



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
SECURITIES MARKET DIVISION

Before the Executive Director (Securities Market Division)

In the matter of Show Cause Notice issued to

Standard Capital Securities (Private) Limited

Under Rule 8 read with Rule 12 of the Brokers and Agents Registration Rules, 2001 (the "Brokers Rules") and Section 28 of the Central Depositories Act, 1997 (the "CDC Act")

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Number and date of Notices	SMD-SOUTH/SCN/101/07 dated August 01, 2007
Date of hearing	August 17, 2007
Present	Mr. Naveed Thaplawala-Finance Manager
Date of Order	December 26, 2007

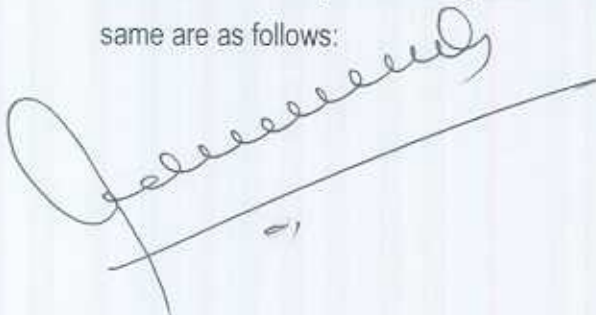
**ORDER**

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1. This Order shall dispose of the proceedings initiated through Show Cause Notice SMD-SOUTH/SCN/101/07 dated August 01, 2007 issued by Securities and Exchange Commission of Pakistan (the "**Commission**") to Standard Capital Securities (Pvt.) Ltd. (the "**Respondent**") under Rule 8 of Brokers Rules for violation of Rule 12 of Brokers Rules and Clause A5 of the code of conduct contained in the Third Schedule to the Brokers Rules and under section 28 of CDC Act.
2. Brief facts of the case are that the Respondent is a member of the Exchange and is registered with the Commission under the Brokers Rules. An enquiry was initiated by the Commission in exercise of its powers under Section 21 of the Securities and Exchange Ordinance, 1969 ("**1969 Ordinance**") and A. F. Ferguson & Co. ("**the Enquiry Officer**") was appointed as the Enquiry Officer under the above mentioned section inter alia:
  - a) to enquire into the dealings, business or any transaction by the Broker during the period from April 1, 2006 to June 15, 2006 ("**the Review Period**").
  - b) to identify any and all the acts or omissions constituting the violation of the 1969 Ordinance and the Rules made thereunder.
  - c) to identify violations of any other applicable laws, including but not limited to the Brokers Rules and Regulations for Short Selling under Ready Market, 2002

("2002 Regulations") and The Central Depository Companies (Establishment and Regulation) Rules, 1996 ("CDC Regulations").

3. The findings of the Enquiry Officer revealed several instances of potential non compliances with applicable laws and regulations. A copy of the Enquiry Officer's report was sent to the Respondent under cover of a letter dated April 30, 2007 which required the Respondent to provide explanations on the observations of the Enquiry Officer together with supporting documents.
4. After perusal of the Respondent's replies to the above mentioned letter, Respondent's replies to the above mentioned letter, a Show Cause Notice was issued to the Respondent under Rule 8 of the Brokers Rules stating that the Respondent has prima facie contravened Rule 12 of the Brokers Rules read with Clause A5 of the code of conduct contained in the Third Schedule to the Brokers Rules which are reproduced as under:  
  
**Rule 12-** " A broker holding a certificate of registration under these rules shall abide by the code of conduct specified in the Third Schedule"  
  
**Clause A5 of the code of conduct-**"A broker shall abide by all the provisions of the Act and the rules, regulations issued by the Commission and the stock exchange from time to time as may be applicable to them".
5. The Respondent was called upon to show cause in writing within seven days and appear before the Executive Director (SMD-South) on August 17, 2007 for a hearing, to be attended either in person and/or through an authorized representative.
6. The hearing was held on August 17, 2007 which was attended by Mr. Naveed Thaplawala, the Representative of the Respondent who submitted a written reply and argued the case.
7. A summary of the contentions that were raised by the Respondent in the written submission / during the hearing and the findings / conclusion of the Commission on the same are as follows:

A handwritten signature in black ink, written over a horizontal line. The signature is cursive and appears to be 'Naveed Thaplawala'. There is a small mark below the line, possibly a date or initials.



## 8. Blank Sales

- 8.1 In terms of Regulation 4 of the 2002 Regulations blank sales are not permissible. The findings of the Enquiry Officer revealed 86 instances of blank sales during the Review Period.
- 8.2 The Respondent made the following submission on this Issue ("**Issue No. 1**"):
- The Respondent contended that the instances as mentioned above were not blank sales and that respective clients had pre-existing interests at the time of sale. The Respondent submitted evidences in support of its claim.
- 8.3 From the perusal of information submitted by the Respondent, it transpired that 70 out of 86 instances were not blank sales and pre-existing interest existed at the time of the sale. However, satisfactory evidences were not provided in respect of remaining 16 instances.
- 8.4 Considering the above facts and the contentions of the Respondent, it is established that on 16 occasions blank sales have been made in violation of Regulation 4 of the 2002 Regulations. In terms of Rule 8 of the Brokers Rules, more particularly sub rule (ii), sub rule (iii) and sub rule (iv) thereof, where the Commission is of the opinion that a broker has inter alia failed to comply with any requirements of the Securities & Exchange Commission of Pakistan Act, 1997 or the 1969 Ordinance or of any rules or direction made or given thereunder and/ or has contravened the rules and regulations of the Exchange and/or has failed to follow any requirement of the code of conduct laid down in the Third Schedule, it may in the public interest, take action under Rule 8(a) or (b) of the Brokers Rules.
- 8.5 In light of the above i.e. the fact that the Respondent made blank sales, the Respondent has violated the 2002 Regulations thereby attracting sub rule (iii) of Rule 8 of the Brokers Rule and has also failed to comply with Clause A5 of the code of conduct contained in the Third Schedule to the Brokers Rules, thereby attracting sub rule (iv) of Rule 8 of the Brokers Rule. Accordingly, a penalty of Rs.10,000 (Rupees Ten Thousand) is hereby imposed on the Respondent under Rule 8 (b) of the Brokers Rules.

## 9. Book entry securities of different customers held in a single CDC-sub account

- 9.1 In terms of Section 2(27) of CDC Act 1997, the term "sub-account" has been defined as:

"sub-account " means a sub-account maintained, as part of the account of a participant, in accordance with the regulations by a central depository in the name of a sub-account holder so as to record the title of the sub-account holder to any book-entry securities entered in such sub-account.

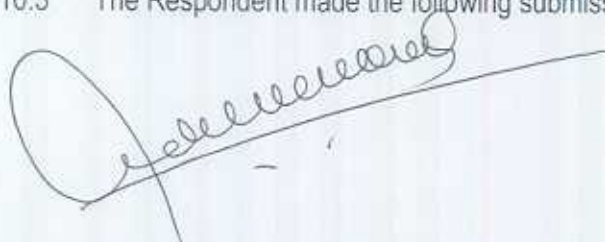


- 9.2 Findings of the Enquiry Officer revealed that in certain client to client (C to C) transactions, delivery was moved from / to the director's account instead of opening a sub-account of a client.
- 9.3 The Respondent made the following submission on this Issue ("**Issue No. 2**");
- The Respondent contended that the above mentioned circumstances arose due to erroneous transactions which were not accepted by the respective clients and the resulting obligations were taken up by the director.
- 9.4 I have considered the contention of the Respondent and am of the view that CDC accounts are opened to establish the title and beneficial ownership of the shares and keeping the shares of clients in a CDC sub account opened in the name of another customer is a serious violation of the CDC Act, as it results in the change in the beneficial ownership of the shares.
- 9.5 Considering the above mentioned facts, it is established that the Respondent has violated Section 2(27) of CDC Act 1997. However, considering the magnitude and frequency of the instances in question, I am inclined, on this occasion, to take a lenient view in the matter and will not take any punitive action under Rule 8 of the Brokers Rules. As such, I believe a 'caution' in this instance to the Respondent would suffice and I would further direct the Respondent to ensure that full compliance is made of all the Regulations in future for avoiding any punitive action under the law.

## 10. CDC Balance statements

- 10.1 In terms of Regulation 6.2A.1 of the CDC Regulations, it is provided that:
- "Every Participant shall send by the 10th day of every month to all Sub- Account Holders maintaining Sub-Accounts under the control of such Participant Holding Balance statements showing the number of every Book-entry Security entered in every such Sub-Account as of the end of the preceding month. Such Holding Balance statements shall be generated from the CDS and shall be sent to the Sub-Account Holders in the manner set out in Regulation 2.6.4."
- 10.2 Findings of the Enquiry Officer revealed that the Broker did not have a practice to send the CDC Balance statements to all of its customers by the 10<sup>th</sup> of each month as required under the CDC Regulations.

- 10.3 The Respondent made the following submissions on this Issue ("**Issue No. 3**");

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- The Respondent admitted that the CDC Balance statements were provided to its clients according to their preferences, i.e daily, weekly or monthly basis but it did not have a practice of strictly complying with the above mentioned Regulation.
- The Respondent further stated that it has made arrangements to comply with the requirements of above mentioned regulation in future.

10.4 Considering the above mentioned facts and acknowledging the practical difficulties in sending the CDC balance statements to all of the clients of the Respondent, including the dormant accounts, I am inclined, on this occasion, to take a lenient view in the matter and will not take any punitive action under Rule 8 of the Brokers Rules. As such, I believe a 'caution' in this instance to the Respondent would suffice and I would further direct the Respondent to ensure that full compliance is made of all the Regulations in future for avoiding any punitive action under the law.

11. In view of what has been discussed above, I am of the considered view that no punitive action is necessary in relation to Issues No. 2 and 3 and a simple caution will suffice. As regards Issue No. 1, as stated above, a penalty of Rs. 10,000 (Rupees Ten Thousand) is imposed, which should be deposited with the Commission not later than fifteen (15) days from the date of receipt of this Order



Zafar Abdullah  
Executive Director  
Securities Market Division