



Before The Director (Securities Market Division)

In the matter of Show Cause Notice issued to

Guardian Securities (Private) Limited

Date of Hearing:

May 27, 2009

Present at the Hearing:

Representing the Guardian Securities (Pvt.) Limited:

(i) Mr. Mohsin Abbas	Chief Executive Officer
(ii) Mr. Faisal Samar	Settlement Department

Assisting the Director (SMD):

(i) Mr. Muhammad Atif Hameed	Deputy Director
(ii) Mr. Muhammad Ali	Assistant Director
(iii) Ms. Tayyaba Nisar	Assistant Director

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice ("the SCN") bearing No.1 (03) / Wash/LSE /MSW/SMD/2009/04 dated May 08, 2009 issued to Guardian Securities (Private) Limited ("the Respondent"), Member of the Lahore Stock Exchange (Guarantee) Limited ("LSE"), by the Securities and Exchange Commission of Pakistan ("the Commission") under the Brokers and Agents Registration Rules, 2001, ("the Broker Rules").
2. The brief facts of the case are that the Respondent is a member of LSE and is registered with the Commission under the Broker Rules. After examination of the Karachi Automated Trading System ("KATS") data for the month of February, 2009 it has been observed that the Respondent, in its Proprietary Account bought 586,000 shares and sold 412,500 shares of Colony Mills Limited ("CML") through three different Members of Karachi Stock



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Exchange (Guarantee) Limited ("KSE"). The Respondent bought and sold CML shares in such a way that orders for buy and sell matched with each other to the tune of 412,500 shares and did not result in any change in beneficial ownership of the shares.

3. It has been noted that on a number of occasions the Respondent at first placed orders for purchase of shares of CML in its Proprietary Account with different KSE Members ("KM") and then also placed sale orders in its Proprietary Account through different KM, as a result the Respondents buy orders matched with its own sale orders to the tune of 412,500 shares. The Commission vide its letter dated March 04, 2009 advised Respondent to provide comments, along with documentary evidence to clarify its position in the matter. The Respondent vide its letter dated March 12, 2009 replied that being a corporate member of LSE it cannot trade directly at KSE, so in order to facilitate its valued customers it opened trading accounts with different KM and all the trading in the shares of CML through its Proprietary Accounts was done on behalf of its two clients. The Commission vide its letter dated April 07, 2009 invited the attention of the Respondent towards National Clearing Company of Pakistan ("NCCPL") Circular dated July 01, 2008 and LSE Notice No 607 dated July 14, 2008 wherein it was made mandatory for all the Members of LSE to register Unique Identification Number ("UIN") of their clients in the National Clearing and Settlement System ("NCSS") before July 20, 2008 for execution of Inter-Exchange Trades. The Respondent vide its letter dated April 27, 2009 informed the Commission that it is using online terminals of KM and while placing orders of the clients through its Proprietary Accounts it is also entering reference numbers in the system. It was noted that the clarification provided by the Respondent did not adequately explain the position of the Respondent in respect of the compliance with the said Notice of LSE and Circular of NCCPL.
4. Accordingly, the SCN dated May 08, 2009 was issued to the Respondent. The Respondent was asked to submit a written reply to the SCN within seven days of the date of SCN and hearing was fixed at Islamabad on May 22, 2009. However, the date of hearing was changed on the Respondent's request. Subsequently, the hearing was held on May 27, 2009 at the same venue which was attended by Mr. Mohsin Abbas and Mr. Faisal Samar (the "Representatives of the Respondent") on the behalf of the Respondent.
5. The Respondent did not reply to the SCN in writing. However, the Representatives of the Respondent during the course of hearing stated that they were maintaining the trading



accounts with three different KM at KSE and all the trading in the scrip of CML through its Proprietary Accounts was done on behalf of its clients and was not meant for proprietary purposes. With regard to non compliance with the LSE Notice and NCCPL Circular regarding UIN functionality of Inter-Exchange Trades, the Representatives of the Respondent emphasized that it is the prime responsibility of the KM to register its clients UIN's in its NCSS system. They further added that the Respondent had recently opened an account with another KSE Member only for Inter Exchange Trading purpose. The Representatives of the Respondent assured that they were already working to comply with the LSE Notice and NCCPL Circular and they had informed the KM to register their clients UIN's for Inter-Exchange Trading at the earliest. The Representatives of the Respondent prayed that keeping in view the aforementioned arguments the Commission may take a lenient view in this matter.

6. After a detailed and thorough perusal of facts, written submissions of the Respondent and averments made by the Representatives of the Respondent during the course of hearing, it is evident that the Respondent has executed its clients trading in its Proprietary Accounts through different KM. The Respondent has failed to comply with the direction of the Commission and contravened the rules and regulation of the stock exchange thus violating the code of conduct laid down under the Third Schedule of the Broker Rules which in turn is a violation of the Broker Rules. The Respondent's argument that it is the primary responsibility of the KM to open the Inter Exchange UIN Accounts in its NCSS system for the Respondent seems incorrect and irrational. It does not absolve the Respondent from its responsibility to comply with the requirement of LSE Notice and NCCPL Circular. It may be noted that in order to execute Inter-Exchange Trades on behalf of its clients the Initiating Broker has to register its client's UINs with the Executing Broker. The functionality developed by NCCPL for Inter-Exchange trades requires that the Initiating Broker shall provide the Executing Broker with the client codes of its clients while executing the Inter-Exchange Trades.
7. In order to have fair, efficient and transparent market it is critical that every trade executed at stock exchange should be tracked to recognize true identity of the beneficial owner and it may not be possible if the Respondent keeps on executing the clients trades in its Proprietary Accounts. It is also the responsibility of the Respondent to put systems and controls in place to ensure that each trade executed on its behalf does not violate any applicable rules and regulations.



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8. Considering the above facts and the contentions of the Respondent, it is established that the Respondent has executed client's trades in its Proprietary Account through different KM. The execution of abovementioned trades show that the Respondent has failed to maintain high standards of integrity, promptitude and fairness in conduct of its business. Moreover the Respondent has failed to comply with specific directive issued by the Commission and the stock exchange. It is the responsibility of the Respondent to keep itself well-informed about the applicable rules and regulations to avoid any violation of the same. Therefore, keeping in view the aforementioned, it is evident to me that the Respondent by executing the trades in question has violated Clause A1, A5, and D 1 (2) of the Code of Conduct contained in the Third Schedule of the Broker Rules which in turn is a violation of Broker Rules.
9. In light of the above facts, the Respondent by executing the clients trading through its Proprietary Account has violated the Broker Rules and Code of Conduct thereby, attracting Rule 8 of the Broker Rules. The violation of the Rules and Regulations is a serious matter however in view of the fact that I have been assured by the Representatives of the Respondent that in future they will be more careful. Therefore, I am imposing a fine of Rs. 50,000 (Rupees Fifty Thousand only) to the Respondent in exercise of power under Rule 8 (b) of the Broker Rules. This sum of Rs. 50,000 should be deposited in the account of the Commission being maintained in the designated branches of MCB Bank Ltd., no later than thirty (30) days from the date of this Order. A copy of the Challan form evidencing the deposit of penalty amount must be sent to the Commission. I would further direct the Respondent to ensure that full compliance be made of all rules, regulations and directives of the Commission in the future for avoiding any punitive action under the law.

Imran Inayat Butt

Director

Securities Market Division

Announced on June 22, 2009
Islamabad.