

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division

Before the Joint Director (Securities Market Division)

**In the matter of Show Cause Notice dated 23.08.2005
issued to Abdul Jabbar Khanani
Member: Karachi Stock Exchange (Guarantee) Limited**

Date of Hearing

28 September, 2005

Present at the Hearing:

Representing Abdul Jabbar Khanani.

Mr. Asif Muzammil I.T.Incharge Messrs Abdul Jabbar Khanani.

Assisting the Joint Director (SM):

Mr. Muhammad Hasan Zaidi, Junior Executive

ORDER

1. The case arises out of a Show Cause Notice No. SMD/SE/2(133)/2005 issued on 01.09.2005 by the Securities and Exchange Commission of Pakistan (“the Commission”) to Mr. Abdul Jabbar Khanani, (herein after referred to as ‘the Respondent’) Member Karachi Stock Exchange (Guarantee) Limited.
2. Summary of the facts of this case is that between 1st March 2005 and 31st March 2005, the Respondent carried out 05 trades in the shares of National Bank of Pakistan Limited (“NBP”), Oil & Gas Development Company (“OGDC”) and

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Pakistan Oil Fields Limited (“POL”) through the Karachi Automated Trading System (“KATS”) of Karachi Stock Exchange (KSE).

3. In the course of these trades, the Respondent purchased and sold 86,300 shares of OGDC and 1,500 shares of POL. Consequently, the trades cancelled each other out and there was no change in the beneficial ownership of the shares.
4. The trading activity carried out by the Respondent interfered with the fair and smooth functioning of the market by creating a false and misleading appearance of trading activity in the scrips mentioned hereinabove which worked to the detriment of the interests of the investors.
5. The Commission obtained the following KATS data from the Karachi Stock Exchange regarding the 05 transactions executed by the Respondent in the month of March 2005, which revealed as follows:

TRADE DATE	CLIENT CODE	SCRIP	NO. OF SHARES	PURCHASE AND SALE PRICE	TRADE TIME
1/03/2005	101	POL-REG	500	332	1127100037
9/03/2005	B13	OGDC-REG	85,000	158.7	1118000068
10/03/2005	H1	POL-REG	400	354.15	1255590020
21/03/2005	D03	POL-REG	600	301.5	1106110016
31/03/2005	D03	OGDC-REG	1,300	115.5	1027520039

6. After examining the aforesaid data, the Commission issued a Show Cause Notice (“SCN”) to the Respondent on 23.08.2005, detailing the aforesaid trade information and asking the Respondent to show cause as to why action should not be initiated against the Respondent under Brokers and Agents Registration Rules, 2001 (“the

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Rules”) for failure to maintain high standards of integrity, promptitude and fairness and not exercising due care and skill in the conduct of business and indulging in activities which have interfered with the fair and smooth functioning of the market and have been detrimental to the interest of the investors. The Respondent was asked to submit a written reply to the Show Cause Notice and the hearing was fixed in Islamabad for 07.09.2005. The Commission also provided a copy of the summary of KATS data so that the Respondent would have adequate opportunity to explain the same.

7. The Respondent submitted a written reply to the Show Cause Notice on 09.09.2005 and the Incharge Information Technology of the Respondent appeared in person on 28.09.2005. The main points raised by the Respondent in the written reply and in the course of hearing are summarized as follows:

- The Respondent stated that all the trades referred to in the Show Cause Notice are trades executed by the Respondent on behalf of its clients and none of the trades are house or proprietary trades.
- The Respondent’s representative while defending his case said that eight KATS Operators have been employed by the Respondent to operate six KATS terminals. The orders of clients are received by the telephone operators who record the orders in an order register. They are passed on to the KATS Operators who enter them into KATS. Each KATS Operator receives orders via dedicated telephone line.
- The Respondent’s Representative was asked whether he was aware of any laws that were applicable to him as a broker. The Respondent’s Representative was not able to name the law for the regulation of markets and dealing in securities as applicable to inter alia brokers

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namely as the Securities and Exchange Ordinance 1969 and the Securities and Exchange Rules 1971.

- Furthermore, the Respondent's representative was also asked whether he was aware of the Conduct of the Conduct for brokers, for which he replied in the negative. He also admitted that he had not read the Code of Conduct and also stated that KATS Operators as well as other staff of the Respondent were also unlikely to have any knowledge of the Code of Conduct.
- The Respondent's representative while elaborating his case said that due to heavy volumes of trading activity in the month of March 2005, the KATS operators were unable to keep pace with the trading volume and therefore resulting in errors / mistakes.
- The Respondent while elaborating his case said that KATS should have built in checks in the system to prevent matching of orders placed from the same brokerage house.
- Provisions of Section 17 e (ii) (iii) and (iv) were read out to the Respondent, the Respondent agreed that a broker should have knowledge of rules and regulations and should not indulge in trades that cancel out each other, create a false and misleading appearance of active trading in any security and effect any transaction in such security which involves no change in its beneficial ownership.

A trade to trade explanation of the transactions as submitted by the Respondent is as follows:

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TRADE NO. 1

The said transaction was made on behalf of client trading through account code B13. Initially a sell order was placed for 100,000 shares of OGDC at Rs.158.70/-. A market order for the purchase of 85,000 shares of OGDC got matched with the sell order as the market price reached Rs.158.70/-.

TRADE NO.2

On 31.03.2005 one of the clients trading through account code D03 placed a buy order for 25,000 shares of OGDC. A sale order for 5,000 of OGDC shares was placed subsequently. Out of these two 1,300 shares matched with each other at a price of Rs.115.50/-.

TRADE NO. 3

Purchase order of 5,000 shares of POL and a sell order for 500 shares of POL were placed at separate KATS terminals of the Respondent. The two orders got matched with each other. The sale order was initially placed at the terminal where previous buy order had been placed but due to non availability of KATS operator at that terminal the order was redirected to another KATS terminal.

TRADE NO. 4

A sale order for 5,000 shares of POL was placed at a price of Rs.301.5 by a client trading through account number D03. The same client subsequently started buying the POL shares at market price. 600 shares from his previous order got matched with his market purchase as the market price reached Rs.301.5.

TRADE NO. 5

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The client who was trading through account number H1 was purchasing and selling the shares of POL and out of his trades, orders for the purchase and sale of 400 shares of POL at a price of Rs.354.15 got matched with each other.

The supporting documents for each of the above mentioned trades, in the form of client trading details have been provided to the Commission.

8. The Respondent therefore requested that the Show Cause Notice be withdrawn for the reason that the Respondent had not violated any of the provisions of the Code of Conduct.
9. I have read and heard the arguments of the Respondent at length and after carefully examining the record, following observations are made:
10. In the course of the Respondent's written as well as oral contentions, the Respondent has admitted that he carried out all 5 trades on behalf of clients detailed in the Show Cause Notice.
11. The Respondent stated that the KATS operators have been unable to keep pace with the heavy volume of work. This shows that the Respondent did not have adequate arrangements to render fair, prompt and efficient services to his clients resultantly the Respondent has failed to comply with the provisions of the Code of Conduct.
12. During the course of hearing the Respondent accepted that he had never read the Code of Conduct annexed to Brokers and Agents Registration Rules. The Code of Conduct provides the ethical framework within which a broker is to carry out its business. The Respondent is carrying out the brokerage business in ignorance of

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relevant rules and regulations and has failed to act with due skill, care and diligence in the conduct of his business.

13. The Respondent has undertaken on behalf of his clients trades which ultimately cancelled each other out, created a false and misleading appearance of active trading and which involved no change in beneficial ownership. The Respondent by allowing such trades to take place has failed to perform his duty to exercise due skill, care and diligence as enshrined in the Code. The Respondent should have adequate systems in place which prevent the occurrence of such trades.
14. The violation of the Code of Conduct as enshrined in the Rules is a serious matter, therefore, in exercise of the powers under Rule 8(b) of the Rules, conferred by S.R.O. 847(I)/2005 dated 19th August, 2005 and in view of the foregoing, I hereby impose on the Respondent, penalty of Rs. 25,000 (Rupees Twenty five thousand only) which should be deposited with the Commission, not later than thirty (30) days from the date of this Order.
15. In addition to the aforesaid, I hereby direct the Respondent to abstain from buying and selling of a security in such manner so as to create a false and misleading appearance of active trading in such security, which ultimately cancel out each other and do not result in change in the beneficial ownership of such security.
16. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with the law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.

Aly Osman
Joint Director (SM)

12th October, 2005