



# Securities and Exchange Commission of Pakistan

Securities Market Division  
Market Supervision and Registration Department  
\*\*\*

## Before the Director/HOD (MSRD)

### in the matter of Show Cause Notice issued to Sui Northern Gas Pipelines Limited

*Date of Hearing:*

*April 11, 2013*

*Present at Hearing:*

*Representing the Sui Northern Gas Pipelines Limited (SNGPL):*

(i) *Mr. Amer Tufail* *Deputy Managing Director (Services),  
SNGPL*

(ii) *Wajiha Anwar* *Company Secretary, SNGPL*

*Representing the Karachi Stock Exchange Limited (KSE):*

(i) *Mr. Muhammad Ghufraan* *Deputy General Manager, KSE*

*Assisting the Director/HOD (MSRD):*

(i) *Mr. Osman Syed* *Deputy Director, SECP*

## **ORDER**

1. This Order shall dispose of the proceedings initiated through Show Cause Notice (**the "SCN"**) bearing No.1(3) SNGP/MSW/SMD/2013 – 002 dated March 26, 2013 issued to Sui Northern Gas Pipelines Limited (**the "Respondent"**) by the Securities and Exchange Commission of Pakistan (**the "Commission"**) under Section 22 of the Securities and Exchange Ordinance, 1969 (**the "Ordinance"**).
2. On February 13, 2013, the meeting of the Board of Directors (**the "BOD"**) of the Respondent was held to consider the financial results for the period ended June 30, 2012 and subsequently on the same day the Respondent vide its letter no CA/KSE/562 conveyed the financial results of the Respondent to the Karachi Stock Exchange Limited (**the "KSE"**) for the period ended June 30, 2012. In para (v) of the aforesaid letter to KSE, the Respondent submitted as follows:

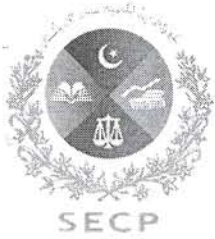


SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - I -

*“The Auditors have no qualification in their report; however they have drawn the members attention to Notes No. 16.1.2 and 24.3 to the financial statements, details of which will be communicated while submitting the Annual Report to the Exchange.”*

3. The Respondent vide its letter no CA/KSE/626 dated February 19, 2013 to the KSE, while announcing the price sensitive information with respect to dismissal of the Respondent’s petition by the Honorable Lahore High Court, informed that the financial statements for the years 2010 - 2011 and 2011 - 2012 were prepared, presented and approved on the basis of a stay granted by the Honorable Court against the determination of Oil and Gas Regulatory Authority (“OGRA”) and same were accordingly reported to the KSE. The Respondent vide the said letter also intimated that the dismissal of the petition by the Honorable Court may have an impact in reduction in retained earnings as of June 30, 2012 by approximately Rs. 8,361 million.
4. The Respondent’s announcement dated February 13, 2013 with respect to dissemination of financial results for the year ended June 30, 2012 have not included the disclosure of the material information that the announced financial statements were prepared, presented and approved by the BOD of the Respondent on the basis of a stay granted by the Honorable Lahore High Court against the determination of OGRA. Moreover, Respondent has not declared the possible adverse financial impact on the financial health of the Respondent, if the financial statements had been prepared in accordance with the decision of the OGRA. The non-disclosure of material information, which in the instant case was the fact that financial statements were prepared, presented and approved by the BOD of the Respondent on the basis of a stay granted by the Honorable Lahore High Court, did not fulfill the requirements of the Listing Regulations of the KSE (the “Listing Regulations”).
5. The Commission vide letter dated March 07, 2013 sought explanation from the Respondent for not disseminating the aforesaid material information along with the financial results to KSE. In response to the Commission’s letter referred above, the Respondent vide letter dated March 13, 2013 submitted its reply which is reproduced as under:



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 2 -

*“the Company had filed petitions before the Honorable Lahore High Court, Lahore against the OGRA's decisions dated December 2, 2010 and May 24, 2011 in respect of the Financial Years 2010-11 and 2011-12, wherein OGRA revised the UFG benchmark from 7% to 4.625% and 7% to 4.5% respectively and treated the late payment surcharge and interest on gas sales arrears as operating income.*

*The Honorable Court vide orders dated January 17, 2011 and July 13, 2011 respectively had allowed the petition of the Company in terms that for the purpose of calculating the prescribed price, UFG benchmark and the treatment of non-operating income of the Company shall continue to be determined in accordance with the final revenue requirement for the financial year 2009-10 till such time that the UFG impact assessment study is carried out and produced before the Court. In view of the interim stay granted by the Lahore High Court, OGRA in its orders dated September 21, 2011 and February 1, 2013 has determined the revenue requirement of the Company for the years 2010-11 and 2011-12 respectively on the basis of the same parameters determined by OGRA in their decision in respect of final revenue requirement for the financial year 2009-10, dated October 15, 2010. Accordingly, the Financial Statements for FY 2010-11 and FY 2011-12 were prepared, presented and approved by the Board on the basis of aforesaid OGRA determinations, wherein the UFG benchmark of 7% has been allowed and LPS has been treated as non operating income. The Company has duly disclosed the financial impact of any adverse order of the Lahore High Court Lahore, in note 16.1.2 to its Audited Financial Statements for the year ended June 30, 2012. Similarly, adequate disclosures on this account have also been made in all of the Company's Annual, Six monthly and Quarterly Financial Statements published after January 17, 2011, i.e., the date when the first stay order on Company's petition was granted and the same was also disseminated to the Stock Exchanges immediately after the Board Meetings by giving its Note references.*

*It is pertinent to mention here that while conveying the Company's financial results for FY 2011-12 to the Stock Exchanges on February 13, 2013, the Auditors observation to the notes to the Accounts was identified as required under Karachi Stock Exchange's Notice No.*



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 3 -

*KSE/N-2422 dated April 14, 2006, which inter alia stipulates as under:*

*It is not required to intimate the details of qualification / observations of the auditor, while conveying the financial results to the Exchange, the only intimation in this behalf is required to be conveyed by stating that the auditors have certain qualification / observations, the details of which will be communicated while submitting the annual/second quarterly accounts to the Exchange.*

*The Honorable Lahore High Court, Lahore dismissed the aforesaid petitions for FY 2010-11 as well as FY 2011-12 filed by the Company, on February 15, 2013, i.e., after the date of authorization of Financial Statements of the Company by the Board, which was received in our office on February 18, 2013 (a.n) from our legal counsel. The dismissal of Company's petition has an adverse financial impact amounting to Rs 8,361 million in FY 2012-13 therefore the same was immediately disseminated to all Stock Exchanges on February 19, 2013 through fax during trading hours, in addition to a hard copy thereof, which was accordingly placed by the Stock Exchanges on their respective websites (Annex I). The information on price sensitive / material information was also sent to the Commission on February 21, 2013."*

6. The aforementioned reply of the Respondent was reviewed and not considered satisfactory as it contained no cogent reason, explanation, evidence or justification for not disclosing the relevant price sensitive material information. Moreover, it was also observed that despite the fact that Honorable Lahore High Court, Lahore dismissed the aforesaid petitions for FY 2010-11 as well as FY 2011-12 filed by the Respondent on February 15, 2013 and the Order of the Honorable Lahore High Court in the matter was received to the Respondent on February 18, 2013 (a.n) from Respondent's legal counsel, the Respondent has failed to disseminate the said material information regarding the dismissal of Respondent's petition in the timely manner as envisaged in the law. The said information was disseminated to KSE on February 19, 2013 at 11.19 a.m, about 109 minutes after the start of trading session of the day.



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 4 -

7. The information regarding the facts i.e. (i) that the financial statements were prepared, presented and approved by the BOD of the Respondent on the basis of a stay granted by the Honorable Lahore High Court, and (ii) the possible adverse financial impact on the financial health of the Respondent, if the financial statements had been prepared in accordance with the decision of the OGRA, were extremely price sensitive and resulted in volatility in the Respondent's share price during the time of initial and subsequent announcements by the Respondent. During the period of February 13, 2013 to February 19, 2013 unusual price movement and heavy trading volumes were observed in the scrip of the Respondent. The average daily trading volume in the scrip during the aforesaid period was 12,409,700 shares as compare to average daily trading volume of 5,537,900 shares from February 06, 2013 to February 12, 2013. The fluctuation in the price of the scrip is evident from the facts that on February 12, 2013 the price of the scrip was Rs. 24.27, which rose to Rs. 25.48 on February 13, 2013 and subsequently, on February 14, 2013 the price touched its highest level of Rs. 26.18; thereafter, the price of the scrip declined to the level of Rs. 22.20 on February 19, 2013.
8. Accordingly, on account of unsatisfactory reply of the Respondent, the SCN dated March 26, 2013 was issued to the Respondent under Section 22 of the Ordinance stating that Respondent has prima facie contravened the provisions of Regulation 16(1) and 35(xxiii) of the Listing Regulations and the requirements stated in the Correspondence Manual of KSE, made pursuant to the Listing Regulations. The Respondent through the SCN was asked to explain its position through written reply within ten days of issuance of the SCN and appear on April 11, 2013 for a hearing.
9. In reply to SCN, the Respondent through its letter dated April 04, 2013 made the following submissions:

*"... .. we would like to refer to KSE's notice No. KSE/N-2422 dated April 14, 2006, relevant extracts of which run as follows:*

*"...in some cases the annual/ second quarter financial results contains certain qualification/ observations by the auditors, which constitute an*



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 5 -

*integral part of the financial information and is required to be disseminated to the market participants.*

*It is not required to intimate the details of qualification/ observations of the auditor, while conveying the financial results to the Exchange, the only intimation in this behalf is required to be conveyed by stating that the auditors have certain qualification/ observations, details of which will be communicated while submitting the annual/ second quarterly accounts to the Exchange.”*

*Thereafter financial results to KSE were conveyed in compliance of this directive including Company’s letter No. CA/KSE/562 dated February 13, 2013.*

... ..

*The Annual Reports of the Company for the FY 2011-12 and 2010-11 contain information on Price Sensitive Information as follows:*

*The last three lines on p. 93 of note 16.1.2 of the Annual Report 2012 (Annexure “E”) of Sui Northern Gas Pipelines Limited clearly state: “Had these financial statements been prepared in accordance with the OGRA’s decisions dated December 2, 2010 and May 24, 2011 the Company for the year ended June 30, 2012 would have reported an after tax loss of Rs.1,558 Million and decrease in opening retained earnings by Rs.3,759 Million and a negative EPS of Rs.2.7.*

... ..

*the Company has been following the pattern as laid down by KSE for dissemination of material information as far back as 2006. If there was any shortcoming the same was never highlighted and rectified by SECP as well as KSE*

... ..



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 6 -

*we wish to point out that unlike other specific time lines given in the KSE Listing Regulations no specific time limit is provided for dissemination of material information relating to the business and other affairs of the listed company to the Stock Exchange(s).*

... ..

*Keeping in view the above statistics in respect of previous years, the 2.55 times increase (i.e., 12,409,700 as compared to 5,537,900) in volume of trading after the announcement of dividend / bonus shares in February 2013, as pointed out in your letter is quite normal and even on lower side as compared with corresponding periods of last two years. The increase in volumes of trading is simply attributable to declaration of dividends by Company which is quite understandable in view of historical data. In view of above we can safely conclude that there was no unusual trading in the period referred to in your notice. ... ..”*

10. On the hearing date, Mr. Amer Tufail, Deputy Managing Director (Services), SNGPL (“**Authorized Representative**”), appeared on behalf of the Respondent. Muhammad Ghufuran, Deputy General Manager (Companies Affairs) of KSE also appeared in the hearing on behalf of Managing Director, KSE. The Authorized Representative reiterated the submissions made in the written reply to the SCN.
  
11. The Authorized Representative argued that although the Respondent has not disseminated the information with respect to the possible adverse financial impact on the financial health of the Company, if the financial statements had been prepared in accordance with the decision of the OGRA, However, the Respondent met the minimum disclosure requirement set by the Regulations. In response to the aforesaid argument, the Authorized Representative was apprised of the fact that the minimum disclosure requirement as set by the Regulations also includes dissemination of any kind of price sensitive information. In this regard, reference was made to the disclosure notice No. BS/STOCK/13 dated February 28, 2013 issued to KSE by Sui Southern Gas Company Limited, wherein, proper disclosure in respect of both aspects of



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 7 -

the matter i.e. (i) that the financial statements were prepared, presented and approved by the BOD of the Company on the basis of a stay granted by the Honorable Lahore High Court, and (ii) the possible adverse financial impact on the financial health of the Company, if the financial statements had been prepared in accordance with the decision of the OGRA, was disseminated.

12. When the Authorized Representative was apprised of the fact that there was no justification under the law for non-compliance of aforementioned clauses of Listing Regulations, he stated that the default may have made in complying with the relevant provisions of the Listing Regulation, which is contravention of Section 22 of the Securities and Exchange Ordinance, 1969. The Authorized Representative prayed that the Commission may take a lenient view in the matter and in future Respondent will ensure the compliance of all rules and regulations framed by the Commission.
13. Muhammad Ghufuran, Deputy General Manager (Companies Affairs) of KSE presented the views of the KSE and asserted that the default on the part of the Respondent is very severe and such violations of the Listing Regulations may result in instances of insider trading and unwarranted volatility in the price and trading volume of the scrip.
14. I have heard the arguments presented by the Authorized Representative during the hearing. Additionally, I have perused the available record and written reply filed by the Respondent. Accordingly, my findings on the arguments and accretions made by the Respondent to the issue raised in the SCN are as follows:

- (i) The contention of the Respondent, that as per KSE's notice No. KSE/N-2422 dated April 14, 2006 it is not required to intimate the details of qualification/ observations of the auditor, while conveying the financial results to the Exchange, is irrelevant as the information /fact that (i) that the financial statements were prepared, presented and approved by the BOD of the Company on the basis of a stay granted by the Honorable Lahore High Court, and (ii) the possible adverse financial impact on the financial health of the Company, if the financial statements had been prepared in accordance





SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 8 -

with the decision of the OGRA, is not merely a qualification/observation of the auditor; in fact these were the basis on which financial statements were prepared, presented and approved by the BOD.

- (ii) The argument of the Respondent that the previous Annual Reports of the Company for the FY 2011-12 and 2010-11 contain the said price sensitive information regarding the fact that the financial statements were prepared, presented and approved by the board of directors of the Company on the basis of a stay granted by the Honorable Lahore High Court, is not tenable on the ground that Respondent's announcement dated February 13, 2013 with respect to dissemination of financial results for the year ended June 30, 2012 needs to include the disclosure of the very price sensitive and material information that the announced financial statements were prepared, presented and approved by the BOD of the Company on the basis of a stay granted by the Honorable Lahore High Court against the determination of OGRA and the possible adverse financial impact on the financial health of the Company, if the financial statements had been prepared in accordance with the decision of the OGRA. Any earlier disclosure by the Respondent in its previous Annual Reports can not absolve the Respondent from its obligation to make proper and complete disclosure with respect to any material information to the investors. The Respondent's announcement dated February 13, 2013 did not comply with the requirements of the Listing Regulations of the KSE.
- (iii) The submission of the Respondent that the Company has been following the pattern as laid down by KSE for dissemination of material information as far back as 2006. If there was any shortcoming the same was never highlighted and rectified by SECP as well as KSE, suffice is to say that violations in the past do not absolve the Respondent from its legal and regulatory obligations to comply with the provisions of the Law.
- (iv) The contention of the Respondent that no specific time limit is provided for dissemination of material information relating to the business and other affairs of the



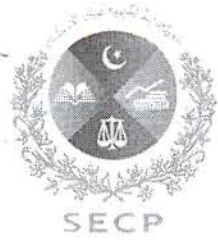
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 9 -

listed company to the Stock Exchange(s), is also not acceptable as Regulation 16(1) requires that every listed company and issuer of a listed security shall advise and keep advised to the Exchange all decisions of its Board of Directors relating to cash dividend, bonus issue, right issue or any other entitlement or corporate action and any other price sensitive information in the manner notified by the Exchange from time to time. The said information is required to be communicated to the Exchange prior to its release to any other person or print / electronic media. (*Emphasis added*)

- (v) The explanation provided by the Authorized Representative regarding the heavy volume in the Scrip of the Respondent during the period of February 13, 2013 to February 19, 2013 that trading volume in the scrip after the announcement of dividend / bonus shares in February 2013, as pointed out by the Commission, was quite normal and even on lower side as compared with corresponding periods of last two years. The Authorized Representative also submitted that the increase in volumes of trading is simply attributable to declaration of dividends by Company which is quite understandable in view of historical data. In this regard, Authorized Representative was informed that the SCN issued to the Respondent under Section 22 of the Securities and Exchange Ordinance, 1969 for not complying the Listing Regulations made thereunder and the observation mentioned in the SCN with respect to heavy trading volume in the scrip was to cite the fact that the material information was extremely price sensitive and resulted in volatility in the Respondent's share price during the time of initial and subsequent announcements by the Respondent.

15. I am of the view that for efficient, fair and transparent market, two principles must apply: companies need to release relevant information as soon as it is available; and all the investors who want to deal in shares should have access to the same information at the same time. Moreover, for the protection of the investor's interest, a listed company must communicate information to shareholders and potential shareholders in such a way as to avoid the creation or continuation of a false market. Therefore, when an announcement is to be made, a company must take all reasonable care to ensure that any information it disseminate to the market is not




SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision & Registration Department)

Continuation Sheet - 10 -

misleading, false or deceptive, and that it does not omit anything that is likely to affect the price of the scrip. In the instance case, the Respondent has failed to timely inform the investors about the impact on financial health of the Company, if the financial statements had been prepared in accordance with the decision of the OGRA. Similarly, the Respondent has also failed to disseminate the factual position i.e. financial statements were prepared, presented and approved by the BOD of the Respondent on the basis of a stay granted by the Honorable Lahore High Court, hence created a misleading and false market.

16. In view of the facts and my findings and observations thereon, it is established that the Respondent has failed to conform to the provisions of the Ordinance by failing to comply with the provisions of Listing Regulations made thereunder. Therefore, the Respondent is liable for the penalty as defined in Section 22 of the Ordinance. I, taking a lenient view, hereby, impose a penalty of Rs. 1,000,000/- (Rupees one million only) on the Respondent. I also direct the Respondent to ensure that full compliance be made of all rules, regulations and directives of the Commission in the future for avoiding any serious punitive action under the law.
17. The matter is disposed of in the above manner and the Respondent is directed to deposit the fine in the account of the Commission being maintained in the designated branches of MCB Bank Limited not later than thirty (30) days from the date of this Order and furnish the copy of the deposit challan to the undersigned.
18. The 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/HOD (MSRD)

Announced on May 10, 2013  
Islamabad.