



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
(Securities Market Division)

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Before the Director (Securities Market Division)

In the matter of Show Cause Notice issued to

M.R. Securities (Pvt.) Limited

Under Rule 8 read With Rule 12 of The Brokers and Agents Registration Rules, 2001

Number and Date of Notice	No. MSW/SMD/LSE/1(5)2006 dated October 31, 2007
Date of Hearing	November 12, 2007
Present at the Hearing:	Engr. Mazhar Rafiq – Chief Executive
Date of Order	December 27, 2007

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. MSW/SMD/LSE/1(5)2006 dated October 21, 2007 ("**the SCN**") issued to M.R Securities (Pvt.) Limited ("**the Respondent**"), member of the Lahore Stock Exchange (Guarantee) Limited ("**LSE**") by the Securities and Exchange Commission of Pakistan ("**the Commission**") under Rule 8 of the Brokers and Agents Registration Rules, 2001 ("**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 of the Brokers 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 Brokers Rules. An enquiry was initiated by the Commission in exercise of its powers under Section 21 of the Securities and Exchange Ordinance, 1969 ("**the Ordinance**") and Ford Rhodes Sidat Hyder & Co. ("**the Enquiry Officer**") was appointed as the Enquiry Officer under the above mentioned section for the following:
 - (a) to enquire into the dealings, business or any transaction by the Respondent during the period from April 01, 2006 to June 15, 2006 ("**the Review Period**").
 - (b) to identify any and all the acts or omissions constituting the violation of the Ordinance and the Rules made thereunder.
 - (c) to identify violations of any other applicable laws, including but not limited to the Brokers Rules, Regulations for Short Selling under Ready Market, 2002 ("**Short Selling Regulations**"), General Rules and Regulations of Lahore Stock Exchange (Guarantee) Limited, Securities and Exchange Rules 1971 ("**the 1971 Rules**") and directives issued by the Commission from time to time.



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 on October 04, 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, the SCN was issued to the Respondent under Rules 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 him"

5. On October 31, 2007, the Respondent was called upon to show cause in writing within seven days and appear before the undersigned on November 12, 2007 for a hearing, to be attended either in person and/or through an authorized representative.
6. The hearing was attended by Mr. Engr. Mazhar Rafiq, Chief Executive of Respondent who argued the case. Further a written reply dated November 6, 2007 was also submitted.
7. A summary of contentions and objections 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 ('Issue No. 1')**

- 8.1 In terms of Regulation 4 of the Short Selling Regulations, Blank Sales are not permissible and in terms of Regulation 5 of the Short Selling Regulations, it is provided that:

"No Member shall make a Short Sale unless:

- a. Prior contractual borrowing arrangement has been made
- b. The sale is made at an uptick, and
- c. The trade is identified as a Short Sale at the time of placement of order"

- 8.2 The findings of the Enquiry Officer revealed three instances of Blank Sales during the Review Period

- 8.3 The Respondent made the following submissions on the issue:

- With regard to the Blank Sale mentioned at serial no. 1 of the Annexure – A (**the Annexure**) enclosed with SCN, the Respondent stated that the trade was wrongly executed in client 91-093 account and actually the order was placed by client 91-094. The error was detected and corrected on the same day. The Respondent further stated that client 91-093 did not deal in the scrip of PPL during



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the month of May, 2006. As for the client 91-094 the Respondent stated that the client had bought 19,500 shares on May 25, 2006 at KSE and 51,100 shares at LSE on the same day out of which 25,000 shares were placed on CFS through LSE on May 30, 2006, therefore client 91-094 had pre-existing interest in the shares before sale.

- As for the Blank Sales mentioned at serial nos. 2 and 3 of the Annexure the Respondent in his written reply stated that same were result of a human error where buy orders were placed as sell orders on the system. However, same was rectified with the consent of clients. Moreover, during the hearing the Respondent stated that it has now installed in house developed software to check Blank Sales.

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

- The Respondent in all the three instances of Blank Sales given in the Annexure claimed that they were result of an error and were not deliberate attempts to execute Blank Sales. With regard to the instance given at serial No. 1 of the Annexure the Respondent provided sufficient documentary proof that the client 91-094 had sufficient pre-existing interest in the shares before sale, whereas, in the last two instances Blank Sales were executed but as a result of mistake. The execution of trades in question shows that Respondent needs to improve its systems and controls at its house to ensure that each and every trade executed through its terminal are executed in conformity with the applicable laws.

8.5 Considering the above facts and the contentions of the Respondent, it is established that two Blank Sales given in Annexure have been made in violation of Regulation 4 of the Short Selling Regulations. In terms of Rule 8 of the Brokers Rules, more particularly sub rule (ii), sub (iii) and sub rule (iv) therefore, 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 Ordinance or of any rule or direction made or given there under 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.

8.6 In light of the above i.e. the fact that the Respondent failed to comply with Commission's directive thereby attracting sub rule (v) of the Rule 8 of the Brokers Rule. However, keeping in view small number of instances and shares involved and Respondent's statement that he has already taken corrective actions and assurance that such violations will not occur in future 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 be made of all rules, regulations and directives of the Commission in the future for avoiding any punitive action under the law.



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9. **Account Opening Forms ("Issue No. 2")**

- 9.1 In terms of Commission's Directive No. SMD/SE/2(89) 2003 dated July 23, 2003 which requires all the members-brokers to maintain Account Opening Form(s) ("the AOF(s)") in conformity with the Standardized Account Opening Form ("the SAOF") prescribed by the Commission and subsequent changes made to the SAOF vide letters No. SMD/SE/2(89) 2003, dated November 19, 2003 and January 20, 2004. Subsequently this SAOF was also made part of LSE General Rules and Regulations as Chapter VIII. The said directives of the Commission require that any fields of AOF should not be left blank and any non-applicable field must be marked as "N/A".
- 9.2 Findings of the Enquiry Officer revealed that non-applicable fields of AOF were left blank and were not marked as "N/A".
- 9.3 The Respondent made the following submission on these issues
- The Respondent asserted that no guidance was given by LSE regarding how to fill the AOFs and neither this error was pointed out during the system audit. However, it has now rectified mistakes and this sort of errors will not happen in future.
- 9.4 I have considered the contentions of the Respondent and the issues raised therein and the same are addressed by me below:
- The Respondent during the hearing accepted that above mentioned violation which was due to lack of knowledge of the Respondent regarding requirements of the SAOF. It may be noted that the said requirement of the SAOF ensures that the AOFs are not amended/alterd by the brokers without the consent of the Account Holder thus safe guarding client's interest.
- 9.5 Considering the above facts and the contentions of the Respondent, it is established that Respondent has failed to comply with Commission's Directive and General Rules and Regulations of the Lahore Stock Exchange. In terms of Rule 8 of the Brokers Rules, more particularly sub rule (iii) and sub rule (v) therefore, where the Commission is of the opinion that a broker has inter alia failed to comply with requirements of the any directions of the Commission 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.
- 9.6 In light of the above i.e. the fact the Respondent failed to comply with Commission's directive thereby attracting sub rule (v) of the Rule 8 of the Brokers Rule. However, based on the Respondents statement that he has already taken corrective actions and assurance that such violations will not occur in future 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



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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.

10. **Execution of Orders of other members of the same exchange ("Issue No. 3")**

10.1 In terms Commission's directive No.F.13/SMD/SECP/2005 dated September 23, 2005 members are not allowed to trade through other brokerage houses within the same exchange.

10.2 The findings of the Enquiry Officer revealed that the Respondent has executed orders on behalf of the other members of the LSE.

10.3 The Respondent made the following submission on this issue

- Respondent stated that it executed some orders of Khalid Javed Securities (Pvt.) Limited ("the KJS") for a short time due to the fact that the KJS did not have arrangement with any member of Karachi Stock Exchange (Guarantee) Limited ("KSE") for trading at KSE. Therefore, the Respondent bought shares at KSE through its broker at KSE on behalf of KJS and same shares were sold at LSE to get the best price. However, same was not done with the intention to manipulate the market.

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

- The Respondent has acknowledged during the hearing and its written reply that it did execute some orders on behalf of KJS who is member of LSE. The placement of order of KJS by Respondents at KSE does not violate the said directive of the Commission; however, the subsequent sale of KJS shares by the Respondent at LSE is a clear violation. The Respondent should have abstained from execution of KJS orders at LSE. KJS being a member of LSE had the same opportunity to get the best price at LSE and therefore, should have sold the shares through its own house/terminals by getting delivery of the shares bought at KSE through Respondent in order to comply with the said directive.

10.5 In light of the above i.e. the fact that the Respondent had failed to comply with Commission's directive thereby attracting sub rule (v) of the Rule 8 of the Brokers Rule. Accordingly, a penalty of Rs. 5,000 (Rupees Five Thousand only) is hereby imposed on the Respondent under Rule 8 (b) of the Brokers Rules.

11 As stated above, the Respondent is penalized as follows:

- a) As regards Issue No 3, as stated above, a penalty of Rs. 5,000/- (Rupees Five Thousand only) is imposed.
- b) No punitive action is taken in relation to Issue No. 1 and 2 and a simple caution will suffice.



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- 11.1 The matter is disposed of in the above manner and the Respondent is directed to deposit the fine with the Commission not later than fifteen (15) days from the receipt of this Order.

Imran Inayat Butt
Director (SM)
Securities Market Division