



Before the Director (Securities Market Division)

**In the matter of Show Cause Notice dated August 26, 2005
issued to Munaf Sattar Securities (Pvt.) Limited**

Date of Hearing

September 08, 2005

Present at the Hearing:

Representing Munaf Sattar Securities (Pvt.) Ltd.:

Mr. Younus Mohiuddin – Director Finance

Assisting the Director (SM):

Mr. Ahmad Zafeer – Deputy Director

ORDER

1. The present matter arises out of a Show Cause Notice (“Notice”) bearing No. SMD/SCN/1/2005/005 dated August 26, 2005 issued by the Securities and Exchange Commission of Pakistan (“the Commission”) to Munaf Sattar Securities (Pvt.) Limited (“the Respondent”).
2. Brief facts of this case are that between March 02, 2005 and March 29, 2005, the Respondent carried out 22 trades in the shares of National Bank of Pakistan (“NBP”), Oil & Gas Development Company Limited (“OGDC”), Pakistan Petroleum Limited (“PPL”) and Pakistan State Oil Limited (“PSO”) through the Karachi Automated Trading System (“KATS”) of the Karachi Stock Exchange (Guarantee) Limited on behalf of two clients of the Respondent.

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3. Each of these trades prima facie cancelled each other out and there was no change in the beneficial ownership of the shares. It appeared that in the course of these trades the Respondent purchased and sold, on behalf of the same clients, 100 shares of NBP, 200 of OGDC, 6,000 shares of PPL and 1,200 shares of PSO.
4. Such practice 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 herein above and is further likely to be detrimental to the interests of the investors.
5. The Commission obtained the following KATS data from the Karachi Stock Exchange for the relevant period, which revealed that during the month of March, 2005 the Respondent executed the following trades which prima facie cancelled each other and not resulted in change in beneficial ownership:

Date	Client Code	Name of Share	No. of Shares	Purchase & Sale Rate	Time of Execution
08-Mar-05	559001	NBP-REG	100	147.80	1313240009
Sub-Total			100		
16-Mar-05	559001	OGDC-REG	100	192.20	1152070053
22-Mar-05	559001	OGDC-REG	100	151.60	1402410001
Sub-Total			200		
02-Mar-05	559001	PPL-REG	100	262.25	1206170021
02-Mar-05	559001	PPL-REG	100	262.00	1206320010
02-Mar-05	559001	PPL-REG	100	262.00	1206580013
02-Mar-05	559001	PPL-REG	100	261.80	1208340020
17-Mar-05	559001	PPL-REG	100	284.80	1352510040
29-Mar-05	15006	PPL-REG	4,900	205.15	1254250021
29-Mar-05	15006	PPL-REG	600	205.15	1256520014
Sub-Total			6,000		
02-Mar-05	559001	PSO-REG	100	435.80	1136410060
02-Mar-05	559001	PSO-REG	100	436.00	1138110031

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02-Mar-05	559001	PSO-REG	100	436.00	1138420003
03-Mar-05	559001	PSO-REG	100	428.65	1340250031
14-Mar-05	559001	PSO-REG	100	484.00	1234420050
14-Mar-05	559001	PSO-REG	100	483.45	1256180020
14-Mar-05	559001	PSO-REG	100	484.00	1258280024
14-Mar-05	559001	PSO-REG	100	485.75	1304180019
14-Mar-05	559001	PSO-REG	100	485.55	1304390005
14-Mar-05	559001	PSO-REG	100	485.55	1306260027
14-Mar-05	559001	PSO-REG	100	484.90	1308380033
14-Mar-05	559001	PSO-REG	100	484.50	1312420005
Sub-Total			1,200		

6. In view of the above findings the Commission issued a Notice to the Respondent dated August 26, 2005, detailing the aforesaid facts and asking it to show cause as to why action should not be initiated against it under the Brokers and Agents Registration Rules, 2001 (“the Rules”). A copy of the aforesaid KATS data was annexed to the Notice in order to provide to the Respondent an opportunity for answering to the same. The Respondent was asked to submit a written reply along with the documentary proof within seven days of the Notice and the hearing was fixed in Islamabad for September 08, 2005.
7. The Respondent submitted a written reply dated September 01, 2005 along with its system generated Clients Transaction Detail Report, Purchase bills, Sales proceeds and Difference bills for the relevant trades to support its claim and letter from Omar Iqbal Pasha, Member Islamabad Stock Exchange presenting details of its client on whose behalf the trades were executed to counter the allegations made against it in the Notice. The Respondent in its letter denied the allegations of violation of the Rules in relation to the transactions between March 02, 2005 and March 29, 2005 covering 22 trades and claimed that the beneficial ownership in these trades had changed. The Respondent stated as follows:
- (a) The two trades for client 15006 were executed by us on behalf of a member of Islamabad Stock Exchange, Omar Iqbal Pasha. According to them the trades pertain

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to their different clients and had definitely resulted in change in the beneficial ownership of the shares.

(b) As regards to other remaining trades the buyers and sellers are two different persons. The reason for the same code appearing in KATS is that their trader is same and subsequently the trades were transferred to respective clients. The bills, proceeds and difference bills for the trades are enclosed and you will find that trades belong to different clients.

8. On September 08, 2005 the authorized representative of the Respondent, Mr. Younus Mohiuddin, Director Finance appeared before me. The main points raised by the Respondent in its oral submission were as follows:
- a. The two clients who are mentioned in the Notice are Sadiq Ali (559001), a trader of the Respondent and Omar Iqbal Pasha (15006), Member of Islamabad Stock Exchange.
 - b. Traders are employees of the Respondent and are essentially assigned the task of bringing business to the firm. The traders of the Respondent deal with the clients and receive client orders and traders are also allowed to do trading in their own account.
 - c. Some times during the volatile market conditions with high number of clients' orders, KATS operators use traders' code only instead of client code for identification of trades. However, client-wise details are maintained by the traders themselves and at end of the day traders allocate client transactions of the day executed under their code numbers to the respective client's ledgers at back office system.
9. In the course of the hearing the Respondent was requested to provide the Commission with the copies of Account Opening Forms of trader's clients on whose behalf these trades were conducted alongwith their National Identity Cards to establish the accuracy of matching done by the Respondent of each buy and sell order and to further establish whether or not

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the beneficial ownership changed, as claimed by the Respondent. The Commission received the above mentioned documents on September 09, 2005 from the Respondent.

10. Having heard the views and contentions of the Respondent in its oral and written submissions and after carefully examining the facts submitted by the Respondent, I found that the following issues arise out of this matter:

(a) *Did the acts of commission and omission as alleged against 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 herein below:

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

11. The Respondent admitted in its written and oral statement that it carried out all 22 trades annexed to the Notice.

12. We extracted and matched the transactions provided by the Respondent with the relevant KATS data independently obtained by us from the KSE. On the basis of this examination we established the fact that the Respondent's claim was correct and that the beneficial ownership did change in all 22 trades.

13. However, the Respondent in its oral statement in the hearing on September 08, 2005 admitted to not entering proper client code in the KATS and problems arisen due to the client code which in its brokerage system actually represents a trader and not an individual client. We have noted the plea of the Respondent that the volatile market conditions precipitate overwhelming number of orders from the clients and it become hard for the KATS operators to keep track of each transaction and therefore, they only enter the trader code instead of proper client code.

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14. The above-mentioned plea does not hold any merit in view of the fact that KATS operators are highly skilled personnel and it is their job to record such transactions on a daily basis and always within a very short time period. As an experienced broker and as the employer of the KATS operator it was the duty of the Respondent to ensure that adequate arrangements for proper conduct of its business are in place.
 15. It is the duty of the Respondent to exercise due care and skill while entering information into the KATS. By not entering the correct and required information in the client code field of the KATS, the Respondent has failed to carry out its responsibility to provide accurate information on the KATS.
 16. From the preceding facts it is clear that the Respondent has failed to follow the requirements of the code of conduct prescribed in the Rules.
 17. The Respondent failed to maintain high level of integrity, promptitude and fairness in the conduct of its business and has in fact indulged in improper conduct on the stock exchange. The Respondent did not comply with the statutory requirements according to the code of conduct of the Rules. Therefore the Respondent acted in violation of Rule 8(iv), read with Rule 12 of the Rules.
- (b) What should the order be?*
18. The Commission takes a serious note of the violation of the Rules and, therefore, in exercise of the powers under Rule 8(b) of the Rules, I hereby impose on the Respondent, the penalty of Rs. 25,000.00 (Twenty five thousand only) which should be deposited with the Commission, no later than 30 (thirty) days from the date of this Order.
 19. Additionally, I hereby direct the Respondent to restrain from practices, such as, not entering the proper client information as it creates limitations towards monitoring of the market. The Commission is of the view that it cannot allow such practices because they create hurdles in the surveillance and smooth market functioning.

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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.

(Imran Inayat Butt)
(Director SM)

Date of Order: 9th September 2005