

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division

Before the Joint Director (Securities Market Division)

**In the matter of Show Cause Notice dated 15.07.2005
issued to Moosani Securities (Pvt.) Ltd.**

Date of Hearing

28th July 2005

Present at the Hearing:

Representing Moosani Securities (Pvt.) Ltd.

Mr. Sohail Raza Moosani, Director Moosani Securities (Pvt.) Ltd.

Mr. Ahmad Irfan Shafqat, Manager Lahore office, Moosani Securities (Pvt.) Ltd.

Assisting the Joint Director (SM):

Mr. Muhammad Hasan Zaidi, Junior Executive.

ORDER

1. The case arises out of a Show Cause Notice No. SMD/SEC/2(126)/2005 issued on 15.07.2005 by the Securities and Exchange Commission of Pakistan (“the Commission”) to Moosani Securities (Pvt.) Ltd. (“the Respondent”).
2. Summary of the facts of this case is that between 1st March 2005 and 31st March, 2005, the Respondent carried out 201 trades of the shares of Oil & Gas Development Company (“OGDC”), Pakistan Oil Field Limited (“POL”), Pakistan Petroleum

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Limited (“PPL”), National Bank of Pakistan Limited (“NBP”), Pakistan State Oil Limited (“PSO”) and Pakistan Telecommunications Company Limited (“PTCL”) through the Karachi Automated Trading System (“KATS”) of Karachi Stock Exchange (KSE).

3. In the course of these trades, the Respondent purchased and sold 115,200 shares of OGDC, 96,500 shares of PTCL, 4,100 shares of PSO, 3,200 shares of NBP, 2,900 shares of POL and 1,900 shares of PPL. Consequently, the trades cancelled each other out and there was no change in the beneficial ownership of the shares.
4. The trading activity carried out by the Respondent interfered with the fair and smooth functioning of the market by creating a false and misleading appearance of trading activity in the scrips mentioned hereinabove which worked to the detriment of the interests of the investors.
5. The Commission obtained the following KATS data from the Karachi Stock Exchange regarding the 201 transactions executed by the Respondent in the month of March alone, which revealed as follows:

DATE	CLIENT CODE	NAME OF SHARE	NO. OF SHARES	PURCHASE AND SALE PRICE	TIME OF TRADE
11/03/2005	36	NBP-REG	100	158.6	1033030009
4/03/2005	36	NBP-REG	200	144	1456440036
10/03/2005	36	NBP-REG	2,300	158.7	1402090059
11/03/2005	513	NBP-REG	500	160.6	943270021
18/03/2005	513	NBP-REG	100	147.65	1059540005
Sub total			3,200		
4/03/2005	36	OGDC-REG	2,000	136.85	1032570077
10/03/2005	36	OGDC-REG	16,000	168.2	946010055
16/03/2005	36	OGDC-REG	1,000	191.35	1250430048
24/03/2005	36	OGDC-REG	200	144.05	1414590009
28/03/2005	36	OGDC-REG	200	130.05	1409490005
2/03/2005	36	OGDC-REG	41,400	125.75	1209570027
11/03/2005	36	OGDC-REG	500	164.25	1046230004
2/03/2005	36	OGDC-REG	100	125	1223570030
2/03/2005	36	OGDC-REG	100	125.5	1203250033

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2/03/2005	36	OGDC-REG	100	125.7	1209480012
4/03/2005	36	OGDC-REG	10,000	135.65	1529270036
7/03/2005	36	OGDC-REG	3,500	140.45	1346200038
9/03/2005	36	OGDC-REG	100	158.75	1123000028
9/03/2005	36	OGDC-REG	5,000	158.6	1148340031
11/03/2005	36	OGDC-REG	100	163.9	1147470042
11/03/2005	36	OGDC-REG	5,000	163.2	1137480039
15/03/2005	36	OGDC-REG	400	185.9	1211410037
15/03/2005	36	OGDC-REG	500	185.9	1212340021
15/03/2005	36	OGDC-REG	2,600	185.9	1211340010
16/03/2005	36	OGDC-REG	100	183.9	1353420055
31/03/2005	36	OGDC-REG	100	118.1	1123150025
7/03/2005	36	OGDC-REG	1,900	141	1015240021
31/03/2005	36	OGDC-REG	100	117.1	1101130025
4/03/2005		OGDC-REG	100	135.95	1459060008
4/03/2005		OGDC-REG	100	136	1459320006
4/03/2005		OGDC-REG	100	136	1459330052
2/03/2005	36	OGDC-REG	100	125.55	1151290002
2/03/2005	36	OGDC-REG	100	125.7	1132370015
2/03/2005	36	OGDC-REG	100	125.7	1153080016
2/03/2005	36	OGDC-REG	100	125.7	1153270011
2/03/2005	36	OGDC-REG	100	126.05	1200310003
3/03/2005	36	OGDC-REG	100	121.9	1000230056
3/03/2005	36	OGDC-REG	500	124	1211010048
4/03/2005	36	OGDC-REG	100	135.85	1006370074
4/03/2005	36	OGDC-REG	100	136.2	1007110100
4/03/2005	36	OGDC-REG	100	136.3	1010010038
4/03/2005	36	OGDC-REG	100	136.9	1107430058
4/03/2005	36	OGDC-REG	100	136.9	1107510028
4/03/2005	36	OGDC-REG	100	136.95	1107570073
4/03/2005	36	OGDC-REG	100	136.95	1108050017
4/03/2005	36	OGDC-REG	100	137.2	1137430037
7/03/2005	36	OGDC-REG	100	139.3	1154150005
7/03/2005	36	OGDC-REG	100	140.5	1357450020
7/03/2005	36	OGDC-REG	100	140.5	1357460042
7/03/2005	36	OGDC-REG	100	140.5	1358330012
7/03/2005	36	OGDC-REG	100	141.85	1026440045
7/03/2005	36	OGDC-REG	100	141.85	1026460029
7/03/2005	36	OGDC-REG	100	141.85	1026500012
7/03/2005	36	OGDC-REG	100	142.45	1300300021
7/03/2005	36	OGDC-REG	500	139.3	1154120061
7/03/2005	36	OGDC-REG	500	141.05	1003560101
8/03/2005	36	OGDC-REG	100	136.9	1031490075
8/03/2005	36	OGDC-REG	100	137.3	956040053
8/03/2005	36	OGDC-REG	100	138.05	1005390050
8/03/2005	36	OGDC-REG	100	138.1	1005190025

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8/03/2005	36	OGDC-REG	100	138.2	1015430031
8/03/2005	36	OGDC-REG	100	138.3	1016540049
8/03/2005	36	OGDC-REG	100	138.75	948180054
8/03/2005	36	OGDC-REG	100	139.6	1102420043
8/03/2005	36	OGDC-REG	100	139.6	1102440030
8/03/2005	36	OGDC-REG	100	139.6	1102450076
8/03/2005	36	OGDC-REG	100	139.6	1102470002
8/03/2005	36	OGDC-REG	100	139.6	1102480005
8/03/2005	36	OGDC-REG	100	139.6	1102490018
8/03/2005	36	OGDC-REG	100	139.6	1102500030
8/03/2005	36	OGDC-REG	100	148.85	1403430005
8/03/2005	36	OGDC-REG	100	148.85	1403450005
8/03/2005	36	OGDC-REG	100	148.85	1403460038
8/03/2005	36	OGDC-REG	2,000	138.3	1017520027
8/03/2005	36	OGDC-REG	3,500	137.1	955520039
9/03/2005	36	OGDC-REG	500	159	1127380086
9/03/2005	36	OGDC-REG	3,700	159	1130060013
11/03/2005	36	OGDC-REG	100	163.65	1050570039
11/03/2005	36	OGDC-REG	100	163.65	1050580049
11/03/2005	36	OGDC-REG	100	165.2	950550056
11/03/2005	36	OGDC-REG	2,000	165.1	937170034
14/03/2005	36	OGDC-REG	100	167.7	1053120075
14/03/2005	36	OGDC-REG	2,600	167.95	1004370086
15/03/2005	36	OGDC-REG	100	185.8	1202170011
15/03/2005	36	OGDC-REG	100	187.4	1237500029
15/03/2005	36	OGDC-REG	1,100	185.8	1202440012
16/03/2005	36	OGDC-REG	100	184.7	1343590011
16/03/2005	36	OGDC-REG	100	192.45	1234140002
16/03/2005	36	OGDC-REG	100	192.65	1237580008
16/03/2005	36	OGDC-REG	500	183.5	1315350014
14/03/2005	36	OGDC-REG	100	168.5	1119200015
8/03/2005	36	OGDC-REG	500	145.1	1214340089
4/03/2005	513	OGDC-REG	1,000	135.05	1506430010
11/03/2005	513	OGDC-REG	100	164.65	1045490039
Sub total			115,200		
3/03/2005	36	POL-REG	100	324.7	1023140019
3/03/2005	36	POL-REG	100	324.7	1023220073
3/03/2005	36	POL-REG	100	326.5	1038020053
3/03/2005	36	POL-REG	100	331.6	1305160022
3/03/2005	36	POL-REG	100	331.6	1305180011
3/03/2005	36	POL-REG	100	331.6	1305190039
3/03/2005	36	POL-REG	100	331.6	1305200038
3/03/2005	36	POL-REG	100	331.6	1305300023
3/03/2005	36	POL-REG	200	319.6	948170003
4/03/2005	36	POL-REG	100	341.55	943440066
7/03/2005	36	POL-REG	100	331.95	1334500028

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7/03/2005	36	POL-REG	100	331.95	1335290017
7/03/2005	36	POL-REG	100	335.7	1041310005
9/03/2005	36	POL-REG	100	356.3	1233100061
9/03/2005	36	POL-REG	100	356.7	1048580053
9/03/2005	36	POL-REG	100	356.95	1049080071
9/03/2005	36	POL-REG	100	357.6	1117020010
9/03/2005	36	POL-REG	100	357.6	1117060104
11/03/2005	36	POL-REG	100	346.9	1149560012
11/03/2005	36	POL-REG	100	348	1015200048
11/03/2005	36	POL-REG	100	348.5	1033230040
11/03/2005	36	POL-REG	100	353.55	942420115
14/03/2005	36	POL-REG	100	344.25	1251340002
15/03/2005	36	POL-REG	100	345.95	1402280047
15/03/2005	36	POL-REG	100	346.3	1358480057
15/03/2005	36	POL-REG	100	348.95	1103420013
17/03/2005	36	POL-REG	100	316.6	1404200051
17/03/2005	36	POL-REG	100	317.25	1359320012
Sub total			2,900		
14/03/2005	36	PPL-REG	100	306.5	1023190031
14/03/2005	36	PPL-REG	200	306.8	1344550077
15/03/2005	36	PPL-REG	100	316.3	1049100076
15/03/2005	36	PPL-REG	300	316	1048360074
16/03/2005	36	PPL-REG	100	313.25	1037550039
16/03/2005	36	PPL-REG	100	313.75	1038370067
16/03/2005	36	PPL-REG	100	314.5	1021570058
16/03/2005	36	PPL-REG	100	315.75	1027310028
16/03/2005	36	PPL-REG	100	315.75	1027540055
18/03/2005	36	PPL-REG	100	290	953380039
18/03/2005	36	PPL-REG	500	280.5	941160052
14/03/2005	36	PPL-REG	100	306.5	1031240025
Sub total			1,900		
1/03/2005	36	PSO-REG	100	420.8	1007280012
1/03/2005	36	PSO-REG	500	436.4	1232230022
2/03/2005	36	PSO-REG	100	431.25	1309310030
2/03/2005	36	PSO-REG	100	431.3	1309420024
2/03/2005	36	PSO-REG	100	434.4	1156220003
3/03/2005	36	PSO-REG	100	427.1	1212550053
21/03/2005	36	PSO-REG	100	439.1	1358050002
21/03/2005	36	PSO-REG	100	441	1253440011
21/03/2005	36	PSO-REG	100	441	1254210011
21/03/2005	36	PSO-REG	100	444	1141030008
31/03/2005	36	PSO-REG	100	400	1332570012
8/03/2005	36	PSO-REG	300	439.75	954020025
9/03/2005	36	PSO-REG	100	488.5	1401370009
4/03/2005		PSO-REG	100	434.2	1533010006
4/03/2005		PSO-REG	100	436.55	1544550035

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4/03/2005		PSO-REG	100	436.55	1545070024
2/03/2005	36	PSO-REG	100	420.5	1411180002
2/03/2005	36	PSO-REG	100	435.4	1139450022
2/03/2005	36	PSO-REG	100	435.75	1139300005
3/03/2005	36	PSO-REG	100	425.2	1227170047
3/03/2005	36	PSO-REG	100	425.2	1227400078
3/03/2005	36	PSO-REG	100	425.75	1056040029
3/03/2005	36	PSO-REG	100	426.5	1200260005
4/03/2005	36	PSO-REG	100	432.5	931030011
4/03/2005	36	PSO-REG	100	433.4	940590089
7/03/2005	36	PSO-REG	100	440.6	1125050012
7/03/2005	36	PSO-REG	100	441.4	1159220027
7/03/2005	36	PSO-REG	500	440.25	1124540013
31/03/2005	36	PSO-REG	100	434.05	1010220002
31/03/2005	36	PSO-REG	100	445.05	1134310008
31/03/2005	36	PSO-REG	100	445.25	1133430023
Sub total			4,100		
10/03/2005	36	PTC-REG	3,500	93.65	945380152
10/03/2005	36	PTC-REG	5,500	93.2	945250120
11/03/2005	36	PTC-REG	1,500	86.75	1542220067
3/03/2005	36	PTC-REG	16,000	69.8	1158300012
9/03/2005	36	PTC-REG	1,000	86.7	954240097
9/03/2005	36	PTC-REG	5,000	89.4	1233380016
10/03/2005	36	PTC-REG	5,000	89.25	1309440048
31/03/2005	36	PTC-REG	500	71.3	1230560024
31/03/2005	36	PTC-REG	500	74.5	1029020019
31/03/2005	36	PTC-REG	1,000	71.1	1224290020
4/03/2005	36	PTC-REG	2,500	75.1	1510010002
4/03/2005		PTC-REG	500	74.7	1538100007
2/03/2005	36	PTC-REG	500	70.6	1213310021
3/03/2005	36	PTC-REG	500	69.05	1009550041
3/03/2005	36	PTC-REG	500	69.3	1102310051
3/03/2005	36	PTC-REG	500	69.4	1103530020
3/03/2005	36	PTC-REG	500	69.4	1104000011
7/03/2005	36	PTC-REG	500	79.35	1118040059
7/03/2005	36	PTC-REG	500	79.35	1118130036
7/03/2005	36	PTC-REG	500	79.4	1118300058
9/03/2005	36	PTC-REG	500	89.25	1233530115
11/03/2005	36	PTC-REG	500	86.1	1119490023
11/03/2005	36	PTC-REG	500	86.1	1120010048
11/03/2005	36	PTC-REG	500	87.2	1059590048
14/03/2005	36	PTC-REG	500	88.4	1347390002
14/03/2005	36	PTC-REG	500	88.4	1347400027
14/03/2005	36	PTC-REG	500	88.4	1347410050
14/03/2005	36	PTC-REG	500	88.4	1347430031
14/03/2005	36	PTC-REG	500	88.4	1347440064

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14/03/2005	36	PTC-REG	500	88.4	1347460016
14/03/2005	36	PTC-REG	500	88.6	1350400008
2/03/2005	36	PTC-REG	500	70.45	1340040041
4/03/2005	513	PTC-REG	42,500	76.5	1557160018
30/03/2005	513	PTC-REG	500	72.6	1121060014
31/03/2005	513	PTC-REG	500	70.65	1242030021
31/03/2005	513	PTC-REG	500	73.55	1007150011
Sub Total			96,500		

6. After examining the aforesaid data, the Commission issued a Show Cause Notice to the Respondent on 15 July 2005, detailing the aforesaid trade information and asking the Respondent to show cause as to why action should not be initiated against the Respondent under section 17 of the Securities and Exchange Ordinance 1969 (“the Ordinance”) and the Brokers and Agents Registration Rules, 2001 (“the Rules”). The Respondent was asked to submit a written reply to the Show Cause Notice and the hearing was fixed in Islamabad for 28th July 2005. The Commission also provided a copy of the summary of KATS data so that the Respondent would have adequate opportunity to explain the same.
7. The Respondent submitted a written reply to the Show Cause Notice on 27.07.2005 and appeared in person on 28.08.2005. The main points raised by the Respondent in his written reply and in the course of hearing may be summarized as follows:
- (i) The main business of the Respondent is KSE-ISE and KSE-LSE arbitrage and ready futures arbitrage, known as hedging. This involves buying shares from one market and immediately selling them in another market. Certain situations may arise in which both purchase and sale have to take place at the same trading terminal without any intention of fraud, deceit, or manipulation upon the public at large.

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- (ii) The peculiar nature of arbitrage transactions requires buying and selling of securities within a short time. People engaged in manipulation of market hold on to the securities for a long time. Alternatively these manipulators sell the securities at a high price and bring the market down so as to buy the securities at a low price. As Arbitrage business is conducted through proprietary account and the Respondent has many terminals the traders at two different terminals may quote the same price for sale and purchase of securities resulting in matching of quotes with each other and giving an impression of wash trade.
- (iii) As arbitrage is conducted at small spreads and prices of securities are changing constantly, and since cancellation of an order in KATS takes a longer time so a new order reversing the previous order is entered in KATS at that same price as the previous order. In order to save time while entering transactions for sale or purchase of shares a reversal order is passed instead of canceling the previous order. Due to high volatility of market, every second is important and a cancellation order has to be searched from orders standing to be executed, which takes a long time.
- (iv) While conducting arbitrage at two different stock exchanges, the trading lots at the two stock exchanges might not match with each other and odd lot shares might have to be settled in the same market from where they had been purchased / sold. This gives an impression of wash trade.

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- (v) Sometimes it so happens that a purchase order for 5000 shares entered at KSE is filled to the extent of 3500 shares, while the remaining 1500 shares are still in queue. While these shares are offered to other market, the price drops suddenly and in order to avert a loss, these shares are sold within KSE, as cancellation of shares would take long and price may drop further. About 65% of the trades identified in the Show Cause Notice are of 100 shares only. The size of these transactions is very small to influence the market. Transactions that maneuver the market are of a considerable magnitude.
- (vi) Sometimes an entire lot bought at a market remains unsold at another market, cancellation of this lot might take long and the price might drop further so a reverse order is passed, without any intention of deceit or fraud.
- (vii) The Respondent sometimes places an order for the sale or purchase of shares at two different stock exchanges, in order to get a deal executed as early as possible. If part of the deal is executed at one of the exchanges, canceling a part of deal at the other exchange, where it could not be executed would bring it down in the queue. For this reason the order is not cancelled, rather a reverse order is passed, with the same amount as the previous one. This gives an impression of wash trades. All trades made by the Respondent are at market rate, in small quantities when compared to the total market volume and made in active stocks. Had the Respondent dealt in ill-liquid stocks, away from their prevailing market prices in huge quantities, it could have been charged with market manipulation.

- (viii) The Respondent is dealing with some twenty five terminals; therefore it is not possible to monitor each and every trade. Moreover the total turnover for the month of March was 860 million shares generated from 120,000 trades. Whereas only 201 transactions have been mentioned in Show Cause i.e. 0.167% of March's volume. Similarly the volume of shares mentioned in Show Cause Notice is 223,800 which is 0.026% of the trades of that month. The same fact is further emphasized by the fact that on 2nd March 2005 when 41,400 shares of OGDC were cross traded at the Respondent's house the total volume of OGDC was in excess of 16 Crore 40 Lakh shares and on 8th March when 17 cross trades of 100 shares each have taken place at the Respondent's house along with 5500 more shares, the total volume of OGDC in the market was soaring above 200 million shares. Similarly on 4th March, when 42,500 shares of PTC were cross traded by the Respondent the volume of PTC in the market was nearing 390 million shares. On 2 March 2005, when 41,400 shares of OGDC were cross traded the total volume of stock traded by the Respondent was 22,693,300 shares. The operator in whose account this cross trade has been detected traded 31,189,400 shares of OGDC that day. On 4th March, the day on which 42,500 shares of PTC were cross traded, the trade volume for that stock was 38,045,000 shares, whereas the Respondent traded 4,168,000 shares. The largest quantity of NBP traded is 2300 shares; no lot in POL exceeds 10 shares except one which is 200 shares; all trades in PPL are below 500 shares barring one; out of 31 trades of PSO, 28 comprise 100 shares and none of the remaining three trades is above 500 shares. With such

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petty quantities the task of manipulating a robust market is unattainable. Acts appearing to have been committed in bad faith are actually the outcome of day to day business activity. The Respondent has a clean record depicting unswerving inclination to always do business within the domain of legal and ethical parameters.

- (ix) Most of the orders identified in the Show Cause Notice were market orders. KATS software had been designed in such a manner that it would match trades within a house on a preference basis.
- (x) The Respondent is predominantly engaged in arbitrage transactions therefore more than one trader deals in proprietary account. The back Office of the Respondent uses the same account numbers as those of CDC.
- (xi) During the hearing held on 28th July, 2005, the Respondent reiterated its position as noted in the written reply dated 21st July, 2005 and stated that the operators do not have knowledge of law and such transactions take place in ignorance of relevant statutes. It was further stated that sometimes the clients order the Respondent to cancel their unexecuted trades and since cancellation takes a longer time the trader enters a contra entry. About 65% of the Respondent's trades involved 100 shares. Keeping in view the size of activity volume in the aforementioned scrips, trades of the Respondent were insignificant. These transactions could in no way influence the overall market. The small volume of these transactions does not

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qualify them for active trading. Had the transactions taken place in some inactive scrips, such trades could have induced other investors to trade in those scrips.

(xii) No broker would like to indulge in transactions that would add to the cost of stock broker. Time factor is important in manipulation, the manipulators hold on to a substantial position for a long time to manipulate the market. Since the Respondent is reversing its position immediately so they are not influencing the price. The difference between a genuine investor and a market manipulator is that a genuine investor buys a scrip on the basis of its fundamentals, takes a genuine risk and leaves himself to the market forces, whereas a manipulator would arrange for resources to manipulate the market.

(xiii) All transactions identified in the Show Cause Notice are within the parameters of reasons provided in reply to Show Cause Notice.

8. The Respondent therefore requested that the Show Cause Notice be withdrawn for the reason that the Respondent had not violated any of the provisions of the Ordinance, including section 17 or of the Rules. The trades were not executed to mislead or manipulate the market price of the shares and even other wise constitute such a small part of the total trades executed on those dates that these were not capable of manipulating the market.
9. I have read and heard the arguments of the Respondent at length and after carefully examining the record, I find that the Commission must address the following issues:

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- (a) Did the acts of omission as alleged against the Respondent, breach the Rules and warrant action against the Respondent? If yes to what extent?
- (b) What should the order be?

10. We have examined each of these issues in depth as follows:
11. In the course of the Respondent's written as well as oral contentions, the Respondent has admitted that he carried out all 201 trades detailed in the Show Cause Notice. However he stated that the cancellation of the trades was an automatic consequence of arbitrage activity. Throughout the written response and the oral arguments the Respondent failed to provide an explanation for the specific transactions on which he was show caused. Rather the Respondent described hypothetical scenarios, which could have led to the aforesaid trades. The Respondent explained in great detail numerous situations that would result in trades that will ultimately cancel each other out and would not result in change of beneficial ownership but has not stated which of the scenarios explain the subject transactions and therefore I am not satisfied by his explanation.
12. Further the Respondent plea that due to very large turnover of shares at his house it is nearly impossible to monitor each and every trade so that the kind of aforementioned cross transactions can be prevented from taking place, clearly tantamount to negligence on part of the Respondent which is a violation of the Code of Conduct for brokers which stipulates that a broker shall act with due skill care and diligence in the conduct of all his liabilities.
13. The relevant KATS data independently obtained by the Commission from the Karachi Stock Exchange, (which was made available to the Respondent and has not been disputed by it) that all of the aforesaid trades had the effect of canceling each

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other out and did not result in 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 the trades have been cancelled out by the same person. The interests of the investor suffered in turn due the fact that they receive a false impression of trading in the market which is more than likely to influence their decision to invest or trade in the market.

14. The Respondent has taken the plea that in order to save time instead of cancellation of order, a new order reversing the previous order was entered in KATS at the same price as the previous order. The Respondent further submitted that KATS software had been designed in such a manner that it would match trades within a house on a preferential basis. The Respondent has not taken any steps to prevent such practices. The Respondent has also not taken any action to educate KATS operators. In fact the Respondent has allowed such activities to take place by failing to educate his KATS operator about the correct legal method of entering these transactions.
15. The aforesaid plea of the Respondent does not hold weight in view of the fact that the KATS operators are highly skilled personnel whose job is to record such transactions within a very short time period. Given their association with the market they are also fully aware of the correct practices. The Respondent has therefore encouraged the KATS operator to conduct his business in a manner contrary to the Rules and has failed to exercise due skill, care and diligence in the conduct of his business.
16. Engaging in and allowing trading activity in the market merely for the purpose of canceling an order previously entered in KATS created a false impression of trading activity in particular scrips, and is not only contrary to high standards of integrity but is also improper, dishonorable and disgraceful and against the law.

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17. It is clear from the facts detailed above that the Respondent has failed to follow the requirements of the Code of Conduct prescribed for brokers in that by executing and permitting to be executed trades which cancelled each other out and did not result in the transfer of beneficial ownership he has indulged in acts which have interfered with the fair and smooth functioning of the market to the detriment of the interests of investors. The Respondent has also admitted that his staff was ignorant of relevant laws and rules, which further confirms lack of due care and skill on his part to implement proper systems for the fair and transparent conduct of his business.
18. In failing to ensure that the order was cancelled in a timely manner and instead revising the previous order entered in KATS by KATS operators, the Respondent has acted improperly and negligently in breach of his duty to act with due skill, care and diligence in the conduct of his business. Consequently, the Respondent has failed in his duty to maintain high standards of integrity, promptitude and fairness in the conduct of his business and has in fact indulged in dishonorable, disgraceful and improper conduct on the stock exchange, and has therefore acted in violation of Rule 8(iv) of the Rules.
- (b) *What should the order be?*
19. The violation of the Rules is a serious matter, however, in exercise of the powers under Rule 8(b) of the Rules, conferred by S.R.O.847(I)/2005 dated 19th August, 2005 I hereby impose on the Respondent, penalty of Rs. 100,000 (Rupees One hundred thousand) which should be deposited with the Commission, no later than thirty (30) days from the date of this Order.
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

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ownership of the shares failing which action will be taken against him 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.

Aly Osman
Joint Director (SM)

Date of the Order: 19th August, 2005.