



Through Courier

**Before The Director/HOD (MSSID)**  
**In the matter of Show Cause Notice issued to**  
**Adam Securities (Private) Limited**

Date of Hearing:

October 27, 2014

**Present at the Hearing:**

Representing Adam Securities (Private) Limited

i) Mr. Abdul Majeed

Chief Executive, Adam Securities  
(Private) Limited

Assisting the Director/ HOD (MSSID)

i) Mr. Aoun Abbas Zaidi

Assistant Director, MSSID

**ORDER**

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(57)/Hascol/MSW/SMD/2014 dated July 24, 2014 ("SCN") issued by the Securities and Exchange Commission of Pakistan ("Commission") under Brokers and Agents Registration Rules, 2001, ("the Brokers Rules") to Adam Securities (Private) Limited ("the Respondent").
2. The brief facts of the case are that the Respondent is a member of Karachi Stock Exchange (Guarantee) Limited ("KSE") and is registered with the Commission under the Brokers Rules. During the Book Building Process ("BBP") of Hascol Petroleum Limited ("HPL") it was noted that the Strike Price of HPL was discovered at Rs. 56.50 with a significant increase of 182.5% against the Offer Price of Rs. 20.00. BBP data was procured from the relevant authorities and it was observed that some of the individuals and institutions frequently raised their bid price soon after discovery of strike price leading to impression of manipulating the Strike Price, therefore, an inquiry was initiated into the matter through inquiry order dated March 26, 2014.
3. During the inquiry the Respondent was required to provide the information regarding Book Building of HPL, including Bid Applications, Bid Revision Forms, Copy of Financial Instruments and Research Reports issued during the last 3 months, if any. The Enquiry Officers visited Adam's office and delivered the letter by hand with the instructions to provide the information on the



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same day. However, Adam did not co-operate with the Enquiry Officers and also failed to furnish information on the very same day as advised vide aforementioned letter. However, Adam vide letter dated March 31, 2014, submitted the required information. Thereafter, vide letter dated April 08, 2014, Adam was also required to furnish the Bank Statements of his Brokerage House for the months of February & March 2014, and Back Office ledgers of clients & Banks for the month of February and March, 2014 which was provided to the Enquiry Officers, vide letter dated April 21, 2014.

4. Upon analysis of the relevant documents and data, the Enquiry Officers, observed that the Respondent had placed an initial bid for 6,000,000 shares, which constituted 32% of the total shares offered through the BBP. However no shares were allocated to the Respondent through the BBP due to change in the bid in last minute. The Enquiry Officers also observed that certain clients of the Respondent deposited funds amounting to, approximately, Rs. 15.00 million between March 03, 2014 and March 05, 2014 into the MCB client account of the Respondent. These funds were then transferred into the MCB clearing account of the Respondent from where bid was placed in the BBP of HPL. As no shares were allocated to the Respondent therefore funds of these clients were returned between March 06, 2014 to March 14, 2014. These transactions raised suspicion that, *prima facie*, the Respondent, has placed a consolidated bid, therefore, the Respondent was required by the Enquiry Officers to appear before them for recording of statement under Section 32 of the Securities and Exchange Commission of Pakistan Act, 1997, on May 19, 2014. During the recording of statement the Respondent apprised that his clients have not participated in the BBP through his proprietary account.
5. The SCN was issued to the Respondent on July 24, 2014 in which he was asked to submit a written reply within fifteen days from the date of SCN. The Respondent submitted its written response to the SCN, vide letter dated August 18, 2014. It was observed that the reply of the Respondent was contradictory to its earlier stance taken in front of the Enquiry Officers, stating that a bid was placed in the BBP through proprietary account on behalf of the clients in order to



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facilitate the small investors, as it is a market practice to facilitate the small investors to participate in the BBP.

6. Subsequently, a hearing in the matter was fixed on October 27, 2014 at the Commission's Karachi Office. The hearing was attended by Mr. Abdul Majeed Adam ("Chief Executive of the Respondent") who submitted the same stance which was taken in the letter dated August 18, 2014 in reply to the stated SCN and conceded that the requirements of clause (2.2) of the prospectus was not followed.
  
7. After a detailed and thorough perusal of facts, written submission of the Respondent and the contention made by the Respondent during the course of hearing, it is evident that the Respondent placed a consolidated bid during the BBP of HPL on behalf of its clients. The matter was of prime importance keeping in view the sensitivity of scrip of HPL in terms of its subsequent impact on the market statistics. Book Building system has been introduced in Pakistan Capital Market in order to discover the price of particular scrip by high net worth individuals and institutions through a transparent mechanism based on demand for that scrip. BBP gives privilege to investors to arrive at a price based on the quality and quantity of the bids given by the investors having more knowledge about the scrip and have more risk appetite, compared to retail investors. The price discovered through the BBP leaves enough space for retail investors to invest in the scrip bringing more liquidity in the stock market resulting in better returns for the market investors at large. The Respondent placed bids in the BBP of HPL on behalf of retail investors, having less market research and risk appetite as evident from the response, and thus defeated the spirit of price discovery. I am of the considered view that if small retail investors would have not participated in the BBP, as a herding behavior was evident from their participation, the price would not have reached at such a high level.
  
8. The Respondent being a corporate member should conduct its business with diligence and ensure full compliance of the laws and relevant rules and regulations. It is prime responsibility of



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the Respondent to monitor all trading activities being carried out through its brokerage house and keep track of any transaction which is being made with a view to create any misleading impression or is in violation of the law.

9. In the instant case, the Respondent in front of the Enquiry Officers denied the allegation of placing a consolidated bid, however, later on in reply to the SCN, admitted placing a consolidated bid. I am of the view that the Respondent should have admitted the fact at the first instance, and have shown more professional attitude. However, keeping in view the admittance by the Respondent and the fact that the Respondent has shown their intention to ensure compliance with the provisions of laws in future, I hereby take a lenient view and instead of imposing fine issue a stern warning to the Respondent. Further, I also direct the Respondent to ensure full compliance of all rules, regulations and directives of the Commission in the future.

**Abid Hussain**

Director/HOD (MSSID)

**Announced on October 27, 2014**  
**Islamabad.**

Copy to: Adam Securities (Private) Ltd,  
Room 36 - 37, Old Stock Exchange Building,  
Stock Exchange Road,  
Karachi.