



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
*International Affairs, Communication & Coordination (IACC) Dept*

**PRESS RELEASE**

**INITIATION OF CRIMINAL PROCEEDINGS AGAINST CAPITAL ONE EQUITIES LTD, EX-MEMBER OF KARACHI STOCK EXCHANGE**

Islamabad, May 17, 2010: The Securities and Exchange Commission of Pakistan (Commission) has filed a criminal complaint in the competent Court of Law against Capital One Equities Limited, ex-member Karachi Stock Exchange (KSE) along with its directors, officers and persons involved in non-transfer of shares/funds and unauthorized pledges of client's shares and other prohibitive activities under the Section 24(2) of Central Depositories Act, 1997 as well as offences under relevant provisions of Pakistan Penal Code. The Honorable Court vide Order dated May 13, 2010 has issued warrants of all the accused persons.

The Commission received number of investors' complaints/claims against KSE Brokers during the first half of 2009 mainly pertaining to the alleged non-transfer of shares and non-payment of funds. The Commission directed the Brokers to resolve complaints and to make necessary arrangements for transfer of shares into respective Central Depository Company (CDC) accounts of the complainants. However, despite repeated directions of the Commission, the Brokers failed to take concrete steps to resolve pending investors' complaints. Resultantly, the Commission, vide its Orders dated June 26, 2009 suspended registration of Capital One Equities Limited along with four other Brokers.

Moreover, the Commission, in exercise of its powers under Section 21 of the Securities and Exchange Ordinance, 1969 initiated enquiries vide Orders dated July 16, 2009 and appointed enquiry committees comprising officers from the Commission, KSE and CDC to enquire into the matters relating to unresolved complaints against the five Brokers.

The scrutiny of copies of record obtained from KSE, CDC and NCCPL and other sources in connection with the enquiry of Capital One Equities Limited has revealed that the Brokerage House without the consent or authority moved/transferred shares of their clients and pledged them with the Bank to obtain financing. The finances so obtained were mostly used for the benefit of selected few for purchase of shares and payments of private/household expenses. The Brokerage House and its directors, managers, officers also abused and misused the powers given to them under CDC sub-account opening form in moving or pledging the shares of their clients from their respective sub-accounts, resulting in total loss to the clients.

The Brokerage House having illegally pledged shares of its clients, continued the deceptions by providing them false statements including "Clients Securities and Value with Sub-Account", showing their entire lots of various shares in "Available" status when their respective sub-accounts at CDS reflected "NIL" status for the said lots. Subsequently, clients demanded transferring of their shares and/or return of their funds to their respective accounts, however, the Brokerage House kept them on false hopes which have been followed by actions of the Commission and KSE.

On the basis of enquiry report, the Commission decided to file a Criminal Complaint against the persons/entity involved for the violations highlighted in the report. Accordingly, the Commission has filed a criminal complaint on April 5, 2010 in the Honorable Court of

Session Judge Karachi South against the Capital One Equities Limited and others. As per past practice, the copies of enquiry report and criminal complaint are available on the Commission's web-site. The Commission has also finalized the enquiry reports in the matter of remaining four expelled members of KSE. Based on these reports, legal action is being initiated under the relevant provisions of the laws against the persons who were involved in prohibitive activities.

To address the issue of unauthorized movement of client shares and for safeguarding the interests of investors, the Commission in coordination with the relevant stakeholders introduced a "standardized sub-account opening form" at the CDC and imposed prohibition on all general purpose/ blanket authorities for handling book-entry securities of clients by the broker to curb misuse of investors' shares.

Furthermore, effective October 1, 2009 "client level margin system" has been implemented at the exchanges' level which ensures that all margin requirements against each client are fulfilled only from the respective client's account and discourages co-mingling of clients' assets with brokers' assets. Also, in order to prevent misuse of book entry securities at the CDC, the Commission in consultation with the stakeholders is in the process of introducing an automated settlement mechanism whereby securities would move directly from sellers sub-account to buyers sub-account. This mechanism is expected to be in place by end of July 2010 after its consolidated test run.

The Commission reiterates its commitment to continue providing regulatory framework and taking enforcement actions for the protection of investors, curbing market abuse and preserving capital market integrity.

Urdu Version