



# Securities and Exchange Commission of Pakistan

Securities Market Division  
Licensing and Capital Issue Department

## Before The Director / HOD (LCID)

**In the matter of Show Cause Notice issued to Pearl Securities Limited under Section 22 of the Securities and Exchange Ordinance, 1969**

Date of Hearing	December 18, 2015
Present at hearing	
Representing the Respondent	(i) Mr. Muhammad Ahsan Hashmi, Chief Financial Officer, Pearl Securities Limited (ii) Mr. Muhammad Wasim, Head of Operation, Pearl Securities Limited
Assisting the Director/HOD(LCID)	(i) Mr. Muhammad Farooq, Additional Director, (LCID-SMD) (ii) Mr. Hafiz M. Wajid Wahidi, Deputy Director (SSED-SMD)

## ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice No. 1(42)SMD/LCID/2015-C dated December 02, 2015, ("**Notice**") issued under section 22 of Securities and Exchange Commission of Pakistan (**Ordinance**) to Pearl Securities Limited ("**Respondent**"). The Respondent is a Trading Right Entitlement Certificate ("**TREC**") Holder of the Karachi Stock Exchange Limited ("**KSE**") and registered as a broker with the Securities and Exchange Commission of Pakistan ("**Commission**") under the Brokers and Agents Registration Rules, 2001 ("**Brokers Rules**").

2. The facts leading up to aforesaid Notice are that the Respondent purchased and sold 11.502 million shares of KASB Bank Limited during the period from April 22, 2015 to April 28, 2015, as per details given below:-

Sr. No.	Date	Name	Bot Qty	Avg Buy	Sold Qty	Avg Sell
1	4/22/2015	Pearl Securities Ltd.	6,000,000	2.7	-	-
2	4/23/2015	Pearl Securities Ltd	2,809,500	2.85	175,000	3.14
3	4/24/2015	Pearl Securities Ltd	1,880,000	3.16	180,000	3.17
4	4/27/2015	Pearl Securities Ltd	562,500	3.28	10,587,500	3.28
5	4/28/2015	Pearl Securities Ltd	250,000	3.06	559,500	2.53
<b>Total</b>			<b>11,502,000</b>	<b>-</b>	<b>11,502,000</b>	<b>-</b>
<b>Profit</b>						<b>4,513,970</b>





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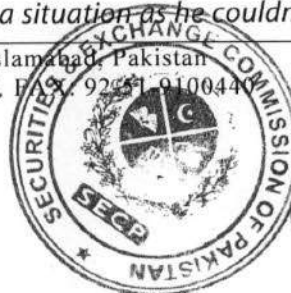
3. The analysis of above transactions revealed the following:-

- a) The Respondent purchased the said shares for Syed Masood Hussain Shah (the "**Client**") before opening his trading account through its proprietary account;
- b) After opening trading account of the Client, the Respondent sold the shares to the Client through ready market, which *inter alia prima facie* generated artificial volume in the ready market;
- c) The account opening date was missing on the account opening form of the Client and witnesses on the account opening form were also missing.
- d) As per Karachi Stock Exchange Rule Book, all orders received telephonically and placed on Trading System shall be supported by recording on dedicated telephonic lines, preferably connected with a computerized taping system, however, the Respondent sold the shares of KASB Bank, on the instruction of the Client received on the cell phone.

4. The Respondent *prima facie* failed to comply with *inter alia* Code of Conduct framed under Broker and Agent Registration Rule 2001, in contravention of Rule 12 of the Rules.

5. The Commission took cognizance of the aforesaid contravention and issued the Notice to the Respondent under Section 22 of the Ordinance read with Rule 8 of the Rules.. The matter was scheduled for hearing on December 18, 2015. On the date of hearing, Mr. Muhammad Ahsan Hashmi, Chief Financial Officer and Mr. Muhammad Wasim Head of Operation, of the Respondent (**Authorized Representatives**) attended the hearing on behalf of the Respondent. The Authorized Representative stated that the Respondent acted in best interest of the client. The arguments presented in support of the contention in writing as well as verbally on behalf of the Respondent are summarized as under:-

- a) *The shares were purchased in our proprietary account from April 22 to 27 of 2015, as per instructions the client Syed Masood Hussain Shah. The purchased shares were to be kept in trust for him and were transferred soon after opening of account.*
- b) *The client called on mobile. Moreover, due to time difference, his orders could not have been recorded. The Respondent requested him to confirm through email, which he did. The client also transferred the purchase amount, thus leaving no option but to execute trades for him.*
- c) *The scenario as then was quite categorical in its repercussions and there was no possibility of any misdeed. The client was stuck in a situation as he couldn't come to*



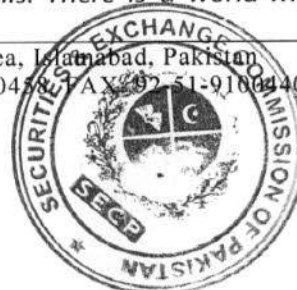


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*Pakistan for opening of account before transactions could have been done on his behalf, while he genuinely wanted to purchase the shares.*

- d) The Respondent believes that as a broker of capital market it must have facilitated a genuine prospective client who wanted to execute the genuine trades, which he accordingly executed.*
- e) It is a natural consequence of maintaining the high standards that a broker should facilitate the genuine clients for their genuine trades. The Respondent did the same as per the client instructions. It is clarified that this is not the company's practice but was a genuine urgency for a genuine client. The Respondent never entered into such practice except this transaction.*
- f) Concerning the sale of these shares to client in ready market it was earlier mentioned in letter dated May 18, 2015 that transfer of these shares was made through sale in ready market due to non-availability of NDM feature for client to client transaction. There was no other option available to transfer these shares to client's account rather than sale in ready market.*
- g) It may be noted here that this transfer of shares was made by entering sale trade only. If there would have been any intention to create false impression of trading in the market, the frequency of transaction should have been designed to push the market up and then dump in the market, but the transactions for sale were original and genuine. The Respondent never attempted to generate artificial volume in the market and all the transactions relating to this matter, the Respondent took and gave the delivery. All the trades and transactions were properly documented and every proof was furnished to the Commission. You would agree that if one would like to misguide the market participants, it must not make the delivery based trades and square the buying and selling trades.*
- h) The Respondent did not make any capital gain from the transaction and transferred gain to the client's account.*
- i) Since day one, the Respondent briefed the Commission each and every detail of the transaction and nothing was concealed. The Respondent also communicated the client's contact details, enabling the Commission to contact directly to the client.*
- j) It is conceded that account opening date was missed inadvertently on the account opening form, however, the account opening date is mentioned over the reports of CDC and NCCPL legibly and hence it is determined and ascertained that opening date of account is easily established.*
- k) The Commission has rightfully pointed out that all orders received telephonically are required to be recorded. We hereby like to mention that we have 44 telephone lines on recording system and all landline calls of our office are recoded accordingly. The Commission is well aware that there is no system in place in the country which could record mobile to mobile telephone calls. There is a world-wide trend that*





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general public prefer to use mobile phones rather than landline telephones. Hence this flaw needs to be addressed under the newly emerged scenario and the gap is needed to be addressed through appropriate regulations.

l) The chief executive of the Respondent personally informed the Commission on June 29, 2015 and also mentioned in letters dated May 04, 2015 and November 24, 2015 that the client ordered from England when he was traveling. The time difference between England and our country was blamed for a call after office timings, thus could not be recorded in office. The Commission must appreciate that as a responsible market participant the Respondent requested its client to email his trade order to authenticate his telephonic order and the client did the same.

m) As contrary to charges made in paragraph 4 of the letter, the Respondent acted promptly to its client's orders as he transferred the purchase amount well in time. The Commission would give proper weightage to the view that the Respondent could not afford to have not purchased these shares for its client who has already paid the purchase amount. The Commission is also requested to consider that if the Respondent had not purchased for its client even after receipt of Rs.25 million, the Commission would have definitely taken cognizance of the matter on the account of not acting in the best interest of the client, beside the client might also have initiated litigation against the Respondent.

6. The departmental representative pleaded that the Respondent has purchased the said shares for its client before opening his trading account through its proprietary account. After opening trading account of the client, the Respondent sold the shares to the client through ready market, which *inter alia prima facie* generated artificial volume in the ready market. The departmental representative further contended that account opening date is essential information but the same was found missing on account opening form of the client and witnesses on the account opening form were also missing. Furthermore, as per Karachi Stock Exchange Rule Book, all orders received telephonically and placed on Trading System shall be supported by recording on dedicated telephonic lines, preferably connected with a computerized taping system, while, the Respondent failed to record the orders in the instant matter.

7. I have heard the Authorized Representatives of the Respondent, the department representative and considered the submissions made in writing as well as verbally during the course of hearing and reviewed the record of this office. The primary issue is that the Respondent purchased shares for its client before opening his trading account and could not recorded his trade orders allegedly failed to comply with *inter alia* the provisions of Code of Conduct framed under the Rules.

8. The Respondent has admitted that the shares for the above named client were purchased before opening his trading account with the contention that the client transferred Rs. 25 million before opening trading account. Since the client was out of







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country, therefore, the requirements meant for account opening could not be met immediately and the shares were purchased in the best interest of the client. Gain made thereon was also passed on to the client. The Respondent also admitted the deficiencies observed in account opening form.


10. Based on contentions made by the Respondent, departmental representative and review of the available record, I am of the view that the Respondent has committed procedural violations including purchase of shares for the client before opening his trading account, non-recording of trade orders and non-provision of all relevant and necessary information in account opening form.

11. I am of the view that the Respondent should follow the procedure and requirements laid down by the regulatory framework, in letter and spirit. I take comfort from the fact that the Respondent has passed on gain to the client, accrued on the under reference purchase and sale transactions. The respondent sold/transferred the shares through ready market due to non-availability of NDM feature for client to client transaction. Therefore, I intend to agree with the plea of the Respondent that there was no other option available to transfer these shares to client's account rather than sale in ready market. I have considered the assurance from the Respondent that no such violations/defaults would be repeated in future and the fact that the Respondent has passed on gain to the client, avoided itself from indulging in front running/insider trading.

12. Keeping in view the foregoing, I am not imposing monetary penalty on the Respondent. However, the Respondent is hereby strictly warned to ensure compliance of regulatory framework in future.

13. This Order is being issued without prejudice to any other action that the Commission or the Pakistan Stock Exchange may initiate against the Respondent in accordance with the law on matter subsequently investigated or brought to the Notice of the Commission.



  
(Nasir Askar)  
Director/HOD (LCID)

**Announced on January 19, 2016**  
Islamabad