

**SECURITIES & EXCHANGE COMMISSION OF PAKISTAN**  
**NIC Building, Jinnah Avenue, Blue Area, Islamabad**

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**Before the Director (Securities Market Division)**

In the matter of Show Cause Notice dated 26.12.2005 issued to  
Mr. Ismail Abdul Shakoor, Member Karachi Stock Exchange

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**Date of Hearing:**

January 20, 2006

**Present at the Hearing:**

Representing Mr. Ismail Abdul Shakoor:

Mr. Shakeel Hussain, Manager

Assisting the Director (SMD):

Mr. Shaukat Hameed, Joint Director

**ORDER**

1. This matter arises out of a Show Cause Notice No. 1(8) OCT 18/MSW/SMD/2005/38 dated December 26, 2005 ("the Notice") issued by the Securities and Exchange Commission of Pakistan ("the Commission") to Mr. Ismail Abdul Shakoor, ("the Respondent").
2. Facts of the case are that the stock market experienced abnormal volatility on October 18, 2005. In order to investigate the reasons thereof, the Commission obtained trading data from the Karachi Automated Trading System ("KATS") of the Karachi Stock Exchange (Guarantee) Limited ("KSE") for that day.
3. On the perusal of the data obtained from the KSE and subsequent information received from the Respondent, it was noted that on October 18, 2005, the

Respondent's Client namely Abdul Rauf having KATS code 45 ("the Client") had first sold 50,000 shares of Bank of Punjab ("BOP") between 9:48 a.m. and 9:49 a.m. and subsequently squared his position by purchasing these shares at 9:54 a.m. Thereafter, the client again sold 200,000 shares of BOP between 11:49 a.m. and 12:24 p.m. and subsequently squared his position by purchasing these shares between 12:25 p.m. and 12:34 p.m. It was further noted from the available record that at the time of sale of these shares, the Client did not have any pre-existing interest in the shares of BOP.

4. In order to afford the Respondent an opportunity, the Commission issued a letter No.I(8)OCT 18/MSW/SMD/2005/36 dated December 12, 2005 detailing the aforesaid facts and asking the Respondent to provide documentary evidence to establish that the client had pre-existing interest in the shares of BOP to the extent of 200,000 shares before the said sale. The Respondent vide its letter dated December 14, 2005 provided his reply. The Reply was found to be unsatisfactory as it contained insufficient evidence to establish that the Client had pre-existing interest in the shares of BOP.
5. Accordingly, the Commission issued the Notice dated December 26, 2005 intimating the Respondent that the trading in shares of BOP by its client appears to falls within the ambit of blank selling, prima facie in violation of the Brokers and Agents Registration Rules, 2001 (the "Rules") and the Regulations for Short Selling under Ready Market, 2002 (the "Regulations"). The hearing in the case was fixed in Islamabad for January 05, 2006.
6. The said hearing was adjourned on the request of the Respondent and the case was re-fixed for January 20, 2006. On the date of hearing, Mr.Shakeel Hussain, Manager of the Respondent appeared before me in person. The main points raised by the Respondent in its written reply and in the course of hearing were as follows:

- a) The Respondent in his written reply dated December 14, 2005 confirmed that 200,000 shares of BOP of his Client were lying with D.J.M. Securities (Pvt.) Limited in their CDC account A/c. on October 18, 2005.
- b) The Respondent along-with the written reply enclosed a letter dated December 12, 2005 from D.J.M. Securities (Pvt.) Limited addressed to the Respondent which states that "*yours 200,000 shares of M/s. Bank of Punjab (BOP) lies in our CDC A/c. on 18-10-2005.*" D.J.M. Securities (Pvt.) Limited also attached its Account Balance Summary Report of CDC dated October 18, 2005 in respect of BOP, which shows 1,338,800 shares as position owned, 3,800 shares as available and 1,335,000 shares as pledged in the account title "D.J.M. Securities (Pvt.) Limited".
- c) The Respondent during course of the hearing informed that some of their clients have accounts with other brokerage houses. He further added that they have large client base which includes day traders, long-term investors as well as financial institutions.
- d) The Respondent informed that Abdul Rauf is his old Client. The Respondent affirmed that if delivery would have required from the Client in respect of the sale of 200,000, it would have been affected from CDC account of D.J.M. Securities (Pvt.) Limited as his Client also trades from the D.J.M. Securities (Pvt.) Limited.
- e) The Respondent was asked to furnish afresh documentary evidence, if any, that 200,000 shares of BOP were lying in the name of the Client as their earlier reply was found to be unsatisfactory to prove it. Further, the Respondent was also asked to provide the Client transaction statement and ledger statement

for one month in all scrips and copies of NIC and Account Opening Form of the Client.

- f) The Respondent provided the requisite information on January 30, 2006 which includes the General Ledger of the Client from 01-10-2005 to 31-10-2005 and copies of NIC and Account Opening Form of the Client. Further, the Respondent also provided a Purchase Bill for 200,000 shares of BOP issued in the name of Mr. Kamran by D.J.M. Securities (Pvt.) Limited.

7. I have heard the views and contentions of the Respondent at length and after carefully examining the record, I find that the following issue arises out of this matter:

- (a) Whether the Respondent's Client had pre-existing interest in the shares of BOP to the extent of 200,000 shares or not?
- (b) What should the order be?

8. These issues were thoroughly examined as under: -

***(a) Whether the Respondent's Client had pre-existing interest in the shares of BOP to the extent of 200,000 shares or not?***

9. The Respondent in its written reply as well as oral contentions made during the hearing has taken plea that the Client had pre-existing interest in the shares of BOP. The Respondent claimed that his Client's 200,000 shares of BOP were available in the CDC account of D.J.M. Securities (Pvt.) Limited as his Client also trades through D.J.M. Securities (Pvt.) Limited. In support of his claim, the Respondent provided Account Balance Statement of CDC which showed 1,338,800 shares of BOP as position owned in the account of D.J.M.

Securities (Pvt.) Limited. However, the Respondent did not provide any documentary evidence which can prove that Abdul Rauf is also a Client of D.J.M. Securities (Pvt.) Limited and 200,000 shares of BOP lying in the CDC account of D.J.M. Securities (Pvt.) Limited belongs to his Client.

10. A sale transaction of shares is said to be regular when a client has pre-existing interest in the shares before the sale. Hence, it is utmost necessary to ascertain whether the Respondent's Client had pre-existing interest in the shares of BOP to the extent of 200,000 shares or not. The Regulations under Clause-2(g) has defined "Sales with pre-existing interest" which means squaring up of an earlier purchase on the same exchange or another exchange in the same settlement or different settlement which will settle prior to the settlement of the sale. The Client's general ledger provided by the Respondent for the period from October 01, 2005 to October 31, 2005 indicates that the Client had purchased 82,500 shares of BOP which he sold on October 17, 2005. Hence, the record provided by the Respondent did not substantiate that the Client had any pre-existing interest in the shares of BOP before October 18, 2005.
11. The Respondent has provided a Purchase Bill for 200,000 shares for settlement date of October 13, 2005 issued to Mr. Kamran by D.J.M. Securities (Pvt.) Limited as proof of holding of shares of BOP by his Client. However, merely providing a Purchase Bill of an unknown person from the brokerage house of D.J.M Securities can not be considered as pre-existing interest of the Respondent's Client as required in the Regulations.
12. In view of the above, it is very obvious that the Respondent's Client had neither pre-existing interest nor prior contractual borrowing arrangement in the scrip. Further, the Respondent has also failed to provide any other evidence to substantiate the claim of his Client that he had pre-existing interest in the shares of BOP.

13. According to Clause-2(a) of the Regulations, "Blank Sales" means "a sale by a party that does not own shares or the sale does not constitute a sale with pre-existing interest or is a sale by a party that has not entered into a contractual borrowing arrangement to meet the delivery requirements". Hence, the sale by the Respondent's Client without pre-existing interest and any contractual borrowing arrangement falls within the ambit of Blank Sale which is prohibited in terms of the Regulations. The Respondent, therefore, has acted in violation of Clause-4 of the Regulations and Clause 8(iii) of the Rules.

***(b) What should the order be?***

14. The violation of Rules and Regulations is a serious matter which entitles the Commission to suspend the Respondent's membership but I have elected not to exercise this power at present. However, in exercise of the powers under Clause 8(b) of the Rules, I hereby impose on the Respondent, a penalty of Rs. 50,000 (Rupees fifty thousand only) which should be deposited with the Commission, no later than 30 days from the date of this Order and furnish the copy of the deposit challan to the undersigned.

15. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.

**Imran Inayat Butt**  
**Director (SM)**

**Date of the Order: March 16, 2006**