of the sheet sent, appended to the Notice actually denotes the trader / branch office of TSL executing these trades, i.e. the capitalized letter “P” stands for the Peshawar branch office and not any particular client. The list of clients corresponding to these trades are enclosed, along with our back office records for verification. In view hereof it would be abundantly clear that the trades undertaken by TSL were in consonance with the law.”

- b. “Furthermore, it is evident that in the due course of trading there has been change in the beneficial ownership of the shares, and the misconception has arisen due to the code which in our brokerage system actually represents a branch office / dealer and not any individual client.”
  - c. The Respondent further mentioned “that the quantity of shares mentioned in your Notice (i.e. 600 shares of POL, 13,200 shares of PPL, 300 shares of PSO, 269,500 shares of OGDCL, and 7,500 shares of PTCL could not possibly affect the activity in relative terms to the volume traded during the period or make fictitious quotations as mentioned in your Notice as they were traded at the prevailing market price and trading such a small volume on behalf of our clients cannot possibly cause abnormal fluctuation in the prices.”
8. The hearing was fixed for July 26, 2005. On the date of the hearing, the authorized representative of the Respondent, Mr. Feroz Ahmed, Head of Compliance of the Respondent appeared before me. The main points raised by the Respondent in its oral submission were as follows:
- a. That the Respondent had explained its position through the letter (signed by the CEO) of the Respondent and denied allegations against it.
  - b. The Respondent mentioned that its sole branch outside Karachi is located in Peshawar, while the head office is in Karachi. Peshawar branch primarily serves clients within the adjacent area.

- c. Clients may only deal through the branch where their account is being maintained. Thus, clients of Peshawar branch may only deal through Peshawar and not through Karachi and vice-versa.
- d. The traders are employees of the Respondent and are essentially assigned the task of bringing business to the firm. The traders of the Respondent deal with the clients and receive client orders. Traders take the orders over the phone and all orders are recorded. Orders are not taken in person without proper documentation or record.
- e. Traders either in Karachi or Peshawar do not access the KATS but place their client orders through the KATS operator situated at the Karachi Stock Exchange. To maintain client secrecy the traders while placing the orders with the KATS operators do not disclose buyer or seller client information to the KATS operators. KATS operators are also employees of the Respondent.
- f. Each client order received by the trader is noted on a preprinted order sheet and assigned a preprinted order number. One order number can only be used once a year.
- g. The back office system of the Respondent is designed to maintain client secrecy. The Respondent uses “order number” entered in KATS as a unique key to link records. Client name or code corresponding to a trade is neither entered in KATS nor disclosed to the KATS operator.
- h. As a matter of policy, client information (such as client name or code) is not disclosed to the KATS operators as they might disclose this information in the market. Therefore, the KATS operators are given order details without client information, and in the client code field they feed branch or trader code from where the order is being received. The Respondent uses order number to link trade information with the respective client in their back office system.
- i. The Respondent stated that a process was recently initiated to have its internal system changed.

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
**Securities Market Division**

---

- j. KATS does not accept the order if any of the required fields is left blank, such as client code field.
9. The Respondent explained that a ticket number is generated by the KATS once an order is executed i.e. when a buy and a sell order is matched. This ticket number links the buy and the sell orders and is evidence that these trades were executed at the same time.
10. In the course of the hearing the Respondent was requested to provide the Commission with the ticket numbers relating to all 41 trades to establish the accuracy of matching done by the Respondent of each buy and sell order and to further establish whether or not the beneficial ownership changed, as claimed by the Respondent.
11. To further substantiate the Respondent's claim of change in beneficial ownership and proper maintenance of accounts, the Commission by means of sampling, requested the Respondent to furnish copies of certain trade confirmations in respect of the aforesaid 41 trades. Furthermore, the Respondent was requested to provide copies of account opening documents relating to certain clients on whose behalf these trades were conducted.
12. The Commission received a written reply dated July 28, 2005 from the Respondent along with the required information. In its reply dated July 28, 2005 the Respondent stated, "while going through the information under Annexure – C, you will find that there has been only one trade in a total of 41 trades as mentioned in your notice i.e. on March 10, 2005, where the buyer and seller of 100,000 shares of OGDC coincidentally happened to be the same (Samina Ejaz). We like to clarify that Ms. Samina Ejaz had a position of 100,000 shares of OGDC before the trade and in addition ordered us to purchase another 100,000 shares. As the market was extremely volatile in that period a sale at market price was placed for 100,000 shares in the same script. As the offer was routed through the KATS system a bid was already present, so they happened to match, whereas it was not intentional on our part."
13. Having heard the views and contentions of the Respondent in its oral submissions and after carefully examining the facts submitted by the Respondent in both its written responses, I found that the following issues arise out of this matter:

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
**Securities Market Division**

---

(a) *Did the acts of commission and omission as alleged against 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 herein below:

(a) *Did the acts of commission and omission as alleged against Respondent constitute a breach of the Rules? If so, up to what extent?*

14. The Respondent admitted in its written statement date July 18, 2005 that it carried out all 41 trades annexed to the Notice. The Respondent denied allegations against it and claimed that there has been change in the beneficial ownership of the shares. However, in its subsequent letter dated July 28, 2005, the Respondent admitted to one trade, which did not in fact result in change in beneficial ownership.
15. The Respondent was asked to provide us with the copies of the ticket numbers for all 41 trades to verify its claim of change in beneficial ownership in the 40 trades. The Respondent provided the copies of the ticket numbers annexed to its reply dated July 28, 2005. The Commission obtained additional information on the ticket numbers from the KSE (to verify from an independent source), by conducting an inquiry on Daily Trade Log of the Respondent for the month of March 2005. We extracted and matched the ticket numbers provided by the Respondent with those obtained by us from the KSE. On the basis of this examination we established the fact that the Respondent's claim was correct and that the beneficial ownership did change in 40 trades, however, there was no change in beneficial ownership in one instance to which the Respondent also admitted.
16. In respect of the one trade where the beneficial ownership did not change the Respondent took the plea that the market was extremely volatile in that period. A sale at market price was placed and the offer was routed through the KATS, which matched the bid that was already present. Therefore, the sale and the purchase order automatically cancelled each other out without any intention on part of the Respondent.

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
**Securities Market Division**

---

17. To establish the validity of the plea of the Respondent regarding the single trade that admittedly did not result in change in beneficial ownership, we examined the trade details from the Daily Company Activity Report for March 10, 2005, in the shares of OGDC on behalf of its client Ms. Samina Ejaz. The trades were sorted in accordance with the transaction/order numbers as follows:

Line	Trans No	Buy	Sell	Rate	Amount	Position	Commission
1	05318080	-	(10,000)	165.00	1,650,000.00	(10,000)	1,000.00
2	05318081	10,000	-	167.00	(1,670,000.00)	-	0.00
3	05318089	5,900	-	168.15	(992,085.00)	5,900	0.00
4		11,600	-	168.20	(1,951,120.00)	17,500	0.00
5		32,500	-	168.25	(5,468,125.00)	50,000	0.00
6	05318091	-	(21,000)	167.25	3,512,250.00	29,000	2,100.00
7		-	(4,000)	167.35	669,400.00	25,000	400.00
8		-	(25,000)	167.50	4,187,500.00	-	2,500.00
9	05318101	-	(21,200)	163.50	3,466,200.00	(21,200)	2,120.00
10		-	(7,400)	163.80	1,212,120.00	(28,600)	740.00
11		-	(100)	163.90	16,390.00	(28,700)	10.00
12	05318104	100,000	-	163.75	(16,375,000.00)	71,300	0.00
13	05318107	85,000	-	165.20	(14,042,000.00)	156,300	0.00
14		5,000	-	165.30	(826,500.00)	161,300	0.00
15		10,000	-	165.40	(1,654,000.00)	171,300	0.00
16	05318108	-	(100,000)	166.00	16,600,000.00	71,300	10,000.00
17	05318109	28,700	-	162.50	(4,663,750.00)	100,000	0.00
18	05318110	100,000	-	163.65	(16,365,000.00)	200,000	0.00
19	05318111	-	(100,000)	163.65	16,365,000.00	100,000	10,000.00
20	05318113	-	(100,000)	164.40	16,440,000.00	-	10,000.00
Profit					<u>111,280.00</u>		<u>38,870.00</u>

18. Review of line number 18 and 19 of the above table reveals that two orders with order number 05318110 and order number 05318111 placed by the same client matched and did not result in change in beneficial ownership. It is correct that Ms. Samina Ejaz had a position of 100,000 shares of OGDC before the trade occurred. The Respondent took the plea that the sale at market was placed at a time when the market was extremely volatile. Since, the order was routed through KATS, where a bid for purchase was already present, so they happened to match and cancelled each other out.



19. The above-mentioned pleas do not hold merit because the purpose of placing a sell market order was to mitigate the risk posed by the open buy order in an extremely volatile market. Hence, I am of the view that the matching of the market order to sell with the open bid was not coincidental but intentional. This trade would not have occurred had the KATS operator been diligent and had cancelled the existing buy order in the KATS. As an experienced broker and as the employer of the KATS operator it was the duty of the Respondent to ensure that its business was conducted with due care and skill. By allowing even one such trade suggests lack of care on part of the broker because it failed to put proper system in place.
20. Further the Respondent in its written reply dated July 18, 2005 admitted to not entering proper client code and problems arisen thereof by stating, “the misconception has arisen due to the code which in our brokerage system actually represents a branch office / dealer and not an individual client.” The plea of the Respondent for adopting such a practice of not entering required client information into the KATS is to protect client secrecy and to keep client information from being disclosed in the market by the KATS operator. The above plea does not hold merit, as the market practice is to use proper client code. Secondly, the KATS operators are employees of the Respondent and they are required by law to maintain client secrecy.
21. The Respondent also admitted to the fact during the hearing of July 26, 2005 that the KATS does not accept an order if the client code field is left blank. Thus, it is a required field. Furthermore, it is the duty of the Respondent to exercise due care and skill while entering information into the KATS. By not entering the correct and required information in the client code field of the KATS, the Respondent has failed to carry out its responsibility to provide accurate information on the KATS. Furthermore, it also raises serious concerns regarding its integrity by adopting such policies that violate the requirements of the law. The Commission takes strong note of policies that are contradictory to legal requirements and to the interest of the stock exchange or system provided by it. Lack of care is compounded by the fact that the KATS does in fact allow for individual client code to be entered.

22. 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. It has failed to exercise due care and diligence in providing the Commission with the correct information when initially inquired. In its written response dated July 18, 2005 to the Notice and subsequent hearing conducted on July 26, 2005 the Respondent neither admitted nor gave the impression to the Commission of indulging in any such activity. However, after the Commission's request for further information and documentary proof, the Respondent admitted through its letter dated July 28, 2005 that one such transaction was executed although unintentional.
23. The Respondent failed to maintain high level of integrity, promptitude and fairness in the conduct of its business and has in fact indulged in dishonorable, disgraceful and improper conduct on the stock exchange. The Respondent did not comply with the statutory requirements according to the code of conduct of the Rules. Therefore the Respondent acted in violation of Rule 8(iv), read with Rule 12 of the Rules.

*(b) What should the order be?*

24. The Commission takes a serious note of the violation of the Rules and is entitled to suspend the Respondent's license. In the present circumstances however, the Commission has decided not to exercise this power. Therefore in exercise of the powers under Rule 8(b) of the Rules, I hereby impose on the Respondent, the penalty of Rs. 50,000.00 (fifty thousand) which should be deposited with the Commission, no later than 30 (thirty) days from the date of this Order.
25. Additionally, I hereby direct the Respondent to abstain from buying and selling of shares in a manner that the trades do not result in a change in beneficial ownership of the shares failing which the Commission will proceed against it according to law. The Respondent should restrain from practices, such as, not entering the proper client information as required by the KATS. The Commission is of the view that it cannot allow such practices because they create hurdles in the surveillance and smooth market functioning.

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
**Securities Market Division**

---

26. 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.

(Mohammad Rashid Safdar Piracha)

(Director – SM)

Date of the Order: August 24, 2005