



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
(Securities Market Division)  
\*\*\*

Before the Director (Securities Market Division)

In the matter of Show Cause Notice issued to

M.R.A 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)2006/59 dated December 06, 2007
Date of Hearing	December 17, 2007
Present at the Hearing:	Mr. Muhammad Farhan – Chief Executive Officer Mr. Kamran Hanif - Settlement In charge
Date of Order	February 22, 2008

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. MSW/SMD/LSE/1(5)2006/59 dated December 06, 2007 ("**the SCN**") issued to M.R.A 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 KPMG Taseer Hadi & 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 a 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**"),



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
(Securities Market Division)

\*\*\*

General Rules and Regulations of LSE, 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 25, 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 in respect of some instances, the SCN 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 Securities and Exchange Commission of Pakistan Act, 1997 ("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 December 06, 2007, the Respondent was called upon to show cause in writing within seven days and appear before the undersigned on December 14, 2007 for a hearing, to be attended either in person and/or through an authorized representative. However, due to official engagement of the Director (SMD) the hearing was re-fixed for December 17, 2007.

6. The hearing was attended by Mr. Muhammad Farhan, Chief Executive Officer and Mr. Kamran Hanif, Settlement In-charge of the Respondent, who argued the case. The Respondent also submitted written reply of the SCN to the Commission.

7. A summary of the contentions and objections that were raised by the Respondent in its written submissions and during the hearing and findings and conclusions of the Commission on the same are 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"





SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
(Securities Market Division)

\*\*\*

- 8.2 The findings of the Enquiry Officer revealed 7254 instances of Blank Sales during the Review Period.
- 8.3 The Respondent made the following submissions on the issue:
- The Respondent during the hearing stated that the instances given in the Annexure-A (**the Annexure**) of the SCN are not Blank Sales as same belong to its clients who were engaged in arbitrage business. The Respondent further asserted that its clients had corresponding buy positions at Karachi Stock Exchange (Guarantee) Limited ("KSE") against the sales mentioned in the Annexure. The Respondent provided a number of ledger statements of its clients for the dates and scrips given in the Annexure showing buy and sale of shares.
- 8.4 I have considered the contentions of the Respondent and the issues raised therein and the same are addressed by me below:
- The ledger statements provided by the Respondent and KSE trading data available with the Commission were analyzed and it was observed that the clients mentioned in the Annexure were engaged in arbitrage business and had simultaneous buy positions at KSE against the sales given the Annexure. However, with regard to instances given at serial nos. 4424, 4425, 4374 and 4375 it was observed that no corresponding buying was done at KSE and these sales were squared up at LSE therefore, the said instances will be treated as Blank Sales. Further, for the instances given at serial nos. 4964, 4965, 3846, 3847 and 3849 of the Annexure it was observed that corresponding buying was done at KSE after a gap of over 10 minutes, therefore, the said instances will also be treated as Blank Sales.
- 8.5 Considering the above facts and the contentions of the Respondent, it is clear that nine (9) Blank Sales have been made in violation of Regulation 4 of the Short Selling Regulations. In terms of Rule 8 of the Brokers Rules, sub rule (ii) where the Commission is of the opinion that a broker has inter alia failed to comply with any requirements of the Act or the Ordinance or of any rules or directions made or given thereunder, in terms of sub rule (iii) has contravened the rules and regulations of the exchange and in terms of sub rule (iv) has failed to follow any requirement of the Code of Conduct laid down in the Third Schedule, the Commission may in the public interest, take action under Rule 8(a) or (b) of the Brokers Rules.
- 8.6 In light of the above facts that the Respondent by making Blank Sales has violated the Short Selling Regulations thereby attracting sub rule (iii) of the 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 the Rule 8 of the Brokers Rule. Accordingly, a penalty of Rs. 10,000 (Rupees Ten Thousand only) is hereby imposed on the Respondent under Rule 8 (b) of the Brokers Rules.



9. **Order Register ("Issue No. 2")**

9.1 In terms of Rule 4(1) of the 1971 Rules it is provided that:

"All orders to buy or sell securities which a member may receive shall be entered, in the chronological order, in a register to be maintained by him in a form which shows the name and address of the person who placed the order, the name and number of the securities to be bought or sold, the nature of transaction and the limitation, if any, as to the price of the securities or the period for which the order is to be valid."

9.2 The findings of the Enquiry Officer revealed that the register as mentioned above was not maintained by the Respondent during the Review Period.

9.3 The Respondent made the following submission on the aforementioned issue:

- The Respondent in its written reply asserted that all orders are placed electronically and its software saves the log of orders placed into the system.
- During the hearing the Respondent stated that now-a-days due to high volume and velocity of trading it is practically impossible to maintain manual order register.

9.4 I have considered the contentions of the Respondent and I am of the view that electronic ledgers or the Daily Activity Log as mentioned by the Respondent is not a substitute for the Order Register as required under the Rule 4(1) of the 1971 Rules. The aforementioned Logs only record those orders that are placed by the Respondent into LOTS and not all the orders which were received from the clients and not entered into LOTS. Further, the said Log only records the time of placement of orders into the system and not the time of receipt of orders.

9.5 The Commission is also cognizant of the practical difficulties associated with the maintenance of such an Order Register manually. However, it is noted with disappointment that the brokerage house and LSE were not able to keep pace with evolution in technology and significant increase in trading activities whereby a system should have been developed to enable simultaneous recording of orders received from clients and their incorporation in a database to generate the Order Register as required under the Rule 4(1) of the 1971 Rules.

9.6 Considering the above mentioned fact 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 that 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 the laws, regulations and directives of the Commission in future for avoiding any punitive action under the law.

10. **Separate Bank Account for Clients Funds ("Issue No. 3")**

10.1 In terms of Commission's directive No. SMD/SE 2(20)/2002 dated March 4, 2005 which states that:

 4



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
(Securities Market Division)

\*\*\*

"The exchanges are to ensure that brokers follow the practice of segregating clients' assets from the broker's assets in order to ensure that clients' assets are not misused.

For this purpose brokers should have one separate bank account which includes all the cash deposits of their clients along-with records/breakdown of client positions."

10.2 The findings of the Enquiry Officer revealed that the Respondent was not maintaining a separate bank account for clients' funds.

10.3 The Respondent made the following submission on the aforementioned issue:

- The Respondent during the hearing acknowledged that it is not maintaining a separate bank account for clients' funds. However, the Respondent assured that it will comply with the requirement of the aforementioned Commission's directive.

10.4 I have considered the contentions of the Respondent and am of the view that the Respondent has failed to comply with the Commission directive no. SMD/SE 2(20)/2002 dated March 04, 2005. The said directive requires the members to maintain one separate bank account in which only clients' funds are placed. The rationale behind maintenance of a separate account for clients' funds is to stop the member from using clients' funds for his own purposes.

10.5 Considering the Respondent's assurance that it will comply with the requirement of aforesaid directive of the Commission, 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 that 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 the laws, regulations and directives of the Commission in future for avoiding any punitive action under the law.

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

- a) As regards Issue No. 1, as stated above, a penalty of Rs. 10,000/- (Rupees Ten Thousand only) is imposed.
- b) No punitive action is taken in relation to Issue Nos. 2 and 3 and a simple caution will suffice.

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