



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
SECURITIES MARKET DIVISION

Before the Executive Director (Securities Market Division)

In the matter of Show Cause Notice issued to

**AMZ Securities (Private) Limited**

**Under Rule 8 read with Rule 12 of the Brokers and Agents Registration Rules, 2001 ("The Brokers Rules") and Section 28 of the Central Depositories Act, 1997 (the CDC Act)**

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Number and date of Notices	SMD-SOUTH/SCN/93/07 dated July 30, 2007
Date of hearing	August 06, 2007
Present	Mr. Shahid Munir-Chief Financial Officer
Date of Order	November 07, 2007

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**ORDER**

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1. This order shall dispose of the proceedings initiated through Show Cause Notice SMD-SOUTH/SCN/93/07 dated July 30, 2007 issued to AMZ Securities (Private) Limited (the "**Respondent**") by the Securities and Exchange Commission of Pakistan (the "**Commission**") under Rule 8 of the Brokers Rules for violation of Rule 12 of the Brokers Rules and Clause A5 of the code of conduct contained in the Third Schedule to the Brokers Rules and under section 28 of the CDC Act.
2. Brief facts of the case are that the Respondent is a member of the Karachi Stock Exchange (Guarantee) Limited ("**Exchange/KSE**") and is registered with the Commission under the Brokers Rules. An enquiry was initiated by the Commission in exercise of its powers under Section 21 of the Securities and Exchange Ordinance, 1969 and A. F. Ferguson & Co. ("**the Enquiry Officer**") was appointed as the Enquiry Officer under the above mentioned section inter alia:
  - a) to enquire into the dealings, business or any transaction by the Respondent during the period from April 1, 2006 to June 15, 2006 ("**the Review Period**").

- b) to identify any and all the acts or omissions constituting the violation of the Securities and Exchange Ordinance, 1969 ("**1969 Ordinance**") and the Rules made thereunder.
- c) to identify violations of any other applicable laws, including but not limited to the Brokers Rules and Regulations for Short Selling under Ready Market, 2002 ("**2002 Regulations**") and the Central Depository Company of Pakistan Limited Regulations ("**CDC Regulations**") read with the CDC Act.
3. The findings of the Enquiry Officer revealed several instances of potential non compliances with applicable laws and regulations. A copy of the Enquiry Officer's report was sent to the Respondent under cover of a letter dated April 30, 2007 which required Respondent to provide explanations on the observations of the Enquiry Officer together with supporting documents.
4. After perusal of the Respondent's replies to the above mentioned letter, which did not adequately explain the position, a Show Cause Notice was issued to the Respondent under Rule 8 of the Brokers Rules and under section 28 of the CDC Act, stating that the Respondent has prima facie contravened Rule 12 of the Brokers Rules read with Clause A5 of the code of conduct contained in the Third Schedule to the Brokers Rules and requirements of the CDC Regulations. Rule 12 of the Brokers Rule and clause A5 of the code of conduct are reproduced as under:
- Rule 12-** " A broker holding a certificate of registration under this rules shall abide by the code of conduct specified in the Third Schedule"
- Clause A5 of the code of conduct-**"A broker shall abide by all the provisions of the Act and the rules, regulations issued by the Commission and the stock exchange from time to time as may be applicable to them".
5. The Respondent was called upon to show cause in writing within seven days and appear before the Executive Director (SMD-South) on August 06, 2007 for a hearing, to be attended either in person and/or through an authorized representative.



6. The hearing was held on August 6, 2007 which was attended by Mr. Shahid Munir, Chief Financial Officer, the Representative of the Respondent, who submitted a written reply and argued the case.
7. A summary of the contentions that were raised by the Respondent in its written submissions and during the hearing and findings and conclusion of the Commission on the same is as follows:

## 8 Blank Sales

8.1 In terms of Regulation 4 of the 2002 Regulations, blank sales are not permissible. The findings of the Enquiry Officer revealed 83 instances of blank sales during the Review Period.

8.2 The Respondent made the following submissions on this Issue ("**Issue No. 1**"):

- The respondent claimed that majority of these instances were in fact not blank sales and proper evidences were submitted to the Enquiry Office in support of the contention.
- The Respondent, upon direction of the Commission, submitted evidences in support of its contention, perusal of which established that 19 out of 83 instances were indeed not blank sales and pre-existing interest existed at the time of the sale.
- However, satisfactory evidences were not provided in respect of remaining 64 instances.

8.3 Considering the above facts and the contentions of the Respondent, it is established that on 64 occasions blank sales have been made in violation of Regulation 4 of the 2002 Regulations. In terms of Rule 8 of the Brokers Rules, more particularly sub rule (ii), sub rule (iii) and sub rule (iv) thereof, where the Commission is of the opinion that a broker has inter alia failed to comply with any requirements of the Securities & Exchange Commission of Pakistan Act, 1997 or the 1969 Ordinance or of any rules or direction made or given thereunder and/ or has contravened the rules and regulations of the Exchange and/or has failed to follow any requirement of the code of conduct laid down in the Third Schedule, it may in the public interest, take action under Rule 8(a) or (b) of the Brokers Rules.



8.4 In light of the above i.e. the fact that the Respondent made blank sales, the Respondent has violated the 2002 Regulations thereby attracting sub rule (iii) of Rule 8 of the Brokers Rule and has also failed to comply with Clause A5 of the code of conduct contained in the Third Schedule to the Brokers Rules, thereby attracting sub rule (iv) of the Rule 8 of the Brokers Rule. Accordingly, a penalty of Rs.25,000 (Rupees twenty five thousand only) is hereby imposed on the Respondent under Rule 8 (b) of the Brokers Rules.

9. **Change in trades**

9.1 In terms of Clause A 1 and A2 of the code of conduct contained in the Third Schedule read with Rule 12 of the Brokers & Agents Registration Rules, 2001, it is provided that:

A1-"A broker shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business"

A2-"A broker shall act with due skill, care and diligence in the conduct of all his business."

9.2 Findings of the Enquiry Officer revealed various instances where trades entered into KATS on account of a client were subsequently assigned to another client in the Back Office record.

9.3 The Respondent made the following submissions on this Issue ("**Issue No. 2**"):

- The Respondent contended that the above mentioned instances were a result of error and that in the past there was no legal requirement to maintain a unique ID for each client. Further, different IDs were assigned by the traders to the clients for varying reasons to facilitate execution of orders and maintain client secrecy.
- The Respondent further contended that no complaints had been received from the account holders so as to establish the above practice as being unfair conduct and had these corrections not been made, account holders would have objected.

9.4 I have considered the contentions of the Respondent and the issues raised therein and am of the view that despite the fact that during the Review Period there was no legal requirement to enter trades through a unique ID for each client, in order to ensure the practice of fair trade and due skill, care and diligence in conduct of business, the Respondent must have entered correct KATS ID for its clients. Subsequent modification of trades and their allocation to another customer creates opportunities to disguise any violation of laws and regulations that might have occurred.



9.5 In light of the above the Respondent has failed to comply with Clause A1 and A2 of the code of conduct contained in the Third Schedule to the Brokers Rules, thereby attracting sub rule (iv) of the Rule 8 of the Brokers Rule. Accordingly, a penalty of Rs.1,000 (Rupees one thousand only) is hereby imposed on the Respondent under Rule 8 (b) of the Brokers Rules.

#### 10. CDC Balance statements

10.1 In terms of Regulation 6.2A.1 of The CDC Regulations it is provided that:

"Every Participant shall send by the 10th day of every month to all Sub- Account Holders maintaining Sub-Accounts under the control of such Participant Holding Balance statements showing the number of every Book-entry Security entered in every such Sub-Account as of the end of the preceding month. Such Holding Balance statements shall be generated from the CDS and shall be sent to the Sub-Account Holders in the manner set out in Regulation 2.6.4."

10.2 Findings of the Enquiry Officer revealed that the Respondent did not have a practice to send the CDC Balance statements to all of its customers by the 10<sup>th</sup> of each month as required under the CDC Regulations and where the CDC Balance statements were sent, the same were not generated from the CDS, instead the statement was sent on the Respondent's own format.

10.3 The Respondent made the following submissions on this Issue ("**Issue No. 3**"):

- The Respondent admitted that the CDC Balance statements were provided only to its active clients and whenever requested by any client, as sending the same to all of its clients raised its operating costs and placed unnecessary burden on the Respondent.
- The Respondent also claimed that it provides CDC Balance statements to its inactive clients if requested by them.
- The Respondent further stated that it has made arrangements to comply with the requirements of above mentioned regulation in future.

10.4 The Commission is cognizant of the practical difficulties associated with sending the CDC Balance Statements to all customers, specially in cases of brokerage houses with a large



clientele comprising a significant number of dormant accounts and acknowledging the fact that the Respondent is following the requirements of the CDC Regulations in spirit by providing the CDC Balance Statements to its active clients, I am inclined, on this occasion, to take a lenient view in the matter and will not take any punitive action under section 28 of the CDC Act. As such, I believe a 'caution' in this instance to the Respondent would suffice and I would further direct the Respondent to ensure that full compliance is made of all the Regulations in future for avoiding any punitive action under the law.

11. In view of what has been discussed above, I am of the considered view that no punitive action is necessary in relation to Issue No. 3 and a simple caution will suffice. As regards Issues No. 1 and 2, as stated above, penalties of Rs. 25,000 (Rupees Twenty Five Thousand) and Rs. 1,000 (Rupees One Thousand) respectively are imposed, which should be deposited with the Commission not later than fifteen (15) days from the date of receipt of this Order.



**Zafar Abdullah**  
*Executive Director*  
*Securities Market Division*