



Before the Director (Securities Market)

**In the matter of Show Cause Notice dated September 07, 2005
issued to Darson Securities (Pvt.) Limited**

Date of Hearing

September 19, 2005

Present at the Hearing:

Representing Darson Securities (Pvt.) Ltd.

Mr. Dil-Awayz Ahmed – Finance Manager

Assisting the Director (SM):

Mr. Ahmad Zafeer – Deputy Director

ORDER

1. The present matter arises out of a Show Cause Notice (“Notice”) bearing No. SMD/SCN/1/2005/008 dated September 07, 2005 issued by the Securities and Exchange Commission of Pakistan (“the Commission”) to Darson Securities (Pvt.) Limited (“the Respondent”).
2. Brief facts of this case are that between March 02, 2005 and March 30, 2005, the Respondent carried out 11 trades in the shares of Oil & Gas Development Company Limited (“OGDC”), Pakistan Oilfields Limited (“POL”), Pakistan Petroleum Limited (“PPL”) and Pakistan State Oil Limited (“PSO”) through the Karachi Automated Trading System (“KATS”) of the Karachi Stock Exchange (Guarantee) Limited on behalf of seven clients of the Respondent.
3. Each of these trades prima facie cancelled each other out and there was no change in the beneficial ownership of the shares. It appeared that in the course of these trades the Respondent

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purchased and sold, on behalf of the same clients, 95,000 of OGDC, 6,100 shares of POL, 500 shares of PPL and 900 shares of PSO.

4. Such practice is likely to interfere with the fair and smooth functioning of the market by creating a false and misleading appearance of trading activity in the scrips mentioned hereinabove and is further likely to be detrimental to the interests of the investors.

5. The Commission obtained the following KATS data from the Karachi Stock Exchange for the relevant period, which revealed that during the month of March, 2005 the Respondent executed the following trades which prima facie cancelled each other and did not result in change in beneficial ownership:

Date	Client Code	Name of Share	No. of Shares	Purchase & Sale Rate	Time of Execution
18-Mar-05	1823	OGDC-REG	94,000	167.90	1549280051
30-Mar-05	2430	OGDC-REG	1,000	117.40	959480036
		Sub-Total	95,000		
02-Mar-05	L	POL-REG	3,000	334.75	1144160032
10-Mar-05	415	POL-REG	600	359.20	1227390031
10-Mar-05	415	POL-REG	1,800	345.00	1405370044
11-Mar-05	415	POL-REG	700	342.90	1521000036
		Sub-Total	6,100		
11-Mar-05	18115	PPL-REG	500	299.85	1044250006
		Sub-Total	500		
02-Mar-05	606	PSO-REG	400	432.55	1159510090
18-Mar-05	646	PSO-REG	200	454.45	1149440009
21-Mar-05	415	PSO-REG	200	448.00	1132260025
21-Mar-05	415	PSO-REG	100	445.50	1202470013
		Sub-Total	900		
		Total	102,500		

6. In view of the above findings the Commission issued a Notice to the Respondent dated September 07, 2005, detailing the aforesaid facts and asking it 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 aforesaid KATS data was annexed to the Notice in order to provide to the Respondent an opportunity for answering to the same. The Respondent was asked to submit a written reply along with the documentary proof within seven days of the Notice and the hearing was fixed in Islamabad for September 19, 2005.

7. The Respondent submitted a written reply dated September 12, 2005 along with its system generated Clients Transactions Detail Report and Market Activity of Specified Scrips on Specified Dates for the relevant trades in support of its defense. The Respondent stated as follows:

a) After thoroughly checking our back office record, deliberations with said clients and relevant KSE KATS data, that in our brokerage house specially and generally in the whole market such type of transactions occurs mainly for the following reasons.

- There is technical fault in KATS to cancel an order limit,
- KATS systematic preference to same house,
- Upper or lower caps are near to open,
- Unawareness and failing to remember previous limits by client(s) and
- There is a wrong order of buy/sell by KATS operator and prompt reaction.

b) These clients traded about hundred thousands shares and the said eleven trades are merely the result of aforementioned reasons and intention of false and misleading appearance in trading activity is not involved at all.

c) The abovementioned trades are limit based and in each trade only one KATS is involved. There isn't any evidence that the said clients bought from one KATS and sold on other KATS as usually happened in manipulated types of transactions, but this is not the case in above mentioned transactions. It purely reveals that there was no involvement of manipulation or any market abuse in these trades. It was just a coincidence of time and limit that formulated these trades.

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8. On September 19, 2005 the authorized representative of the Respondent, Mr. Dil-Awayz Ahmed, Finance Manager appeared before me. The main points raised by the Respondent in its oral submission were as follows:

- a. The Respondent admitted that it carried out all 11 trades annexed to the Notice. The Respondent also accepted that there has been no change in the beneficial ownership of the shares.
- b. The Respondent executed all the trades on behalf of the following clients:

S.No.	Client Code	Name
1	1823	Yasir Mehmood
2	2430	Mohammad Iqbal
3	L	Darson Lahore
4	415	Naveed Ahmed
5	18115	Ovais Akhtar
6	606	Tanvir
7	646	Arshad Khan Raheel

- c. The clients did not remember their limit orders already queued in KATS and when they placed their sell orders it matched with their own buy orders. However, client's trading activity did not have any false intensions.
9. In the course of the hearing the Respondent was requested to provide the Commission with the details of the transaction carried out in the name of Darson Securities (Pvt.) Ltd. Lahore Office Account (Code-L) and the name of the clients on whose behalf this transaction was executed to ascertain whether or not the beneficial ownership changed.
10. The Respondent submitted the details of the transaction of the Client Code-L vide letter dated September 21, 2005. The documents furnished by the Respondent failed to provide sufficient evidence to verify that the beneficial ownership did change in this transaction.

11. Having heard the views and contentions of the Respondent in its written and oral submissions and after carefully examining the facts submitted by the Respondent in both its written responses, I found that the following issues arise out of this matter

(a) Does the Respondent act in violations of the Rules? If so, up to what extent?

(b) What should the order be?

Each of these issues has been examined herein below:

(a) Does the Respondent act in violation of the Rules? If so, up to what extent?

12. The contention of the Respondent that there was a technical fault in KATS to cancel an order limit does not hold ground as the Respondent failed to provide any evidence to support its claim. During the course of hearing when it was enquired whether the Respondent informed the KSE in writing about this technical fault the Respondent replied in negative.
13. The assertion of the Respondent that clients did not remember their limit orders already queued in KATS and when they placed their sell orders it matched with their own buy orders is not acceptable. If the trades in question had occurred due to the aforesaid reason then it clearly shows that the Respondent did not at all time carry out its business with due skill, fairness, promptitude and diligence. The Respondent should have monitored the trades of its clients and should have informed them about their unexecuted orders in order to avoid the possibility of canceling out their previously placed orders with the new orders. Moreover, the occurrence of series of transactions which cancelled each other out is not a mere coincidence, instead it is an act of sheer negligence on part of the Respondent.
14. Further, the assertion of the Respondent that there was a wrong order of buy/sell by KATS operator and prompt reaction does not hold weight in view of the fact that the KATS operators are highly skilled personnel whose job is to record such transactions within a very short time period. Given their association with the market they are also fully aware of the correct practices. The Respondent has, therefore, encouraged the KATS operator to conduct his business in

manner contrary to the Rules. It is clearly tantamount to negligence on part of the Respondent which is violation of the code of conduct of the brokers which stipulates that a broker shall act with due skill, care and diligence in the conduct of his business.

15. It is evident from the relevant KATS data obtained from the KSE, (which has not been disputed by the Respondent) that all the aforesaid trades had the effect of canceling each other out and did not result in the change in beneficial ownership of these shares. Such trading activity interferes with the fair and smooth functioning of the market and undermines market integrity by creating an impression of shares being traded in the market when in fact trades have been cancelled out by the same person. The interest of the investors suffer due to the fact that they receive a false impression of trading in the market which is more than likely to influence the decision of any reasonable investor to invest or trade in the market.

16. 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. Further, the Respondent has 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 has not complied with the statutory requirements, and has therefore acted in violation of Rule 8(iv), read with Rule 12 of the Rules.

(b) What should the order be?

17. The Commission takes a serious note of the violation of the Rules and is entitled to suspend the Respondent's license. In the present circumstances, however, the Commission has decided not to exercise this power. Therefore, in exercise of the powers under Rule 8(b) of the Rules, I hereby impose on the Respondent, the penalty of Rs.25,000/= (Rupees 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 copy of deposit challan to the undersigned.

18. Additionally, I hereby direct the Respondent to abstain from buying and selling of shares in a manner that the trades do not result in a change in beneficial ownership of the shares failing which the Commission will proceed against it according to law.

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19. 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.

(Imran Inayat Butt)
Director (SM)

Date of Order: 3rd October 2005