



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division

Before the Director (Securities Market Division)

**In the matter of Show Cause Notice dated September 1st, 2005
issued to Ismail Iqbal Securities Pvt. Ltd.**

Date of Hearing

September 29th, 2005

Present at the Hearing:

Representing Ismail Iqbal Securities (Pvt.) Ltd.

Mr. Ghulam Farooq – Chief Financial Officer

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/14/2005 dated September 1st, 2005 issued by the Securities and Exchange Commission of Pakistan (“the Commission”) to Ismail Iqbal Securities (Pvt.) Ltd. (“the Respondent”).
2. Brief facts of this case are that between March 3rd, 2005 and March 24th, 2005, you Ismail Iqbal Securities (Pvt.) Ltd., engaged in 12 trades in the shares of 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 one client.



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3. In the course of these trades, the Respondent purchased and sold, on behalf of the same client, 1,100 shares of PSO and 2,000 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. The trades as aforesaid 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 and were therefore to the detriment of 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 cancelled each other and did not result in change in beneficial ownership.

Trade Date	Client Code	Name of Share	Number of Shares	Rate of Sale & Purchase	Time of Trade Execution
22/03/2005	SS	PSO-REG	100	428.85	1332540009
22/03/2005	SS	PSO-REG	100	428.45	1333300019
24/03/2005	SS	PSO-REG	100	417.55	1011510034
24/03/2005	SS	PSO-REG	100	406.95	1051000005
24/03/2005	SS	PSO-REG	100	406.7	1109360009
24/03/2005	SS	PSO-REG	100	406.7	1131260008
24/03/2005	SS	PSO-REG	300	401.65	1331470002
24/03/2005	SS	PSO-REG	200	401.65	1357590002
3/03/2005	SS	PTC-REG	500	69.4	1019220008
3/03/2005	SS	PTC-REG	500	69.55	1029330037
10/03/2005	SS	PTC-REG	500	91.5	1048420039
10/03/2005	SS	PTC-REG	500	91.45	1103410002

6. In view of the above findings, the Commission issued a Notice to the Respondent on September 1st, 2005, detailing the aforesaid facts and asking it to show cause as to why action should not be initiated against it in pursuance of Rules 8(a) and 8(b) of 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.
7. The Respondent was asked to submit a written reply along with the documentary proof to the Notice and the hearing was fixed in Islamabad for September 15th, 2005. However, the



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Respondent failed to comply as directed as it neither gave its written reply by the specified deadline nor it appeared before the Commission on September 15th, 2005. Subsequently, the Commission provided the Respondent a second and final opportunity to submit its written reply and appear before the Commission on September 29th, 2005.

8. The Respondent sent its written reply dated September 20th, 2005 to the Notice and subsequent letter of the Commission, in which it acknowledged receipt of the Notice and apologized for not complying with the direction of the Commission. Further, it appeared before the Commission on September 29th, 2005 through its authorized representative Mr. Ghulam Farooq. The main points raised by the Respondent in its reply were as follows:
- a. The Respondent stated in its letter, “Let me please first apologize for missing the earlier deadline set forth by you to reply to the show cause notice. Although we had received the letter dated September 1st, 2005, it seems that our office staff misplaced the letter and it wasn’t passed on to the management of the company. We have, of course, taken appropriate action against our staff that mishandled this important letter.”
 - b. In its written reply the Respondent stated, “This account is dedicated to our hedging staff and is purely for hedging activity and nothing else.” It further stated, “Our aim is to maximize profits in this activity and thus we ask our traders to execute trades at the highest possible spread between the two markets.”
 - c. The Respondent stated, “Sometimes during volatile movements in the stock price of certain stocks, our traders are not completely hedged and thus they may have open positions in the ready market that they have to sell/square off immediately. This is the case with all the trades that you have mentioned in the show cause notice.”
 - d. The Respondent also mentioned in its written reply, “Since canceling orders sometimes is difficult given high volatility and extreme time pressure, traders, rather than open an “open order” window and canceling the trade would simply execute a trade against their own open orders.”



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- e. The Respondent also explained during the hearing that during March 2005 the market was extremely volatile and the traders needed to act swiftly due to the arbitrage business which is extremely time sensitive. Thus instead of canceling an open or outstanding order it simply placed an opposite order to square off the position as latter takes less time.
 - f. The Respondent also pointed out that as the volume of the highlighted trades is low these cannot manipulate the price of the respective stocks. It further explained that its intention was not to create a false representation in the market.
 - g. The Respondent admitted that prior to the Notice the traders were not required to cancel an open or outstanding order instead they were placing opposite or reversing orders to achieve the same purpose. However, after receipt of the Notice it required its traders to follow the appropriate process of canceling any open or outstanding order and assured that the false trading practice which was taking place as highlighted in the Notice has been discontinued.
9. I have heard the views and contentions of the Respondent at length and after carefully examining the record, I find that the following issues arise out of this matter:
- i. The Respondent admitted that it carried out all 12 trades as described in the annexure to the Notice. In respect of these trades, the Respondent has taken the plea that the business of arbitrage is time sensitive. Thus, instead of canceling an open position the traders place an opposite order to sell/square off any open positions. Prior to the Notice sent to the Respondent, it did not require the traders to cancel an open position.
 - ii. The relevant KATS data independently obtained by us from the Karachi Stock Exchange (Guarantee) Limited reveals that all the aforesaid trades canceled each other out and the beneficial ownership of these shares did not change. Such practice on the part of the Respondent interfered with the fair and smooth functioning of the



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market because it falsely depicted trading activity. The interests of the investor also suffered because they received a false impression of trading in the market which impacted upon their decision to trade in particular scrips in the market.

- iii. I have noted the plea of the Respondent that the cancellation of orders took place due to arbitrage activity. I am of the view that this plea does not hold merit as it is the responsibility of the broker to carry out his business in consonance with the law. It is duty of the Respondent to ensure that the systems are not only proper but in accordance with the law. No compromise may be allowed for the sake of expediency as any compromise in this regard, creates a false impression of trading activity in the market and is therefore detrimental to investors interest.
- iv. It is the broker's responsibility to maintain high standards of integrity, promptitude and fairness and exercise due care and skill in the conduct of his business. The Respondent should have been diligent to avoid carrying out any trading activity that would have interfered in fair and smooth functioning of the market and cause detrimental result to the investors' interest. The Respondent should have known that such trading is a serious offence and it should have taken adequate measures to eliminate the possibility of its staff executing any trades which would result in no change in beneficial ownership.
- v. By engaging in and allowing trades in the market that lead to creating a false impression of trading activity in particular scrips, is not only against high standards of integrity but is also improper, dishonorable and disgraceful and against the law.
- vi. It is also evident from the facts detailed above that the Respondent has failed to follow the requirements of the code of conduct. It has executed and permitted to execute trades which have cancelled each other out and have not resulted in the transfer of beneficial ownership.
- vii. 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 skill, care



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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 violation of Rule 8(iv), read with Rule 12 of the Rules.

10. The Commission takes a serious note of the violation of the Rules and failure of the Respondent to promptly respond to the Commission on matters of important nature. The Commission is entitled to suspend the license of the Respondent. In the present circumstances however, the Commission has decided to not 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. 25,000.00 (twenty five thousand) which should be deposited with the Commission, no later than 30 (thirty) days from the date of this Order and furnish the receipt challan to the Commission.
11. 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 them according to law.
12. 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: October 4, 2005