

## Press Release

### SECP Directs Brokers to Ensure Compliance to Regulations

**Islamabad – April 03, 2007:** Further to Diligence Inc.'s forensic investigation report submitted in November 2006 for the March 2005 crash, the Securities and Exchange Commission of Pakistan (SECP) sought clarification from 88 brokers identified by Diligence Inc., and thereafter absolved 19 brokers, as no case was made out against them and issued show cause notices to the remaining 69 brokers, for failure to comply with the requirements of Regulation 3(b) of the Regulations Governing Futures Contracts of KSE, in February-March, 2005. Under the said regulation:

*“No member shall have a sale position in a particular scrip of more than Rs. 50 million, unless the actual shares sold over and above the aforesaid limit, are deposited with the Exchange or the broker gives documentary evidence that the shares are lying in CDC or with some bank or DFI, to the satisfaction of the KSE management. For the purpose of establishing such sale position, net buy position in T+3, shall be net off from net sale position in Futures Counter”*

Of the 69 brokers, extensive hearings have been completed in respect of 56 brokers and due process was followed to enable the brokers to explain their position and the arguments furnished by the brokers were taken into consideration in preparing the final order. Final orders are being issued to all the 56 brokers today.

The orders essentially state that considering the arguments presented in writing, as well as at the time of hearing and having perused the documents and information placed on record, the Commission is of the view that brokers have not fulfilled the requirement of reporting / taking action as envisaged under the said Regulation 3(b). However, certain extenuating circumstances have emerged from the brokers practice of supplying the requisite evidence under Regulation 3(b) only when required by the Exchange, which may have persuaded the brokers to believe that they had discharged the obligation under Regulation 3(b), which clearly they did not. However, it is observed that no evidence of 'short selling', has been revealed from the examination of the records provided by the brokers.

In this background, it is decided to take a lenient view in the matter and not to take any punitive action under Rule 8 of the Brokers Rules. Whereas, 'caution' in this instance to the brokers would suffice and brokers are further directed to ensure that full compliance is made to all the Regulations in future for avoiding any punitive action under the law. Accordingly, in term of the above show cause notices have been disposed off.

As regards the remaining 13 brokers, hearings will be held in the current week and orders will be issued in accordance with law.