

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NIC Building, Jinnah Avenue, Blue Area, Islamabad.

BEFORE THE DIRECTOR (SECURITIES MARKET DIVISION)

**IN THE MATTER OF SHOW CAUSE NOTICE DATED 24/08/2005
ISSUED TO AQEEL KARIM DHEDHI SECURITIES (PVT.) LIMITED**

Date of Hearing

12th September 2005

Present at the Hearing:

Representing **Aqeel Karim Dhedhi Securities (Pvt.) Ltd.:**

Mr. Muhammad Ali Ya coob, Authorized Representative

Mr. Tariq Adam Ghumra, Authorized Representative

To assist the Director (SM):

Mr. Shaukat Hameed Joint Director (SM)

ORDER

1. The matter arises out of a Show Cause Notice dated 24/08/2005 (hereinafter referred to as "the Notice") issued by the Securities and Exchange Commission of Pakistan (hereinafter referred to as "the Commission") to Aqeel Karim Dhedhi Securities (Pvt.) Limited (hereinafter referred to as "the Respondent") Member-broker Karachi Stock Exchange (Guarantee) Limited (hereinafter referred to as "the KSE").
2. Brief facts of this case are that between 1st March 2005 and 29th March, 2005, the Respondent carried out 21 trades of the shares involving total 510,400 shares of Oil & Gas Development Company ("OGDC"), Pakistan Oilfields Limited ("POL"), Pakistan Petroleum Limited ("PPL") and Pakistan Telecommunication Company Limited ("PTCL") through the Karachi Automated Trading System ("KATS") at KSE on behalf of eight of its clients.
3. In the course of these trades, the Respondent purchased and sold, on behalf of eight clients, 64,000 shares of OGDC, 157,500 shares of POL, 160,900 shares of PPL, and 128,000 shares of PTCL. Each of these trades cancelled each other out with the effect that there was no change in the beneficial ownership of the shares.

4. This practice on the part of the Respondent is likely to interfere with the fair and smooth functioning of the market by creating a false and misleading appearance of trading activity in the scrips mentioned hereinabove. Such practices are contrary to the behavior expected of a broker and are detrimental to the investors' interests.
5. The Commission obtained the KATS data from the KSE for the relevant period, which showed that during the month of March 2005 the Respondent had executed the following trades which cancelled each other out and did not result in a change in beneficial ownership:

DATE	CLIENT CODE	NAME OF SHARE	NUMBER OF SHARES	PURCHASE AND SALE RATE	TIME OF EXECUTION
7/03/2005	1512	OGDC-REG	25,000	141.50	1316070015
8/03/2005	1186	OGDC-REG	38,000	138.65	1003370029
14/03/2005	1031	OGDC-REG	1,000	172.85	1208400025
1/03/2005	1182	POL-REG	1,500	327.00	945310083
3/03/2005	1512	POL-REG	32,300	331.00	1233300035
3/03/2005	1512	POL-REG	12,700	331.00	1233340003
3/03/2005	1512	POL-REG	10,700	332.00	1243430017
3/03/2005	1512	POL-REG	39,300	332.00	1243450044
3/03/2005	1512	POL-REG	10,700	332.00	1243450045
3/03/2005	1512	POL-REG	39,300	332.00	1243490029
10/03/2005	1524	POL-REG	11,000	361.50	1223580038
21/03/2005	1080	PPL-REG	45,200	264.90	1125500024
21/03/2005	1080	PPL-REG	3,100	264.90	1126040018
21/03/2005	1080	PPL-REG	5,200	264.90	1413480008
21/03/2005	1080	PPL-REG	31,800	264.90	1413480009
21/03/2005	1080	PPL-REG	18,200	264.90	1413500027
21/03/2005	1080	PPL-REG	9,000	264.90	1413500028
21/03/2005	1080	PPL-REG	19,200	264.90	1413530016
21/03/2005	1080	PPL-REG	21,800	264.90	1413550030
29/03/2005	1753	PPL-REG	7,400	215.00	1338370020
4/03/2005	1196	PTC-REG	128,000	73.25	951450007

6. In view of the aforesaid data, the Commission issued a Notice dated 24/08/2005 ("the Notice") to the Respondent. In this Notice, the details of the aforesaid facts were provided and the Respondent was asked to show cause as to why action should not be initiated against the Respondent under the Brokers and Agents Registration Rules, 2001 ("the Rules"). A copy of the summary of the KATS data was also sent to the Respondent. The Respondent was asked to submit a written reply to the Notice within seven days from the date of the Notice and the first hearing was fixed in Islamabad for 12/09/2005.
7. The Respondent submitted a written reply to the Notice through two letters dated 30/08/2005 and 01/09/2005. On the date of hearing, Mr. Muhammad Ali

Yacoob, Head of Institutional Desk, and Mr. Tariq Adam Ghumra, Head of Operations, appeared before the undersigned as authorized representatives of the Respondent. The main points raised by the Respondent in its written reply and in the course of hearing were as follows:

(i). That high net worth clients and day traders trade substantial quantities of shares within the day locking-in profits at relatively low spreads. Day trading requires very quick decision making and reflexes. Often a day trader buys a certain quantity and may decide to execute a counter trade within a very short period of time without indulging in any unlawful activity. With this back ground, item-wise response to Annexure-A attached with the Notice is as under:

(a) Client Code No.1512-OGDC Trades

This client is a very active, high net worth, day trader who trades in very large volumes. On March 07, 2005, he purchased and sold large quantities of OGDC shares. His buy order for 25,000 shares was allocated order No.51992502 whereas his order for sale of 100,000 shares was allocated order No.51992952 indicating that the buy order preceded the sell order by 450 other orders. The sell order for 100,000 shares was executed via nine trades as under:

Sr. No.	Trade No.	Executed Qty.	Time
1	9102379	4,600	13:16:07
2	9102380	1,000	13:16:07
3	91042381	50,000	13:16:07
4	91042382	1,000	13:16:07
5	9102383	2,000	13:16:07
6	91042384	25,000	13:16:07
7	91042385	2,000	13:16:07
8	91042386	1,000	13:16:07
9	91042387	13,400	13:16:07
	Total:	100,000	

The buy order was a limit order put in earlier but was executed later when the price level was matched with the sell order.

(b) Client Code No.1186, OGDC-Trades:

This client is an active, high net-worth, day trader. On March 08, 2005, the client purchased and sold various quantities of OGDC shares at different times. The transaction of 38,000 shares mentioned in the notice was part of a sell order for 38,500 shares that was executed through two trades having No.91121764 and 91121780 for 38,000 and

500 shares respectively. Incidentally, the 38,000 shares through trade No.91121764 crossed/matched with 38,000 shares out of a buy order for 100,000 shares executed via five trades as stated in the table below:

Sr. No.	Trade No.	Executed Qty.	Time
1	91121760	49,800	10:03:37
2	91121761	2,000	10:03:37
3	91121762	200	10:03:37
4	91121763	10,000	10:03:37
5	91121764	38,000	10:03:37
	Total:	100,000	

(c) Client Codes 1031 & 1182, OGDC & POL-Trades:

These are two separate transactions related to the two clients' codes in the scrips of OGDC and POL. The trades were executed through AKD Trade's Gateway for internet clients that incidentally have the same client codes. On March 14, 2005 Mr. Hasan Sibtain, Client No: 1031 of **AKD Trade** purchased and sold a total of 5,500 shares of OGDC at various prices. However, his sell order for 1,000 shares @ 172.85 incidentally crossed/matched with a buy order of 50,000 shares @ 172.85 vide Order No.53652250 of another client of **AKD Securities** bearing number 1031. Order No 53652250 was executed between 12:08:20 and 12:08:40 through seven different Trade Numbers as follows:

Sr. No.	Trade No.	Executed Qty.	Time
1	92241166	25,000	12:08:20
2	92241167	1,500	12:08:20
3	92241179	5,000	12:08:22
4	92241181	1,000	12:08:22
5	92241347	3,600	12:08:40
6	92241348	1,000	12:08:40
7	92241356	12,900	12:08:40
	Total:	50,000	

Similarly, on March 1, 2005 Client No. 1182 of AKD Trade (*jointly held by Mr. Mohammad Masood Alam and Ms. Nasira Khatoon Qureshi*) sold 1,500 shares of POL @ Rs.327.00. This order was routed through the KATS Gateway. Incidentally, this order (*of 1500 POL sell*) crossed/matched with a buy order of 50,000 shares of POL vide Order No: 50499208 by AKD Securities' Client No 1182. The subject order was executed via 16 trades as follows:

Sr. No.	Trade No.	Executed Qty.	Time
1	89953285	1,500	9:45:31
2	89953286	100	9:45:31
3	89953287	200	9:45:31
4	89953288	200	9:45:31
5	89953289	1,000	9:45:31
6	89953290	2,000	9:45:31
7	89953291	5,000	9:45:31
8	89953292	200	9:45:31
9	89953293	5,000	9:45:31
10	89953294	15,000	9:45:31
11	89953295	1,000	9:45:31
12	89953296	1,000	9:45:31
13	89953297	1,000	9:45:31
14	89953284	2,000	9:45:31
15	89953580	3,200	9:45:40
16	89953599	11,600	9:45:41
	Total:	50,000	

(d) Client Code No.1512, POL-Trades:

On March 3, 2005 Client 1512 who is an active day trader, purchased and sold large quantities of POL Shares. The details of trades that crossed/matched are under:-

Details of Buy Order					Details of Sell Order				
Order No.	Qty.	Trade No.	Executed Qty.	Time	Order No.	Qty.	Trade No.	Executed Qty.	Time
51287853	50,000	90519709	17,700	12:33:30	51285815	50,000	90519710	32,300	12:33:30
		90519710	32,300	12:33:30			90519747	12,700	12:33:34
51287916	50,000	90519747	12,700	12:33:34	51294413	50,000	90530472	10,700	12:43:43
		90519748	100	12:33:34			90530514	39,300	12:43:45
		90519749	37,200	12:33:34	51294476	50,000	90530515	10,700	12:43:45
51299862	50,000	90530464	25,000	12:43:43			90530615	39,300	12:43:49
		90530465	3,000	12:43:43					
		90530466	100	12:43:43					
		90530467	100	12:43:43					
		90530468	500	12:43:43					
		90530469	500	12:43:43					
		90530470	10,000	12:43:43					
		90530471	100	12:43:43					
		90530472	10,700	12:43:43					
51299924	50,000	90530514	39,300	12:43:45					
		90530515	10,700	12:43:45					
51300015	50,000	9053614	5,000	12:43:49					
		9053615	39,300	12:43:49					
		9053616	5,700	12:43:49					

The Client placed five buy orders of 50,000 shares of POL each which were executed between 12:33:30 to 12:43:49. These five orders were completed in two, three, nine, two and three trades respectively. Total buy orders of 250,000 shares were completed in 19 trades. Out of these trades, 6 were crossed and matched with sell orders of the client, although there was difference of thousands of other orders between buy and sell orders.

(e) Client Code No.1524, POL-Trades:

This client is another very active, high net-worth, day-trader. On March 10, 2005, the client purchased and sold various quantities of POL shares at various prices at different times. On that day, a buy order for 25,000 POL shares vides Order No: 52944817 submitted earlier in the day was executed between 12:23:46 and 12:26:58 via four Trade Orders: 91799449 **(1,500; 12:23:46)**, 91799450 **(10,000; 12:23:46)**, 9179951 **(2,500; 12:23:46)** and 91799587 **(11,000; 12:23:58)**. It was a coincidence the last trade of 11,000 shares crossed/ matched with the sell order 53009725 for 11,000 shares that was chronologically placed after the buy order. There is a difference of 64,908 other orders in the market between the buy and the sell orders.

(f) Client Code No.1080, PPL-Trades:

This client code belongs to another very high net-worth individual who trades very large volumes. On March 21, 2005 this client purchased and sold very large volumes of PPL shares. The details of buy and sell orders and trades which were crossed and matched are as under:

Details of Buy Order					Details of Sell Order				
Order No.	Qty.	Trade No.	Executed Qty.	Time	Order No.	Qty.	Trade No.	Executed Qty.	Time
54965097	50,000	93169118	45,200	11:25:50	54965112	50,000	93169117	4,800	11:25:50
		93169144	1,700	11:25:57			93169118	45,200	11:25:50
		93169167	3,100	11:26:04	54965233	50,000	93169167	3,100	11:26:04
55024557	50,000	93205304	2,000	14:13:48			93169168	46,900	11:26:04
		93205305	500	14:13:48	54974437	40,000	93176140	28,300	11:45:33
		93205306	500	14:13:48			93176157	6,500	11:45:35
		93205307	2,000	14:13:48			93205310	5,200	14:13:48
		93205308	3,000	14:13:48	54987126	50,000	93205311	31,800	14:13:48
		93205309	5,000	14:13:48			93205344	18,200	14:13:50
		93205310	5,200	14:13:48	549871139	50,000	93205345	9,000	14:13:50
		93205311	31,800	14:13:48			93205386	19,200	14:13:53
55024596	50,000	93205343	22,800	14:13:50			93205428	21,800	14:13:55
		93205344	18,200	14:13:50					
		93205345	9,000	14:13:50					
55024625	50,000	93205384	20,000	14:13:53					
		93205385	10,800	14:13:53					
		93205386	19,200	14:13:53					
55024656	50,000	93205427	1,000	14:13:55					
		93205428	21,800	14:13:55					
		93205429	5,000	14:13:55					
		93205430	500	14:13:55					
		93205431	500	14:13:55					
		93205432	500	14:13:55					
		93205433	500	14:13:55					
		93205434	1,000	14:13:55					
		93205435	100	14:13:55					
		93205436	200	14:13:55					
		93205437	1,500	14:13:55					
		93205438	2,000	14:13:55					
		93205439	1,000	14:13:55					
		93205440	200	14:13:55					
		93205441	1,000	14:13:55					
		93205442	13,200	14:13:55					

The client placed five orders of PPL shares of 50,000 shares each which were executed between 11:25:50 to 14:13:55 in 33 trades. Simultaneously, the client placed five different orders for sale of 240,000 shares which were executed between 11:25:50 to 14:13:55 in 12 trades.

Out of 33 buy trades, 8 sell trades were crossed and matched

(g) Client Code No.1753, PPL-Trades:

On March 29, 2005, the client purchased 25,000 shares and sold 20,000 shares of PPL. The details of the trade as follows:-

Details of Buy Order					Details of Sell Order				
Order No.	Qty.	Trade No.	Executed Qty.	Time	Order No.	Qty.	Trade No.	Executed Qty.	Time
55590889	5,000	93481591	800	13:01:24	55613360	20,000	93497909	5,500	13:38:19
		93481592	500	13:01:24			93497910	2,000	13:38:19
		93481593	500	13:01:24			93497911	100	13:38:19
		93481594	3,200	13:01:24			93497957	2,000	13:38:26
55613519	20,000	93498033	10,000	13:38:37			93497985	1,000	13:38:31
		93498034	7,400	13:38:37			93497989	500	13:38:31
		93498035	2,600	13:38:37			93497991	1,000	13:38:31
							93498006	500	13:38:33
							93498034	7,400	13:38:37

The client put in an order for purchase of 5,000 shares earlier in the day. Subsequently, he put in a sell order for 20,000 shares later in the day (a difference of 22471 other orders). Later, the client again put in another buy order for 20,000 shares (a gap of 159 orders between the previous sell order and the new buy order). Sell order was executed via nine different trades. Incidentally, Trade No: 93498034 for 7,400 shares of PPL crossed/matched with 7,400 shares of his own buy order subsequently placed and which was executed via three different trades.

(h) Client Code No.1196, PTC-Trades:

This is another day trading account. On March 4, 2005 this client purchased and sold large quantities of PTC. A buy order of the client for 250,000 shares vide Order No: 51458829 was executed via three trades numbered: 90648947 **(22,000; 09:51:45);** 90648948 **(100,000; 09:51:45)** and 90648949 **(128,000; 09:51:45)**. Incidentally, the last trade for 128,000 shares vide Trade No: 90648949 crossed/ matched with a sell order numbered: 51458584 for the same quantity that was placed chronologically earlier in the KATS System.

(ii) That there was no violation of any rule nor was any act committed in the trades detailed above that can be termed as an act intended to create a false and misleading appearance of trading activity to influence the market in terms of volume and price. The above activity was perfectly lawful and did not in any way interfere with the fair and smooth functioning of the market detrimental to investor's interest. All the trades mention in the Notice were perfectly lawful transactions and did not violate any rule or law more specifically there was no violation whatsoever of the Rules and the Respondent has not failed to maintain high standards of integrity, promptitude and fairness nor has failed to exercise due

care and skill in the conduct of business Therefore, the Respondent on the basis of above submissions requested that the Notice dated 24/08/2005 be withdrawn.

8. I have heard the views and contentions of the Respondent at length after carefully examining the record, I find that the following issues arise out of this matter:
- (a) Whether the acts of commission and omission as alleged against the Respondent constitute a breach of the Rules? If so, up to what extent?
 - (b) What should the order be?

Each of these issues has been examined seriatim:

- (i) In the course of its written as well as oral contentions, the Respondent has admitted that the Respondent carried out all 21 trades detailed in the Notice dated 24/08/2005. In respect of two of these trades, the Respondent has informed that clients' codes of **AKD Trade** and **AKD Securities** in OGDC and POL scrips were matched due to same client codes and confirmed that the buyers and sellers of the trades were different. The Respondent furnished clients' ledgers as proof of change in the beneficial ownership of the shares relating to these trades. In respect of the remaining 19 trades, the Respondent pleaded that this took place as most of its clients are day traders and place buy and sell orders simultaneously. Owing to hike in price, a part of these buy orders remain as unexecuted limit orders in the system and matched with the sale orders of the same clients when price level was hit.
- (ii) It is evident from the relevant KATS data obtained from the KSE, (which has not been disputed by the Respondent) that all except two of the aforesaid trades had the effect of canceling each other out and did not result in the change in beneficial ownership of these shares. Such trading activity interferes with the fair and smooth functioning of the market due to the fact that it gives the impression of shares being traded in the market when in fact the trades remain in the possession of the same person. The interests of the investor suffer in turn due the fact that they receive a false impression of trading in the market which influences their decision to invest or trade in the market.
- (iii) Although the KATS has features to cancel the unexecuted trades but the Respondent does not have the practice that pending unexecuted orders are cancelled before a contra order for the same scrip is placed in KATS for the same client. It is due to this reason that the buy and sell orders

crossed/matched with each other and cancelled each other out. In this way, this practice of the Respondent and such pattern of trading results crossed/matched trades which become part of total volume of shares traded at the exchange, although there is no change in the beneficial ownership of the shares. The cumulative impact of such trading influences the opinion of the investors as they believe heavy activity (buy and sell) in a scrip is taking place and thus the investors are misled. Hence, the Respondent has failed to exercise due skill care and diligence in the conduct of its business.

- (iv) I do agree that change of beneficial ownership did take place for the two transactions executed by them on behalf of clients' codes 1031 and 1182 in view of the documentary evidence provided by the Respondent which confirms that the transactions did in fact resulted in a change in beneficial ownership. However, the Respondent in respect of these two transactions confirmed that the matching of these transactions had occurred due to same clients' codes of AKD Securities and AKD trade. This reflects lack of internal controls as no unique client identity within the Respondent's brokerage house exists and the client does not bear unique client identity to be recognized in his dealings with the Respondent. It is the responsibility of the Respondent to ensure proper internal controls and it has clearly been negligent in failing to ensure that a proper system was in place in this regard.
- (v) By engaging in and allowing trading activity in the market that results in creating a false impression of trading activity in particular scrips, is not only contrary to high standards of integrity expected of Respondent as broker but is also improper, dishonorable and disgraceful and contrary to law.
- (vi) It is evident from the facts detailed above that the Respondent has failed to follow the requirements of the Code of Conduct prescribed for brokers. By executing and permitting to be executed trades which cancelled each other out and did not result in the transfer of beneficial ownership, the Respondent has indulged in acts which have interfered with the fair and smooth functioning of the market to the detriment of the interests of investors.
- (vii) In failing to ensure that a proper system was in place to avoid matching of unexecuted buy orders with sale orders of the same clients at the same price, the Respondent has failed to act with due skill, care and diligence in the conduct of its business. Consequently, the Respondent has failed in its duty to maintain high standards of integrity, promptitude and fairness in the conduct

of all its business and has in fact indulged in dishonorable, disgraceful and improper conduct on the stock exchange and has therefore acted contrary to the requirements of the Code of Conduct for brokers annexed to the Rules.

9. The Respondent has acted contrary to at least four provisions of the code of conduct prescribed for brokers in the Rules in violation of Rules 8(iv) read with Rules 12 of the Rules. The violation of the Rules is a serious matter which entitles the Commission to suspend the Respondent's license, however, I have elected not to exercise this power at present but in exercise of the powers under Rule 8(b) of the Rules, I hereby impose on the Respondent, a penalty of Rs. 50,000/- (Rupees fifty thousand only). This sum of Rs. 50,000/- (Rupees fifty thousand only) be deposited by the Respondent in the designated bank account maintained in the name of the Securities and Exchange Commission of Pakistan with Habib Bank Limited within 30 days from the date of this order and furnish the receipted challan to the Commission.
10. In addition to the aforesaid, I hereby direct the Respondent to abstain from buying and selling of shares in a manner that these do not result in a change in the beneficial ownership of the shares failing which action will be taken against the Respondent in accordance with law.
11. 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.

(Imtiaz Haider)
Director (SM)

Date of the Order: **04/10/2005**