



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division

Before the Director (Securities Market Division)

**In the matter of Show Cause Notice dated September 06, 2005
issued to Multiline Securities (Pvt.) Limited**

Date of Hearing

September 20, 2005

Present at the Hearing:

Representing Multiline Securities (Pvt.) Limited:

Mr. Mohammad Amin Tola - Chief Operating Officer

Mr. Mohammad Shahid - Head of Settlement

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/1/2005/007 dated September 06, 2005 issued by the Securities and Exchange Commission of Pakistan ("the Commission") to Multiline Securities (Pvt.) Limited ("the Respondent").
2. Brief facts of this case are that between March 01, 2005 and March 15, 2005, the Respondent carried out 06 trades in the shares of Oil & Gas Development Company Limited ("OGDC"), and Pakistan Oilfields Limited ("POL") through the Karachi Automated Trading System ("KATS") of the Karachi Stock Exchange (Guarantee) Limited on behalf of a client of the Respondent.
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

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division

Respondent purchased and sold, on behalf of the same client, 129,500 shares of OGDC, and 600 shares of POL.

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 hereinabove 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
4/03/2005	01	OGDC-REG	2,500	136.70	1045590028
10/03/2005	01	OGDC-REG	71,200	164.85	1009550110
10/03/2005	01	OGDC-REG	3,800	165.50	1254430017
15/03/2005	01	OGDC-REG	52,000	188.00	1037560126
		Sub-Total	129,500		
1/03/2005	01	POL-REG	500	330.85	1250200014
8/03/2005	01	POL-REG	100	329.55	1000370009
		Sub-Total	600		

6. In view of the above findings the Commission issued a Notice to the Respondent dated September 06, 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 15, 2005.
7. The hearing fixed for September 15, 2005 was adjourned and rescheduled for September 20, 2005. The Respondent did not submit a written reply to the Notice within seven days of the

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division

date of the Notice. However, on September 20, 2005 the authorized representatives of the Respondent, Mr. Mohammad Amin Tola , Chief Operating Officer and Mr. Mohammad Shahid, Head of Settlement appeared before me and also submitted a written reply to the Notice. The main points raised by the Respondent in its oral and written submission were as follows:

- a. The Respondent admitted that it carried out all six trades annexed to the Notice. The Respondent also accepted that there has been no change in the beneficial ownership of the shares.
 - b. The Respondent executed all the trades on behalf of one client, namely Irfan A Majeed. The Respondent was not able to check individual client trade log due to very fast trading trend in those days (i.e. March 2005).
 - c. Irfan A. Majeed was the major client of the Respondent who used to trade in great volumes and usually placed limit orders. However, on these occasions he did not remember his limit orders already queued in KATS and when he placed his sell orders it matched with his own buy orders. However, client's trading activity did not have any false intentions.
 - d. The Respondent confirmed that the client is no longer trading with it.
 - e. The Respondent also submitted Client Transactions Detail, KATS Terminal Transactions and copy of Account Opening Form of the client.
8. 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 am of the view that as an experienced broker it was the duty of the Respondent to ensure that its business is conducted with due care and skill. The Respondent should have monitored the trades of the client. The Respondent plea that the client cross traded himself due to very large turnover of shares, clearly tantamount to negligence on part of the Respondent which is violation of the code of conduct of the brokers which stipulates that a broker shall act with due skill, care and diligence in the conduct of his business.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division

9. It is evident from the relevant KATS data obtained from the KSE, (which has not been disputed by the Respondent) that all 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 and undermines market integrity by creating an impression of shares being traded in the market when in fact trades have been cancelled out by the same person. The interest of the investors suffer due to the fact that they receive a false impression of trading in the market which is more than likely to influence the decision of any reasonable investor to invest or trade in the market.

10. 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. The Respondent has 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 has not complied with the statutory requirements, and has therefore acted in violation of Rule 8(iv), read with Rule 12 of the Rules.

11. 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 only) which should be deposited with the Commission, no later than 30 (thirty) days from the date of this Order.

12. 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 it according to law.

13. 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: 28th September 2005