



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

Adam Securities (Private) Limited

Under Rule 8 read with Rule 12 of The Brokers and Agents Registration Rules, 2001 ("The Brokers Rules")

Number and date of Notices	SMD-SOUTH/SCN/107/07 dated August 03, 2007
Date of hearing	August 15, 2007
Present	Mr. Abdul Majeed Adam-CEO
Date of Order	October 12, 2007

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice SMD-SOUTH/SCN/107/07 dated August 03, 2007 issued to Adam Securities (Pvt.) Ltd. (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.
2. Brief facts of the case are that the Respondent is a member of the Karachi Stock (Guarantee) Limited (the "**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 read with Section 29(2) of the Securities & Exchange Commission of Pakistan Act, 1997 ("**the SECP Act**") and Ford Rhodes Sidat Hyder & 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**").

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 May 07, 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 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 which are reproduced as under:

Rule 12- " A broker holding a certificate of registration under these 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 15, 2007 for a hearing, to be attended either in person and/or through an authorized representative.
6. The hearing was held on August 15, 2007 which was attended by Mr. Abdul Majeed Adam-CEO, 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 288 instances of blank sales during the Review Period.

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

- The Respondent admitted that 2 instance of blank sales were a result of error.
- In respect of 23 instances, the Respondent contended that the same represent arbitrage between KSE-LSE. However, the Respondent failed to provide appropriate information in support of this claim.
- In respect of remaining 263 instances, the Respondent claimed that these were carried out by a client of Respondent on the behalf of another client who had pre-existing interest at the time of sale. In support of its contention, the Respondent supplied copies of the authority letter from the client and CDC Balance Statements.
- The Respondent also contended that the volume of the blank sales instances was not so significant as to damage the public interest or distort the market.

8.3 I have considered the contentions of the Respondent and the issues raised therein and the same are addressed by me below:

- In respect of transactions claimed as arbitrage between KSE-LSE, appropriate information and evidences were not provided by the Respondent to support this claim despite repeated reminders by the Commission through telephone.
- As regards the Respondent's contention that one of its customers traded on behalf of another customer who had pre-existing interest at the time of trade, I am of the view that the regulatory framework provides an appropriate mechanism for such form of trading through the options of opening joint accounts and performing short sales by fulfilling the conditions prescribed in the 2002 Regulations. Hence the contention of the Respondent in this regard cannot be accepted.



- As regards the contention of the Respondent regarding the volume of blank sales is concerned, the number of blank sale instances reported by the Enquiry Officer could not be taken as immaterial. Further, blank sales distort the fair trading pattern and efficient functioning of the market and thereby damage the public interest.

8.4 Considering the above facts and the contentions of the Respondent, it is established that on 288 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 SECP Act 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.

8.5 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 Rule 8 of the Brokers Rule. Accordingly, a penalty of Rs.75,000 (Rupees seventy five thousand only) is hereby imposed on the Respondent under Rule 8 (b) of the Brokers Rules.

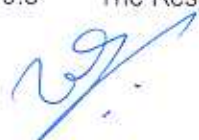
9. Order Register

9.1 In terms of Rule 4(1) of the Securities and Exchange Rules 1971 ("**1971 Rules**"), it is provided that;

"All orders to buy or sell securities which a member may receive shall be entered, in the chronological order, in a register to be maintained by him in a form which shows the name and address of the person who placed the order, name and number of the securities to be bought or sold, the nature of transaction and the limitation, if any, as to the price of the securities or the period for which the order is to be valid."

9.2 Findings of the Enquiry Officer revealed that the register as mentioned above was not maintained by the Respondent during the Review Period.

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



- The Respondent contended that a Daily Activity Log is maintained to comply with the requirements of the above mentioned Rule.

- 9.4 I have considered the contentions of the Respondent and am of the view that the Daily Activity Log as mentioned by the Respondent is not a substitute for the Order Register as required under the Rule 4(1) of the 1971 Rules, since the said log only records those orders that are placed by a brokerage house into KATS and not the orders received from the clients.
- 9.5 Commission is also cognizant of the practical difficulties associated with the maintenance of such an Order Register manually and in order to facilitate the brokerage houses in meeting the requirements of the said rule, the KSE is developing a system which will be provided to the brokerage houses in due course. However, it is noted with disappointment that the brokerage houses and exchanges were not able to keep pace with evolution in technology and significant increase in trading activities whereby a system should have been developed to enable simultaneous recording of orders received from clients and their incorporation in a database to generate the Order Register as required under the requirements of the Rule 4(1) of the 1971 Rules.
- 9.6 Considering the above mentioned facts I am inclined, on this occasion, to take a lenient view in the matter and will not take any punitive action under Rule 8 of the Brokers Rules. 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 laws and Regulations in future for avoiding any punitive action under the law.
10. 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. 2 and a simple caution will suffice. As regards Issue No. 1, as stated above, a penalty of Rs. 75,000 (Rupees seventy five thousand only) is 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