



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Before The Director / HOD (Market Supervision & Capital Issues Department)

**In the matter of Show Cause Notice no. MISC/MSW/SMD/1(5)2004/1538 dated April 13, 2012
issued to Sakarwala Capital Securities (Pvt.) Limited under Rule 8 of the Brokers and Agents
Registration Rules, 2001**

Date of Hearing:

June 20, 2012

Present at Hearing:

Representing Sakarwala Capital Securities (Pvt.) Limited:

(i) *Mr. Ghulam Mujtaba*

*Nominee Director,
Sakarwala Capital Securities (Pvt.) Limited*

Assisting the Director / HOD (MSCID):

(i) *Mr. Muhammad Atif Hameed
(Through Video Conference Link)*

Deputy Director, SECP

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. MISC/MSW/SMD/1(5)2007/1538 dated April 13, 2012 (“SCN”) issued to Sakarwala Capital Securities (Pvt.) Limited (“Respondent”), corporate member of the Karachi Stock Exchange (Guarantee) Limited (“KSE”) by the Securities and Exchange Commission of Pakistan (“Commission”) under Rule 8 of the Brokers and Agents Registration Rules, 2001 (“Brokers Rules”).
2. The brief facts of the case are that the Respondent is registered with the Commission under the Brokers Rules. On perusal of the trading data of Karachi Automated Trading System (“KATS”) of



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KSE, it was observed that two clients of the Respondent namely Delphine Demelo and Julie Desouza (“**Clients**”) bearing client codes “020248” and “021407” respectively were engaged in circular trading in the scrip of Hinopak Motors Limited (“**HINO**”) during the period from August 29, 2011 to October 20, 2011. The Clients traded in the scrip of HINO in such a way that buy orders of one client matched with the sell orders of the other client and subsequently the trades were reversed between the Clients on the same day.

3. Further, on perusal of the trading data of KATS, it was observed that the Clients were also engaged in circular trading in the scrip of Lenier Pak Gelatine Limited (“**LPGL**”) during the period from April 01, 2011 to March 12, 2012. The Clients traded in the scrip of LPGL in such a way that buy orders of one client matched with the sell orders of the other client and subsequently the trades were reversed between the Clients on the same day.
4. The Commission vide letter dated March 21, 2012 sought clarification from the Respondent regarding the above mentioned trading by the Clients. The Respondent, vide letter dated March 20, 2012, replied that it has taken up the matter with the Clients who have stated that the said transactions were executed to offset ledger balance of their accounts without any intention to manipulate the market price of the scrips. The Clients further stated that the quantity of the shares traded was negligible and not enough to affect the price of the scrips. The Respondent further stated that the Clients are trading through it since long and has no complaints against them in the past. The said reply of the Respondent was reviewed and was not found satisfactory. Therefore, vide letter dated March 28, 2012, the Respondent was required to further clarify its position in the matter. In its reply dated April 02, 2012, the Respondent reiterated its stance given in its earlier reply and also added that it has warned the Clients not to indulge in similar trading pattern in future and the Clients have assured that they will not repeat the same. The Respondent further requested to excuse the mistake on this occasion.
5. The aforementioned response of the Respondent was not considered satisfactory as it did not contain reasonable justification for the execution of said trades in the Clients accounts. The analysis of the information available on record and the clarification provided by the Respondent, prima facie, showed that the Respondent has failed to maintain high standard of integrity and has failed to exercise due care, skill and diligence in conduct of its business. Consequently, SCN dated April 13,



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2012 was issued to the Respondent under the Brokers Rules stating that the Respondent has prima facie contravened Clause A (1) and A (2) of the Code of Conduct (“**Code of Conduct**”) set forth under the third schedule of the Brokers Rules. The Respondent was asked to explain its position through written reply within seven (7) days of issuance of SCN and also appear in person or through an authorized representative before the undersigned at Commission’s Head Office on May 9, 2012 at 10:30 a.m. for hearing.

6. The Respondent, vide letter dated April 20, 2012, requested for extension in submission of written reply to the SCN and further requested for change in venue of hearing from Islamabad to Karachi. The request of the Respondent was acceded to in the interest of justice. Subsequently the Respondent submitted its written reply to the SCN vide letter dated April 25, 2012. The key assertions made by the Respondent in its written reply are reproduced below:

- a) *The platform that is provided to us is an open one. KATS operators work on these work stations on the instructions of the Clients. We try our best to train and update our operators regarding the dos and don't of the trading rules.*
- b) *It is also the responsibility of the Stock Exchange to built in the checks in the trading engine that can prevent the erroneous trade or unholy trades.*
- c) *Recently IT Department of KSE has launched the Risk Management Gateway System and we are one of the first ones to deploy this system.*

In its written reply, the Respondent also attached a written statement from its KATS operator stating that he executed the trades in question as per the instructions of the Clients and he or the Respondent had no interest in these trades.

7. Subsequently, the hearing was held at the Commission’s Karachi Office on June 20, 2012. On the date of hearing Mr. Ghulam Mujtaba, Nominee Director of the Respondent (“**Representative**”) appeared on behalf of the Respondent and made the following submissions:

- a) *The Representative reiterated the Respondent’s stance given in the reply to the SCN and in previous correspondence.*



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- b) *He explained that the Clients are old customers of the Brokerage House. One of the client Delphine Demelo is a retired teacher. The Clients are not big investors and trade in very small quantities of shares. They have reviewed the Clients trading history and found no violation or any such problem in these accounts in the past. The Clients have not made any gain from the trades in question.*
- c) *In reply to a question the Representative informed that both the accounts of the Clients are being operated by Delphine Demelo.*
- d) *He informed that the Brokerage House has acquired the new Risk Management Gateway System, recently introduced by KSE, in order to ensure compliance of applicable rules and regulations.*
8. I have thoroughly analyzed and examined the facts, evidence and documents on record, in addition to the written reply to SCN and assertions made by the Representative of Respondent during the course of hearing. My findings on the issues are as follows:
- (a) The assertion of the Respondent that the trades in question were executed due to the open platform of the trading system i.e KATS of KSE, and non availability of checks in the system is not tenable. The non-existence of the checks in trading system can not be taken as valid justification for execution of aforementioned trades and does not absolve the Respondent from its responsibility to conduct its business with due care skill and diligence as required under the Code of Conduct. It was the Respondent's duty to ensure that all the orders placed through its terminal do not interfere in the smooth functioning of the market.
- (b) The statement provided by the KATS operator also does not prove that he had been vigilant and had knowledge of applicable rules and regulations. In the instant case the orders for buying and selling were placed by Delphine Demelo on behalf of the Clients. Further, the orders were being placed in KATS through the same terminal. Had the KATS operator been conversant with applicable rules and regulations and vigilant the said trading pattern by the Clients should have created suspicion in his mind and further probe in the matter could have prompted the Respondent to take corrective actions.



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- (c) It is correct that the Clients did not make any gain from the trades in question and the trades involved very small number of shares, however, in such illiquid scrips the small volume of shares may have an effect on the price of the scrips. It was the responsibility of the Respondent to put in proper systems and controls to ensure that its business is conducted in accordance with applicable rules and regulations. In the instant case the Respondent has not implemented sufficient systems and controls and its staff is not conversant with the rules and regulations.
9. After a detailed and thorough perusal of the facts, information and evidence available on record, contentions and averments made by the Representatives of the Respondent during the course of the hearing, it appears that the Respondent has not conducted its business with due care, skill and diligence which is a violation of the Code of Conduct which in turn is a violation of Rule 12 of the Brokers Rules.
10. The violation of the Brokers Rules is a serious matter and the Brokers Rules entitles the Commission to take action against the Respondent. However, keeping in the view the number of shares involved in the trades, no gain made by the Clients, historical conduct of the Respondent and assurance by the Representative that such violation will not occur in future, I have elected not to take penal action against the Respondent. Therefore, taking a lenient view, on this occasion, a stern warning is being issued to the Respondent with a direction to ensure that full compliance be made of all rules, regulations and directives of the Commission in the future for avoiding any punitive action under the 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.




Imran Inayat Butt
Director/HOD (MSCID)

Announced on June 28, 2012
Islamabad.