



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
Securities Market Division

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**Before the Director (Securities Market Division)**

**In the matter of Show Cause Notice dated August 26<sup>th</sup>, 2005  
issued to Sohail Raza Moosani**

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**Date of Hearing**

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

**Present at the Hearing:**

Representing Sohail Raza Moosani

*Mr. Ahmed Irfan Shafqat – Representative*

Assisting the Director (SM):

*Mr. M. Ali Sheikh*

*Mr. Babar Sattar – Joint Director*

*Mr. Sultan Mazhar – Deputy Director*

**ORDER**

1. The present matter arises out of a Show Cause Notice bearing No. SMD/SCN/15/2005 dated August 26<sup>th</sup>, 2005 (“the Notice”) issued by the Securities and Exchange Commission of Pakistan (“the Commission”) to Sohail Raza Moosani (“the Respondent”).
2. Brief facts of this case are that between March 2<sup>nd</sup>, 2005 and March 21<sup>st</sup>, 2005, the Respondent, engaged in 14 trades in the shares of National Bank of Pakistan (“NBP”), Oil & Gas Development Company (“OGDC”), Pakistan Oilfields Limited (“POL”), Pakistan Petroleum Limited (“PPL”), Pakistan State Oil Limited (“PSO”) and Pakistan Telecommunication Limited (“PTCL”) through the Karachi Automated Trading System (“KATS”) of the Karachi Stock Exchange (Guarantee) Limited on behalf of three accounts.



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3. In the course of these trades, the Respondent purchased and sold, on behalf of three accounts 66,600 shares of NBP, 200 shares of OGDC, 200 shares of POL, 400 shares of PPL, 100 shares of PSO and 3,500 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. The trading activity as aforesaid 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 and was to the detriment of the interests of the investors.
5. The Commission obtained the KATS data from the Karachi Stock Exchange (Guarantee) Limited for the relevant period, which revealed that during the month of March, 2005 the Respondent had executed the following trades which had cancelled each other and did not result in change in beneficial ownership:

Trade Date	Client Code	Name of Share	Number of Shares	Rate of Sale & Purchase	Time of Trade Execution
16/03/2005	112	NBP-REG	66600	165.9	1003430084
17/03/2005	103	OGDC-REG	100	176.7	1240310013
18/03/2005	113	OGDC-REG	100	168.8	1009310022
14/03/2005	103	POL-REG	100	343.85	1255460041
18/03/2005	103	POL-REG	100	327.5	1056170055
2/03/2005	103	PPL-REG	100	253.05	1239530045
2/03/2005	103	PPL-REG	100	253.15	1240020002
2/03/2005	103	PPL-REG	100	257	1245300081
18/03/2005	103	PPL-REG	100	294.45	1158020026
21/03/2005	103	PSO-REG	100	447	1220570012
3/03/2005	113	PTC-REG	500	69.65	1113150019
9/03/2005	112	PTC-REG	2000	89.55	1408130036
11/03/2005	103	PTC-REG	500	87.8	955380030
11/03/2005	113	PTC-REG	500	86.65	1029140009

6. In view of the above findings the Commission issued a Show Cause Notice to the Respondent on August 26<sup>th</sup>, 2005, detailing the aforesaid facts and asking him to show cause as to why action should not be initiated against him in pursuance of Rules 8(a) and 8(b) of the Brokers and Agents Registration Rules, 2001 (“the Rules”). A copy of the summary of the KATS data was annexed to the Notice in order to provide



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to the Respondent an opportunity for answering to the same. The Respondent was asked to submit a written reply (along with the documentary proof) to the Notice and the hearing was fixed in Islamabad for September 8<sup>th</sup>, 2005.

7. The Respondent submitted a written reply to the Notice dated September 2<sup>nd</sup>, 2005 and also appeared in person on September 8<sup>th</sup>, 2005, through his authorized representative, Mr. Ahmed Irfan Shafqat. The main points raised by the Respondent in his reply are as follows:

- a. The Respondent stated in his letter, “Our main business is KSE–LSE arbitrage, herein referred to as “arbitrage” and Ready – Futures arbitrage, herein referred to as “hedging” which involves buying shares from one market and immediately selling them in another market.”
- b. The Respondent mentioned in his written response, “The business of Arbitrage and Hedging is conducted at a very small spread. Even this narrow spread disappears in some situations when the market turns rough and volatile. Very brisk trading is often involved and in order to move with the rapidly changing direction of the market, the operators have to quickly switch from a purchase decision to a sale decision and vice versa.”
- c. The Respondent further stated in his written reply, “Due to scarcity of time amid fast changing prices, the operator does not cancel the already queued buy order at KSE before selling the cheaper lot bought from LSE and adds 5000 to his intended sell quantity to nullify the queued buy order. This results in crossing of 5000 shares at our house while the rest of the lot is sold in KSE market thereby creating an instance of buying and selling of a stock at same rate in the same account although there have been no deceitful ambition.”
- d. He also mentioned in his written reply to the Notice, “Various stocks are tradable in lots of 100 shares in T+3 market whereas their valid lot in the Futures market is greater than 100 shares. Due to this incongruity, the odd



portion of a purchase made in T+3 that remains unsold at Futures is to be sold back in T+3 invariably and again a cross transaction comes into being without any corrupted intention.”

- e. The Respondent stated that where an outstanding buy order of a hedge transaction matches a sell order of an arbitrage transaction it results in a cross trade.
  - f. During the course of the hearing the Respondent informed that all the trades mentioned in Annexure A relate to proprietary trading and were not conducted on behalf of any client. The code appearing in the client code field of KATS data is the trader's code and does not represent a client. Trader's code is entered as the KATS does not accept an order without the client code field filled.
  - g. The Respondent reiterated during the hearing that the highlighted transactions resulting in no change in beneficial ownership were executed without any malafide purpose or intention and were inadvertent. These transactions were not executed with the purpose to create a false and misleading appearance of trading activity in the shares or influence in terms of volume and the share price.
  - h. The Respondent verbally assured of taking necessary steps to avoid carrying out trading activity which results in no change in beneficial ownership and of exercising due care and skill in the conduct of his business.
8. I have heard the views and contentions of the Respondent at length and after carefully examining the records available on file I find 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?*

9. Each of these issues has been examined and my findings in this regard are as under:
- i) The Respondent admitted that he carried out all 14 trades as described in the annexure to the Notice. In respect of these trades, the Respondent has taken the plea that the business of hedging and arbitrage is time sensitive and that at times circumstances entail that KATS operators quickly reverse position. The Respondent claimed that proper procedure would require double the amount of time. To explain his plea he elaborated that firstly an open or outstanding order would have to be cancelled and then a new order would have to be placed to close the position. To save time, we place an order of double the number of shares to square our position.
  - ii) The relevant KATS data independently obtained by us from the Karachi Stock Exchange (Guarantee) Limited reveals that all the aforesaid trades canceled each other out and the beneficial ownership of these shares did not change. Such practice on the part of the Respondent interfered with the fair and smooth functioning of the market because it falsely depicted trading activity. The interests of the investor also suffered because they received a false impression of trading in the market which impacted upon their decision to trade in particular scrips in the market.
  - iii) I have noted the plea of the Respondent and I am of the view that it does not hold merit as it is the responsibility of the broker to carry out his business in consonance with the law. It is also the broker's responsibility to maintain high standards of integrity, promptitude and fairness and exercise due care and skill in the conduct of his business. The Respondent should have been diligent to avoid carrying out any trading activity that would have interfered in fair and smooth functioning of the market and cause detrimental result to the investors' interest. The Respondent should have known that such trading is a serious offence and he should have taken adequate measures to eliminate the



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possibility that his staff does not execute any trades which would result in no change in beneficial ownership.

- iv) By engaging in and allowing trades in the market that lead to creating a false impression of trading activity in particular scrips, is not only against high standards of integrity but is also improper, dishonorable and disgraceful and against the law.
- v) It is also evident from the facts detailed above that the Respondent has failed to follow the requirements of the code of conduct. He has executed and permitted to execute trades which have cancelled each other out and have not resulted in the transfer of beneficial ownership. Further, he has indulged in acts which have interfered with the fair and smooth functioning of the market to the detriment of the interests of investors.
- vi) In failing to ensure that a proper system and policy is in place to eliminate any chance of such trading activity, the Respondent has failed to act with due skill, care and diligence in the conduct of his business. Consequently, the Respondent has failed in his duty to maintain high standards of integrity, promptitude and fairness in the conduct of all his business and has in fact indulged in dishonorable, disgraceful and improper conduct on the stock exchange, and has therefore acted in violation of Rule 8(iv), read with Rule 12 of the Rules.

10. The acts of the Respondent aforementioned are not in accordance with the requirements of the Code of Conduct of the Rules. The Commission takes a serious note of the violation of the Rules and is entitled to suspend the Respondent's license. However, I have elected not to exercise this power. 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 (Rupees twenty five thousand) which should be deposited with the Commission, no later than 30 (thirty) days from the date of this Order.



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11. Additionally, I hereby direct the Respondent to abstain from buying and selling of shares in a manner that the trades do not result in a change in beneficial ownership of the shares failing which the Commission will proceed against him according to law.
  
12. 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.

**Mohammad Rashid Safdar Piracha**  
Director (SM)

Date of the Order: September 15<sup>th</sup>, 2005