



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

**BMA Capital Management Limited**

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

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Number and date of Notices	SMD-SOUTH/SCN/91/07 dated July 30, 2007
Date of hearing	August 21, 2007
Present	Mr. M. Aamir Iqbal –Associate Director and Mr. M. Irfan Bham-Head of Internal Audit
Date of Order	October 12, 2007

**ORDER**

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1. This order shall dispose of the proceedings initiated through Show Cause Notice SMD-SOUTH/SCN/91/07 dated July 30, 2007 issued to **BMA Capital Management 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 read with Section 29(2) of the Securities & Exchange Commission of Pakistan Act, 1997 ("**the SECP Act**") 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").

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 the 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 21, 2007 for a hearing, to be attended either in person and/or through an authorized representative.
6. The hearing was held on August 21, 2007 which was attended by Mr. M. Aamir Iqbal, Associate Director and Mr. M. Irfan Bham, Head of Internal Audit, 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 the 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 17 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 these instances were in fact not blank sales and proper evidences were submitted to the Enquiry Office in support of the claim.
- The Respondent submitted evidences in support of its claim, a perusal of which established that the 17 instances identified by the Enquiry Officer were not blank sales and the Respondent's respective clients had pre-existing interest at the time of sale. However, the Respondent is strongly advised that the evidences provided pursuant to the Show Cause Notice should have been produced before the Enquiry Officer and submitted to the Commission in response to the Commission's letter dated April 30, 2007 wherein the Respondent was provided with an opportunity to respond to the issues raised by the Enquiry Officer.

## 9. Missing Account Opening Forms

9.1 In terms of Regulation 74 of the General Rules & Regulations of Karachi Stock Exchange (Guarantee) Limited ("**KSE Regulations**") it is provided that:

"The Members of the Exchange shall adopt the Standardized Account Opening Form, attached as Form-I to these Regulations, for their new Account Holders with immediate effect and for the existing operating accounts, the same shall be brought into conformity with Standardized Account Opening Form effective from March 31, 2004".

9.2 Findings of the Enquiry Officer revealed that the Account Opening Forms of 35 customers were not available with the Respondent.

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



- The Respondent submitted 7 out of 35 Account Opening Forms and for the remaining forms contended that these pertained to institutional clients which did not extend full cooperation to the Respondent with regards to completion and submission of account opening forms.
- In support of its contention, the Respondent also drew attention to the Commission's direction to all NBFCs to comply with the documentary requirements at the time of opening accounts with the brokers of KSE.
- The Respondent also submitted copies of letters issued to institutional clients instructing them to submit duly filled account opening forms along with the supporting documents.

9.4 Considering the fact that non-submission of account opening forms by institutional clients is an industry-wide problem which is faced by all the brokers and the steps taken by the Respondent to compel its institutional clients to submit account opening forms, thereby demonstrating its willingness to comply with the requirements of the KSE Regulations, 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 no individual or Institution is admitted as a client unless it submits a duly filled account opening forms with supporting documents and that the Respondent should clearly direct all of its existing clients to submit duly filled account opening forms.

10. In view of what has been discussed above, I am of the considered view that no punitive action is necessary in relation to Issues No. 1 and 2 and a simple caution will suffice in case of issue No.2.



**Zafar Abdullah**  
Executive Director  
Securities Market Division