



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

Mr. H. M. Idrees. H. Adam

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

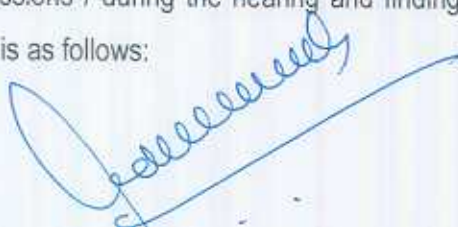
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| Number and date of Notices | SMD-SOUTH/SCN/102/07 dated August 01, 2007 |
| Date of hearing | August 10, 2007 |
| Present | Mr. H. M. Idrees. H. Adam |
| Date of Order | February 11, 2008 |

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice SMD-SOUTH/SCN/102/07 dated August 01, 2007 issued to **Mr. H. M. Idrees. H. Adam** (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 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.

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- 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 10, 2007 for a hearing, to be attended either in person and/or through an authorized representative.
6. The hearing was held on August 10, 2007 which was attended by Mr. H. M. Idrees. H. Adam 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 / 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 126 instances of blank sales during the Review Period.

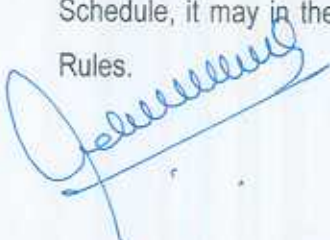
8.2 The Respondent made the following submissions on this Issue ("Issue No. 1"):

- The Respondent claimed that these instances were in fact not blank sales and represented arbitrage with the Islamabad Stock Exchange (ISE).
- The Respondent further claimed that the transactions in question appear as blank sales due to the timing difference between the clocks of both the exchanges.
- Some transactions were claimed by the Respondent as customer to customer transactions.

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

- In respect of transactions claimed as arbitrage between KSE-ISE, appropriate information and independent evidences were not provided by the Respondent to support this claim.
- In respect of customer to customer transactions, no appropriate supporting documents were submitted by the Respondent.

8.4 Considering the above facts and the contentions of the Respondent, it is established that on 126 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 and 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.



9. 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. 50,000 (Rupees fifty thousand only) is hereby imposed on the Respondent under Rule 8 (b) of the Brokers Rules 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