



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SECURITIES MARKET DIVISION

Before the Director (Securities Market Division)

In the matter of Show Cause Notice issued to

Arif Habib 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/125/07 dated May 28, 2008
Date of hearing	June 10, 2008
Present	Mr. Ahmed Reza and Mr. Faisal Kasbati
Date of Order	June 26, 2008

ORDER

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1. This order shall dispose of the proceedings initiated through Show Cause Notice SMD-SOUTH/SCN/125/07 dated May 28, 2008 issued to Arif Habib 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.
 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 Mehmood Idrees Qamar & 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 10, 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 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 Director (SMD-South) on June 10, 2008 for a hearing, to be attended either in person and/or through an authorized representative. 



6. The hearing was held on June 10, 2008 which was attended by Mr. Ahmed Reza and Mr. Faisal Kasbati, the Representatives 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 1,846 instances of blank sales during the Review Period.
- 8.2 The Respondent made the following submissions on this Issue ("Issue No. 1"):
- The respondent contended that the report of Enquiry Officer did not reveal blank sales. Rather the Enquiry Officer identified certain In-house Badla transactions and was unable to verify the open position of these transactions.
 - The Respondent offered to submit all relevant documents to verify that the clients in question had pre-existing interests when they sold the quantities in the open market.
- 8.3 Perusal of the documents submitted by the Respondent established that in 1,631 cases, the respective clients of the Respondent had pre-existing interest in the form of open interest in Repo/ In-house Badla Financing. However, satisfactory supporting documents were not provided in the case of remaining 215 instances.
- 8.4 Considering the above facts and the contentions of the Respondent, it is established that on 215 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.

8.5 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 the Rule 8 of the Brokers Rule. Accordingly, a penalty of Rs.100,000/- (Rupees One Hundred Thousand) 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 Findings of the Enquiry Officer also revealed that in various instances KATS ID assigned to customers by the Broker for trading did not pertain to any client of the Broker

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

- The Respondent contended that the above mentioned instances were a result of human error which were identified and corrected in a timely manner. These errors were due to the large number of transactions.



- The Respondent further contended that the Enquiry Officer reviewed over 78,000 transactions and found possible human errors in less than one instance per 1,000 transactions reviewed.
- The Respondent submitted that the requirement of notifying KSE regarding corrections in trades was not applicable in the review period.

- 9.5 I have considered the contentions of the Respondent and the issues raised therein and am of the view that a brokerage house should develop and implement a sound system of internal controls corresponding to its size and reputation. Furthermore, the above mentioned correction in codes could not be judged merely from a statistical viewpoint and the qualitative aspect of these corrections need also to be addressed. Many of the corrections in trades, as reported by the Enquiry Officer were of such nature and incidence as to create suspicions of an attempt to disguise any violation of laws and regulations that might have occurred.
- 9.6 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. In view of what has been discussed above, I am of the considered view that as regards Issues No. 1 and 2, as stated above, penalties of Rs. 100,000 (Rupees One Hundred 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.

A handwritten signature in black ink, appearing to read 'Imran Iqbal Panjwani', is written over the typed name and title.

Imran Iqbal Panjwani
Director
Securities Market Division