



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
(Securities Market Division)

BEFORE THE DIRECTOR (SECURITIES MARKET DIVISION)

IN THE MATTER OF NOTICE DATED JUNE 19, 2009 ISSUED TO PRUDENTIAL
SECURITIES LIMITED, MEMBER KARACHI STOCK EXCHANGE ("KSE")

Date of Hearing :	June 25, 2009
<u>Present at the Hearing:</u>	
<u>Authorized Representative of Prudential Securities Limited</u>	Mr. Osama Bin Shoaib, Chief Executive/Nominee Director
<u>Karachi Stock Exchange (G) Limited</u>	Mr. Abbas Mirza DGM-Operations
<u>Assisting the Director (SM):</u>	Mr. Tahir Mahmood Kiani- Deputy Director (SM) Ms. Najia Ubaid- Assistant Director (SM) Mr. Ibrahim Ahmad Mian – Assistant Director (Law)

ORDER

1. This matter arises out of the Notice No. SM/KSE-C/Misc./2009 dated June 19, 2009 issued to Prudential Securities Limited ("the Respondent") – Member, Karachi Stock Exchange ("KSE") by the Securities and Exchange Commission of Pakistan (the "Commission") under the Brokers and Agents Registration Rules 2001 ("the Rules") and other applicable laws.

2. Brief facts of the case are that the Respondent a Member of KSE is a broker registered with the Commission under the Rules. Over the past five months the Commission received 41(forty-one) investors' complaints/ claims against the Respondent out of which 39 (thirty nine) complaints/claims are still outstanding. Majority of these complaints/claims pertain to the alleged non-transfer of shares to/from the complainants' CDC Accounts and non-payment of funds, which have been attributed to the unauthorized pledge/ transfer of securities by the Respondent.

In addition to the complaints filed with the Commission, the KSE also reported a substantial number of investor complaints/ claims filed against the Respondent during the said period.

3. In view of the above investors' complaints/claims, the Commission through its various letters including letters dated January 23, 2009, February 25, 2009, March 17, 2009, April 1, 2009 and April 16, 2009 advised the Respondent to expedite resolution of its pending investor complaints/ claims and issued instructions for the immediate transfer of the shares as mentioned in the complaints against the Respondent to the respective CDC account of the complainants, under intimation to the Commission.

4. Although, the Respondent vide its letter of April 20, 2009, assured the Commission that all valid investors' complaints/claims would be settled within the month of May 2009 however, the same are yet outstanding.

5. The Respondent through letters dated June 5, 2009, June 8, 2009, June 9, 2009 addressed to a number of its clients has admitted the non transfer of shares in the clients' respective CDC accounts and committed timelines for the transfer of these shares.

6. Taking into consideration that no concrete steps were taken by the Respondent for the resolution of pending investor complaints/ claims and the Respondent's failure to communicate any progress made in this context, the Commission, vide its letter of June 04, 2009 scheduled a meeting with the Respondent on June 10, 2009 at the Commission Headquarters in Islamabad. Chief Executive Officer/ Nominee Director of the Respondent appeared in person and committed to submit a workable time bound action plan for the resolution of all pending investors' complaints/claims by Friday June 12, 2009. However, the Respondent failed to furnish any response to the Commission on the matter within the specified timeline.

7. In view of the non-transfer of shares despite repeated requests of the Respondent's clients and the Commission as well as inadequate response to various letters of the Commission as detailed above, the Commission in exercise of its powers conferred under the Rules issued a Notice bearing Number SM/KSE-C/Misc./2009 dated June 19, 2009 to the Respondent for *prima facie*, violation of Rule 4 and Rule 12 of the Rules. The Respondent was given an opportunity of hearing before the Director (SM) on June 25, 2009.



8. The Respondent vide its letter dated June 23, 2009 addressed to the Commission admitted a net unsettled claim (*as of June 9, 2009*) worth Rs.16, 929 million. It was further communicated by the Respondent that this situation was not a regular feature by the Respondent and that the uncontrollable situation for the Pakistani Stock Market was a result of the overall economic situation world over. Accordingly, in order to overcome this situation the Board of Directors of the Respondent in its meeting held on March 20, 2009 decided to sell off some of its assets including Membership Card and Room no. 318 of the Lahore Stock Exchange (G) Limited (LSE) and apply the proceeds thereof for paying off pending investors' claims. The Respondent vide the said letter provided a tentative timeline of mid July 2009 for the sale of its assets and subsequent resolution of investors claims/complaints by the end of August 2009.

9. The hearing held on June 25, 2009 was attended by Chief Executive Officer/ Nominee Director as representative of the Respondent. The said representative through a written statement committed that the Respondent shall be responsible for selling its membership card and room at the LSE positively by July 15, 2009. It was further admitted that most of the clients' shares were mismanaged by the Respondent's staff. The representative of the Respondent further stated that the Respondent had to recover losses of approximately Rs. 150 million from its clients and its sponsors out of which approx. Rs. 70 million is to be recovered from the sponsors of Respondent. In a verbal statement made by the representative of the Respondent during the said hearing it was further admitted that the Respondent had pledged various clients' securities with banks.

10. Having heard the verbal assertions and reviewing the evidence available on record along with the written submissions made by the representative of the Respondent, I am of the considered opinion that the Respondent has not only misused the securities of its clients by way of unauthorized pledge/ transfer but also failed to resolve outstanding investor complaints/claims despite a lapse of over five months. This conduct of the Respondent is in clear violation of Rule 12 of the Rules which makes it mandatory upon a broker holding certificate of registration under the Rules to abide by the Code of Conduct strictly and maintain high standards of integrity, promptitude and fairness in the conduct of all his business as stipulated in the said Rules.



11. In view of the foregoing, and the failure of the Respondent to resolve long outstanding investors' claims/complaint despite repeated directions by the Commission and lack of accurate information (with no documentary evidence), furnished by the Respondent to assess the exact quantum of investors' complaints /claim, I am of the considered opinion that the Respondent has clearly neglected and failed to comply with the requirement of Rule 4 and Rule 12 of the Rules and various instructions issued by the Commission from time to time. The violation of Rules and Regulations and non compliance with the instructions of the Commission is a serious matter and warrants stern action. Also the continuation of Respondent in the securities business is not in the interest of the investors. Therefore, in the public interest, for the protection of investors and to preserve capital market integrity, in exercise of powers conferred by Rule 8 of the Brokers and Agents Registration Rules, 2001, I hereby order the suspension of registration of the Respondent till claims against the Respondent in light of the investors' complaints can be ascertained and settled in accordance with law. The Respondent's failure to settle the claims may result in cancellation of the registration as provided in the Rules.

12. This order is being issued without prejudice to any other actions which may be taken against the Respondent under law for the above stated violations or any other violations/contraventions which may come to light subsequently.


(HIZBULLAH SIDDIQUI)
Director (SMD)

Islamabad,

June 26, 2009