



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

Mars Securities (Private) Limited

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

Number and date of Notice	SMD-SOUTH/SCN/96/07 dated July 31, 2007
Date of hearing	August 20, 2007
Present	Mr. Sajjad Ahmed
Date of Order	October 30, 2007

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice SMD-SOUTH/SCN/96/07 dated July 31, 2007 ("**Show Cause Notice**") issued to Mars Securities (Pvt.) 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 (the "**Exchange**") 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 ("**1969 Ordinance**") 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 1969 Ordinance and the Rules made thereunder; and
 - 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, the Show Cause Notice was issued to the Respondent under Rule 8 of the Brokers Rules stating that the Respondent has prima facie contravened *inter alia* 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:

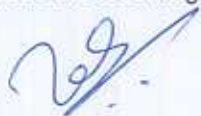
Rule 12- " A broker holding a certificate of registration under this rules shall abide by the code of conduct specified in the Third Schedule"

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 20, 2007 for a hearing, to be attended either in person and/or through an authorized representative.
6. The hearing was held on August 20, 2007 which was attended by Mr. Sajjad Ahmed, the representative 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 submission / during the hearing and findings and conclusion of the Commission on the same are 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 164 instances of blank sales during the Review Period.
- 8.2 The Respondent made the following submissions on this Issue ("**Issue No. 1**"):



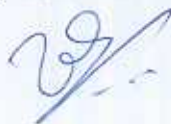
- The Respondent claimed that majority of these instances represented cases of customers who operated their CDC Investor accounts. These clients instructed the Respondent to execute sales orders, undertaking to provide delivery of shares and later squared up their respective positions.
- The Respondent claimed that in 27 instances, pre-existing interest existed in the form of In-house Badla financing.
- The Respondent further contended that in 3 instances, delivery was provided by a customer other than the one making the blank sale through mutual understanding.

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

- The Respondent contended that in certain cases, a customer instructs sale of a scrip while undertaking to deliver securities at the time of sale. However, he later squares his position by purchasing the same quantity before the end of trading. In this regard, it is the obligation of a brokerage house to ensure compliance with all applicable rules and regulations and appropriate internal control procedures need to be in place to prevent a customer from making a sale without holding pre-existing interest.
- As regards pre-existing interest in the form of In-house badla financing is concerned, the Respondent was directed to produce valid evidence in support of its claim. The evidence submitted by the Respondent was not satisfactory.
- So far as the matter of meeting the delivery requirements through mutual understanding is concerned, the regulatory framework provides an appropriate mechanism for such form of trading through the options of opening joint accounts and performing short sales by fulfilling the conditions prescribed in the 2002 Regulations. Hence, the contentions of the Respondent in this regard cannot be accepted.

8.4 Considering the above facts and the contentions of the Respondent, it is established that on 164 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 & 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.

8.5 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 Rules 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 Rules. Accordingly, a penalty of Rs.50,000 (Rupees Fifty Thousand) is hereby imposed on the Respondent under Rule 8 (b) of the Brokers Rules.

9. In view of what has been discussed above, I am of the considered view that as regards the above issue, as stated above, a penalty of Rs.50,000 (Rupees Fifty Thousand) is imposed, 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