



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

Worldwide Securities (Private) Limited

**Under Rule 8 read with Rule 12 of The Brokers and Agents Registration Rules, 2001 (the
"Brokers Rules")**

Number and date of Notice	SMD-SOUTH/SCN/117/07 dated August 24, 2007
Date of hearing	October 11, 2007
Present	Mr. M. Asif –CEO and Mr. M.Basit – Nominee Director
Date of Order	November 28, 2007

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice SMD-SOUTH/SCN/117/07 dated August 24, 2007 issued to **Worldwide Securities (Private) Limited** (the "**Respondent**") by the Securities and Exchange Commission of Pakistan (the "**Commission**") under Rule 8 of the Brokers Rules for violation of Rule 12 of the Brokers Rules and Clause A5 of the code of conduct contained in the Third Schedule to the Brokers Rules.
2. Brief facts of the case are that the Respondent is a member of the Karachi Stock Exchange (Guarantee) Limited ("**Exchange/KSE**") 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 and KPMG Taseer Hadi & 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 Respondent 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 Securities and Exchange Ordinance, 1969 ("**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**").

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 May 09, 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, which did not adequately explain the position, 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".

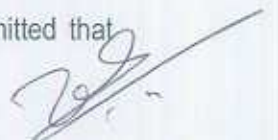
5. The Respondent was called upon to show cause in writing within seven days and appear before the Executive Director (SMD-South) on October 11, 2007 for a hearing, to be attended either in person and/or through an authorized representative.
6. The hearing was held on October 11, 2007 which was attended by Mr. M. Asif –CEO and Mr. M. Basit – Nominee Director, the Representatives 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 submissions / during the hearing and the findings / conclusion of the Commission on the same are as follows:

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 140 instances of blank sales during the Review Period.

8.2 The Respondent made the following submission on this Issue ("**Issue No. 1**"):

- The Respondent claimed that these instances were a result of error and were recovered within a short period of time. The Respondent further submitted that



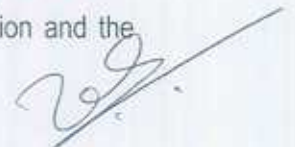
these instances were not material in nature and no profit was made out of these blank sales.

- 8.3 I have considered the contention of the Respondent. As mentioned above, a brokerage house is required to abide by all the provisions of the relevant laws as well as the rules and regulations issued by the Commission and the stock exchange from time to time as may be applicable to it. For this purpose a brokerage house must establish a sound system of internal controls corresponding to the size of its business and appoint sufficient personnel with appropriate professional knowledge and experience to prevent any violation of laws and regulations.
- 8.4 Furthermore, even if the isolated instances of the blank sales appear immaterial, when taken collectively, they distort the fair trading pattern and efficient functioning of the market and thereby damage the public interest.
- 8.5 Considering the above facts and the contentions of the Respondent, it is established that on 140 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.
- 8.6 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.50,000 (Rupees Fifty Thousand) is hereby imposed on the Respondent under Rule 8 (b) of the Brokers Rules.

9. Order Register

- 9.1 In terms of Rule 4(1) of the Securities and Exchange Rules 1971 ("1971 Rules"), it is provided that:

"All orders to buy or sell securities which a member may receive shall be entered, in the chronological order, in a register to be maintained by him in a form which shows the name and address of the person who placed the order, name and number of the securities to be bought or sold, the nature of transaction and the



limitation, if any, as to the price of the securities or the period for which the order is to be valid."

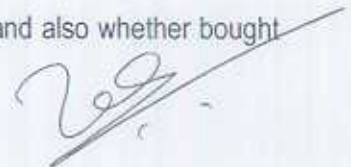
- 9.2 Findings of the Enquiry Officer revealed that the register as mentioned above was not maintained by the Respondent during the Review Period.
- 9.3 The Respondent made the following submission on this Issue ("**Issue No. 2**"):
- The Respondent contended that the Order Register as mentioned above is maintained by it.
- 9.4 The Respondent was directed to submit copies of order register maintained by it which it did not submit.
- 9.5 The Commission, however, is cognizant of the practical difficulties associated with the maintenance of such an Order Register manually and in order to facilitate the brokerage houses in meeting the requirements of the said rule, the KSE is developing a system which will be provided to the brokerage houses in due course. However, it is noted with disappointment that the brokerage houses and exchanges were not able to keep pace with evolution in technology and significant increase in trading activities whereby a system should have been developed to enable simultaneous recording of orders received from clients and their incorporation in a database to generate the Order Register as required under the requirements of the Rule 4(1) of the 1971 Rules.
- 9.6 Considering the above mentioned facts 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 laws and Regulations in future for avoiding any punitive action under the law.

10. Order Confirmation

- 10.1 In terms of Rule 4 (4) of the 1971 Rules it is provided that:

"A member executing an order of a customer shall, within twenty four hours of the execution of the order, transmit to the customer a confirmation which shall include the following information, namely:-

- i. date on which the order is executed
- ii. name and number of the securities;
- iii. nature of transaction (spot, ready or forward and also whether bought or sold);



- iv. price;
- v. commission, if the member is acting as a broker;
- vi. whether the order is executed for the members own account or from the market."

10.2 Findings of the Enquiry Officer revealed that confirmations of orders executed were not provided to the clients on a regular basis despite the above legal requirement.

10.3 The Respondent made the following submission on this Issue ("**Issue No. 3**"):

- The Respondent contended that majority of its clientele comprises of retail clients who obtain their trade confirmations on a daily basis. However, record/ acknowledgements for confirmations provided were not maintained.

10.4 Considering the above mentioned facts no punitive action is required under Rule 8 of the Brokers Rule. As such, I believe a 'caution' in this instance to the Respondent would suffice and I would further direct the Respondent to take measures to maintain evidence of dispatch of order confirmations in order to demonstrate compliance with the 1971 Rules.

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. 50,000 (Rupees Fifty 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