

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

NIC Building, Jinnah Avenue, Blue Area, Islamabad.

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**BEFORE THE DIRECTOR (SECURITIES MARKET DIVISION)**

**In The Matter Of Show Cause Notice Dated 23/08/2005 Issued  
To A.H.K.D. Securities (Pvt.) Limited-Corporate Member KSE**

**Date of Hearing**

**8<sup>th</sup> September 2005**

**Present at the Hearing:**

Representing A.H.K.D. Securities (Pvt.) Limited

*Mr. Zeeshan, Authorized Representative*

**ORDER**

1. The matter arises out of a Show Cause Notice dated 23/08/2005 (hereinafter referred to as "the Notice") issued by the Securities and Exchange Commission of Pakistan (hereinafter referred to as "the Commission") to A.H.K.D. 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 the case are that between 1<sup>st</sup> March 2005 and 18<sup>th</sup> March, 2005 the Respondent carried out 19 trades of the shares involving 725,000 total shares of National Bank of Pakistan ("NBP"), Oil & Gas Development Company ("OGDC"), Pakistan Oil Field Limited ("POL"), Pakistan State Oil Limited ("PSO") and Pakistan Telecommunication Limited ("PTCL") through the Karachi Automated Trading System ("KATS") at KSE on behalf of six of its clients.
3. In the course of these trades, the Respondent purchased and sold, on behalf of six clients, 6,200 shares of NBP, 387,500 shares of OGDC, 28,800 shares of POL, 3,100 shares of PSO and 300,000 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 interfered with the fair and smooth functioning of the market. It creates a false and misleading appearance of trading activity in the scrips mentioned hereinabove and was, therefore, 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 change of beneficial ownership:

Date	Client Code	Name of Share	No. of Shares	Purchase & Sale Rate	Time of Execution
15/03/2005	22	NBP-REG	6,200	161.00	1022170054
2/03/2005	11	OGDC-REG	3,600	127.45	1057290018
2/03/2005	11	OGDC-REG	96,400	127.45	1057310056
4/03/2005	11	OGDC-REG	58,900	135.95	1529530045
4/03/2005	11	OGDC-REG	100,000	136.65	1035340023
8/03/2005	11	OGDC-REG	50,000	145.00	1206260053
14/03/2005	11	OGDC-REG	4,200	168.45	1119010070
15/03/2005	11	OGDC-REG	69,400	183.00	1025070034
8/03/2005	33	OGDC-REG	5,000	140.95	1137010119
16/03/2005	00	POL-REG	5,000	330.75	1336560021
8/03/2005	3	POL-REG	500	341.50	1229410008
15/03/2005	3	POL-REG	100	349.50	1115330023
15/03/2005	3	POL-REG	5,000	349.70	1119200039
18/03/2005	11	POL-REG	17,600	325.70	1029230015
1/03/2005	11	PSO-REG	600	436.75	1258120025
9/03/2005	R49	PSO-REG	2,500	503.60	1347270040
4/03/2005	11	PTC-REG	100,000	72.20	947240073
4/03/2005	11	PTC-REG	100,000	73.25	951050031
7/03/2005	11	PTC-REG	100,000	79.70	1121520009

6. On the basis of the data, the Commission issued the Notice dated 23/08/2005 to the Respondent. The Notice, containing the details of the trades carried out in the aforesaid manner, required the Respondent to show cause as to why action should not be initiated against it under the Brokers and Agents Registration Rules, 2001("the Rules"). The Respondent was asked to submit a written reply to the Notice within seven days from the date of the Notice and the hearing was fixed in Islamabad for 08/09/2005.

7. The Respondent submitted a written reply to the Notice vide letter dated 29/08/2005. The relevant paras from written reply of the Respondent are reproduced here as under:

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**(a) Client No: 22 in Respect of 6200 Shares of NBP on March 15, 2005.**

*Client No. 22 is a day-trader who deals in large volumes of shares and squares his position within the same trading day. On March 15, 2005, the Client placed an order for the purchase of 375,550 shares of NBP. His order was executed for 369,350 shares between 09:45:19 and 10:02:34 vide 49 different executions and the remaining 6,200 shares were not executed because the market price of the shares had increased beyond the Client's target price. The balance 6,200 shares remained in the system as limit order.*

The price of the scrip had increased at 10:18:13 and the Client decided to sell his holding in the scrip to lock-in profits. First sell order was executed for 288 shares at 10:18:13 @ Rs.161.55. Subsequently, various quantities were executed at prices lower than Rs.161.55. At 10:22:17 the price of the scrip reached Rs.161.00 and the remaining unexecuted Buy order of 6,200 shares was also matched with the sell order and executed by canceling each other. After 10:22:17 a.m., 91,100 shares were executed at prices between Rs.161.10 and Rs.161.00.

**(b) Client No. 11 in Respect of 12 Transactions on Different Dates.**

The Client is a Very High Net-Worth individual and a predominantly a day-trader. It requires very fast reflexes and quick executions at very small spreads. Often a Buy order for a certain quantity of shares is placed and before the whole order is actually executed, the client decides to start 'locking-in' the profits by executing a counter trade. Sometimes, the unexecuted part of the initial order does not get executed because of change in prices and remains in the system as a "limit order".

Simultaneously, on the other hand the client puts in a 'counter' order and the same gets executed. The price fluctuation may cause the "pending limit order" from the initial order to get executed, creating an impression of opposite trades being executed at the same price.

On March 2, 2005 the Client purchased and sold a total of 5,316,200 shares of OGDC at various prices. Incidentally, the pending Buy order of 100,000 shares got executed at the same time at the same price as a Sell order for the same quantity at the same price.

The table below shows the total quantity traded by the Client in the various scrips, the quantity that is the subject matter of the Show Cause Notice and the total volume of that scrip traded in the market on the subject date:

Date	Name of Share	Total Shares Traded by Client on that Day	Qty. Under Review in Show Cause	TOTAL MARKET VOLUME ON DATE		
				READY	FUTURES	TOTAL
2-Mar-05	OGDC	5,316,200	3,600	164,043,200	7,153,550	171,196,750
2-Mar-05	OGDC		96,400			
4-Mar-05	OGDC	4,493,700	58,900	119,281,500	85,437,000	204,718,500
4-Mar-05	OGDC		100,000			
8-Mar-05	OGDC	2,770,700	50,000	204,171,800	130,653,500	334,825,300
14-Mar-05	OGDC	2,802,900	4,200	180,455,600	135,834,000	316,289,600
15-Mar-05	OGDC	3,845,800	69,400	167,773,500	170,062,500	337,836,000
18-Mar-05	POL	327,200	17,600	13,762,300	8,479,500	22,241,800
1-Mar-05	PSO	971,000	600	54,967,600	20,716,000	75,683,600
4-Mar-05	PTC	8,349,500	100,000	389,074,500	166,659,500	555,734,000
4-Mar-05	PTC		100,000			
7-Mar-05	PTC	6,143,000	100,000	249,510,500	113,849,500	363,360,000

**(c) Client No.: 33, 00 & 3 – Mistake Accounts:**

*The above three accounts are “MISTAKE ACCOUNTS” Where clerical and human errors are routed. The transactions in such accounts are ultimately debited or credited to the profit and loss account from brokerage activity. Such accounts are the necessary part and parcel of brokerage business and are not used for active trading.*

**(d) Client No: R49 in respect 92500 of P50:**

*The Client traded a total of 30,000 shares of PSO on March 9, 2005 and owing to a clerical/human error, 2500 shares got purchased and sold at the same time at the same price.*

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8. On the date of hearing, Mr. Zeeshan, Manager appeared before the undersigned as the authorized representative of the Respondent. Mr. Zeeshan reiterated the earlier stance taken by the Respondent vide its written reply dated 29/08/2005 and stated that none of the trades was made with any mala-fide intentions or with a view to create any misleading appearance of activity with a very small part to influence the market as alleged in the Notice. Further, the representative of the Respondent confirmed that the Respondent had never issued any warning in writing to KATS operators for mistakes committed by them while executing orders. The representative of the Respondent also confirmed that they have never intimated to KSE in respect of the trades which had cancelled each other out and had become part of total turnover of the exchange for exclusion. The representative of the Respondent further requested that it was a matter of normal day trading activity with very large volumes at low spreads, therefore, the Notice dated 23/08/2005 be withdrawn. However the representative of Respondent admitted that the cumulative impact of all such trades carried out on the exchange on a particular date can mislead the investors.
9. Having heard the views and contentions of the Respondent at length and 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:

*(b) Whether the acts of commission and omission as alleged against the Respondent constitute a breach of the Rules? If so, up to what extent?*

10. In the course of written as well as oral contentions, the Respondent has admitted that the Respondent carried out all 19 trades detailed in the Notice dated 23/08/2005. The Respondent in thirteen trades has taken the plea that these were unexecuted buy orders of the Clients which remained unexecuted due to increase in prices of the relevant scrips and a few of them matched when the Clients' sale orders were placed and executed to lock in profit. The Respondent has admitted that four trades were the mistakes/errors of the Respondent's brokerage house accounts. One trade had occurred on account of clerical/human error where 2,500 shares of PSO were purchased and sold at the same time at the same price. In respect of last single trade the Respondent has taken the plea of error on the part of the KATS operator due to the exigencies of day trading. The representative of the Respondent failed to produce the KATS sheets of the relevant dates and stated that they do not have KAT sheets for the relevant days to prove that their Clients trading activity did not have any false intension. The Respondent also failed to produce the details of their errors/mistakes account.
11. It is evident from the relevant KATS data obtained from the KSE, (which has not been disputed by the Respondent) that all 19 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 shares 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.
12. The Respondent has taken the plea of "human error" on the part of the KATS operator to explain the canceling out effect of the aforesaid 6 transactions. During the course of the hearing the representative of the Respondent informed us that the relevant KATS operator is the employee of the Respondent. They further informed us that all KATS operators are highly skilled and experienced personnel. The plea of "human error" does not hold weight in view of the fact that the KATS operators are highly skilled personnel whose job is to record such transactions within a very short time period. Even otherwise the same error cannot be repeated 6 times and that too with the same persons/clients.
13. The fact that the same error has been repeated by the KATS operator in respect of 6 transactions goes to show that the Respondent, who as the employer of the KATS operator, is responsible for its errors and omissions, has failed to exercise due skill care and diligence in the conduct of their business. Further, the admission by the representative of the Respondent that the Respondent never issued any warning in writing to KATS operators clearly shows that the Respondent has not taken any

action against the KATS operator for his obvious omissions which in itself is a failure on the part of the Respondent to exercise due care and skill.

14. The Respondent in its written as well as oral submissions failed to produce any documentary evidence which could confirm that the transactions did in fact resulted in a change in beneficial ownership. The representative of the Respondent confirmed that they have never written any letter to KSE in respect of the above trades which had become part of total turnover of the exchange for exclusion.
15. The Respondent in 13 trades where it had taken plea of matching unexecuted Buy order with the Sell orders of the same Clients in not tenable and not justified. In fact, in this way it has indulged in allowing trading activity for sake of increasing of its commissions which in turn becomes the part of total turnover at the exchange and creates a false impression of trading activity in particular scrips that is not only contrary to high standards of integrity but is also improper, dishonorable and disgraceful and contrary to law.
16. 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.
17. In failing to ensure that a proper system was in place to avoid repeated "error" on the part of KATS operators and in failing to take action against the KATS operator in respect of his omissions, 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 in gross and blatant violation of Rule 8(iv) read with Rules 12 of the Rules.
18. The Respondent has acted contrary to the requirements 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. Therefore in exercise of the powers under Rule 8(b) of the Rules, I hereby impose on the Respondent a penalty of Rs. 75,000/- (Rupees seventy five thousand only). This sum of Rs. 75,000/- (Rupees seventy five thousand only) should be deposited 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.

19. 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 them in accordance with law.
20. 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: **09/09/2005**