

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

NIC Building, Jinnah Avenue, Blue Area, Islamabad.

BEFORE THE DIRECTOR (SECURITIES MARKET DIVISION)

**IN THE MATTER OF SHOW CAUSE NOTICE DATED 01/09/2005 ISSUED TO
MOOSA, NOOR MOHAMMAD, SHAHZADA & CO. (PVT.) LTD., MEMBER-KSE**

Date of Hearing

15th September 2005

Present at the Hearing:

To Represent Moosa, Noor Mohammad, Shahzada & Co.

Mr. Muhammad Shafi, Authorized Representative

To assist the Director(SM)

Mr. Shaukat Hameed JD(SM)

ORDER

1. The matter arises out of a Show Cause Notice dated 01/09/2005 (hereinafter referred to as "the Notice") issued by the Securities and Exchange Commission of Pakistan (hereinafter referred to as "the Commission") to Moosa, Noor Mohammad, Shahzada & Co. (Pvt.) Limited (hereinafter referred to as "the Respondent") Member-broker Karachi Stock Exchange (Guarantee) Limited (hereinafter referred to as "the KSE").
2. Brief facts of this case are that between 4th March 2005 and 28th March, 2005, the Respondent carried out 18 trades of the shares involving total 31,200 shares of Oil & Gas Development Company ("OGDC"), Pakistan Oilfields Limited ("POL"), Pakistan State Oil Limited ("PSO") and Pakistan Telecommunication Company Limited ("PTCL") through the Karachi Automated Trading System ("KATS") at KSE on behalf of one client of the Respondent.
3. In the course of these trades, the Respondent purchased and sold, on behalf of one client, 9,000 shares of OGDC, 2,000 shares of POL, 5,700 shares of PSO and 14,500 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. This practice on the part of the Respondent interfered with the fair and smooth functioning of the market. It prima facie created a false and misleading appearance of trading activity in the scrips mentioned hereinabove and was, therefore, detrimental to the investors' interests.

5. The Commission obtained the KATS data from the KSE for the relevant period, which showed that during the month of March 2005 the Respondent had executed the following trades which cancelled each other out and did not result in change of beneficial ownership:

Date	Client Code	Name of Share	No. of Shares	Purchase & Sale Rate	Time of Execution
4/03/2005	0450	OGDC-REG	4,000	135.00	1526260021
15/03/2005	0450	OGDC-REG	1,000	189.75	1342200022
15/03/2005	0450	OGDC-REG	4,000	189.75	1342200024
8/03/2005	0450	POL-REG	1,000	342.00	1138360091
9/03/2005	0450	POL-REG	500	357.00	1051010057
17/03/2005	0450	POL-REG	500	314.00	1026560067
7/03/2005	0450	PSO-REG	300	440.30	1010520088
7/03/2005	0450	PSO-REG	2,000	445.00	1209240036
9/03/2005	0450	PSO-REG	500	497.85	1254160026
15/03/2005	0450	PSO-REG	500	479.00	1245500067
17/03/2005	0450	PSO-REG	500	435.95	1043060037
21/03/2005	0450	PSO-REG	500	435.00	1307210011
22/03/2005	0450	PSO-REG	1,000	427.50	1327080024
28/03/2005	0450	PSO-REG	400	363.00	1219450018
8/03/2005	0450	PTC-REG	6,000	80.30	1121120073
14/03/2005	0450	PTC-REG	500	89.30	1238560041
14/03/2005	0450	PTC-REG	3,000	89.00	1248550024
14/03/2005	0450	PTC-REG	5,000	89.75	1149220074

6. In view of the aforesaid data, the Commission issued a Show Cause Notice dated 01/09/2005 (“the Notice”) to the Respondent. In this Notice, the details of the aforesaid facts were provided and the Respondent was asked to show cause as to why action should not be initiated against it under the Brokers and Agents Registration Rules, 2001 (“the Rules”). A copy of the summary of the KATS data was also sent to the Respondent so that it would have the opportunity of answering the same. The Respondent was asked to submit a written reply to the Notice within seven days from the date of the Notice and the first hearing was fixed in Islamabad for 15/09/2005.
7. The Respondent submitted a written reply to the Notice on 08/09/2005. On the date of hearing Mr. Muhammad Shafi - Head of Operations and Finance appeared before me as authorized representative of the Respondent. The main points raised by the Respondent in its written reply and in the course of hearing are summarized as follows:
- (a) The Respondent admitted to have carried out all 18 trades as detailed in the Notice dated 01/09/2005 through Karachi Automated Trading System of the Karachi Stock Exchange on behalf of one of its clients having code No.0450.
 - (b) The Respondent reported that the client code identified in the Notice pertains to Lt. Col. (R) Ch. Iftikhar Ahmed Member - Islamabad Stock Exchange (Guarantee) Limited (hereinafter referred to as “the ISE”) who is one of its

clients. The Respondent confirmed that the trades mentioned in the Annexure - A to the Notice were not the proprietary trades of Lt. Col. (R) Ch. Iftikhar Ahmed and all the trades mentioned in Annexure - A to the Notice were executed by Lt. Col. (R) Ch. Iftikhar Ahmed on behalf of his clients in Islamabad.

(c) The Respondent stated since its client had made these trades on behalf of his different clients so the impression that the orders for purchase and sale of shares ultimately cancelled each other and did not result in any change in the beneficial ownership of the shares is not true and therefore negated.

8. The Respondent on the basis of the aforesaid submissions requested that the Notice dated 01/09/2005 be withdrawn. The Respondent further stated that it had neither been involved in any trading activity in the shares which created a false and misleading appearance of trading activity in the market nor has the company failed to observe the code of conduct of brokers as provided in the Rules.

9. I have heard the views and contentions of the Respondent at length after carefully examining the record, I find that the following issues arise out of this matter:

(a) Whether the acts of commission and omission as alleged against the Respondent constitute a breach of the Rules? If so, up to what extent?

(b) What should the order be?

Each of these issues has been examined seriatim:

(i) In the course of written as well as oral contentions, the Respondent has accepted that the Respondent carried out all 18 trades detailed in the Notice dated 01/09/2005. The representative of the Respondent emphasized that the buyers and sellers of these trades were not the same; hence change in the beneficial ownership had taken place in the shares. The Respondent in support of its contention provided copies of National Identity Cards, account opening forms, order books and ledger statement of different clients of its client i.e Lt. Col. (R) Ch. Iftikhar Ahmed, as proof of his contentions that change in the beneficial ownership had taken place.

(ii) The Respondent's acceptance that Lt. Col. (R) Ch. Iftikhar Ahmed was not its agent and having knowledge, while executing the trades, that these trades were not proprietary trades of its client instead these were the trades of the clients of its client is in fact facilitating to promote illegal brokerage business. This also causes loss of trail of these trades. Additionally, the Respondent by entering the code of its client (i.e Lt. Col. (R) Ch. Iftikhar Ahmed) in KATS who at the day end

posts positions of the respective clients accounts in his back office manually, there exists a potential risk of shifting the trading positions of clients to cover any market abuse such as blank sale as it is upon the discretion of the Respondent's client (i.e Lt. Col. (R) Ch. Iftikhar Ahmed) to allocate trades to whom he desires. Further, the Respondent's practice of entering its client code who himself is a broker compromises transparency and the record does not reflect the true positions as trading is being carried out in the name of an other broker and movement of securities would take place in the name and account of the respective client.

- (iii) The practice of brokers operating through other brokers whether of the same exchange or of other exchange(s) is an unhealthy practice detrimental to the interest of the investors. I am unaware whether or not the investors investing through Lt. Col. (R) Ch. Iftikhar Ahmed - Member ISE, know the fact that their securities are being traded through the Respondent in the name of the said member. The investors who have invested through Lt. Col. (R) Ch. Iftikhar Ahmed, do not have any contract with the Respondent and in case of any dispute arises, they stand at a weak legal position, as their transactions are being made and recorded in the name of above member. This practice of broker operating through another broker(s) not only hampers the function of stock market and the Commission while undertaking monitoring and surveillance of trading activity but also compromises on transparency of the stock market. The aforesaid practice is also contrary to international best practices undertaken by brokerage houses. Thus, the Respondent has not acted with due skill, care and diligence in conduct of its business by allowing Lt. Col. (R) Ch. Iftikhar Ahmed, to act on behalf of other clients under one account.
- (iv) It is the duty of the Respondent as a broker to exercise due care and skill while entering information into the KATS. The Respondent while entering the code of the client is well aware that the client is not actual buyer and/or seller of these orders instead these are the orders of the clients of its client i.e Lt. Col. (R) Ch. Iftikhar Ahmed) in Islamabad and therefore the Respondent has failed to enter correct information in the client code field of the KATS. Hence, the Respondent has failed to discharge its responsibility to provide accurate information on the KATS.
- (v) From the preceding facts it is clear that the Respondent has failed to follow the requirements of the code of conduct prescribed in the Rules. Therefore, the Respondent failed to maintain high level of integrity, promptitude and fairness in the conduct of its business and has in fact indulged in improper conduct on the stock exchange. The Respondent did not comply with the requirements according to the code of conduct of the Rules. Therefore the Respondent acted in violation of Rule 8(iv) read with Rule 12 of the Rules.

10. In view of what has been discussed above, I am of the considered view that the Respondent acted in violation of Rule 8(iv) read with Rule 12 of the Rules and therefore, in exercise of the powers under Rule 8(b) of the Rules, I hereby impose on the Respondent, a penalty of Rs. 25,000/- (Twenty five thousand only) which should be deposited with the Commission, no later than 30 (thirty) days from the date of this Order and furnish the receipted challan to the Commission.
11. Additionally, I hereby direct the Respondent to restrain from practices, such as, not entering the proper client information as it creates limitations towards monitoring of the market. I am of the considered view that such practices cannot be allowed as they create hurdles in the surveillance and smooth market functioning.
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.

(Imtiaz Haider)
Director (SM)

Date of the Order: **04/10/2005**